



# TAX AND ENTITY CONSIDERATIONS FOR FREELANCE LAWYERS

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# Topics to Cover

- Pros and cons of sole proprietorship vs. forming an entity
- The many layers – and flavors – of taxes
- Bookkeeping tips and expenses that you ought to track
- Other reporting requirements

Mostly Oregon with a sprinkle of Washington and dab of California

# TO BUSIN-IFY OR NOT

Sole Proprietor vs. Entity



# To Organize or Not, That is the Question

## Sole proprietor

- No registration with Sec. of State
- No formal documentation
- Liability extends to business and personal assets
- Best practice to keep separate accounts, but not required

## Limited Liability Company

- Annual fee to Sec. of State
- Formal documents & corporate compliance (annual)
- Liability limited to LLC assets
- Must keep strong “corporate veil” with separate accounts, assets, etc.

# Name That Tune . . . err, Company

- Betty Botter. No registration if using your own name
- Betty Botter's Baked Goods. No registration if using your full name in company name.
- Betty's Baked Goods. Register business name with state
  - "Assumed Business Name" registered with Oregon Secretary of State
  - "Trade name" registered with Washington Department of Revenue
  - "Doing Business As" is a term used by other states
- Entity names will include type of entity.
  - Betty's Baked Goods LLC
  - Betty's Baked Goods, Inc.

HOW DO I TAX THEE;  
LET ME COUNT THE WAYS



# So Many Taxes

- Income-based
  - *Net income: federal and Oregon*
  - *Gross Receipts: Washington (Business & Occupation)*
- Self-employment
- Sales & Use
- Property
- Business Licenses

# Income-Based Taxes

- Federal
  - *Form 1040, Schedule C Business Income and Expenses*
- Oregon
  - *Residents use Form OR-40, report all net income*
  - *Non-residents use Form OR-40N, report net income earned in Oregon*
- City of Portland and Multnomah County
  - *Annual filing with single form for City/County*
  - *Apportion & pay. Minimum tax. Exemption if under income threshold.*
- Washington
  - *No net-income tax*
  - *Gross receipts tax, Business & Occupations. Lower tax rate on more of income*



# Self-Employment Tax

- Federal
  - *When an employee . . .*
    - Payroll deduction 7.8% FICA deduction for social security & medicare
    - Employer also pays 7.8% tax
  - *When self-employed . . .*
    - Pay 15.6% tax
    - Pay employee and employer contributions
    - All self-employment income – sole proprietor, LLC, other pass-through income – is reported on Form 1040, Schedule SE
- Local to Oregon
  - *Self-employment transit tax*
  - *TriMet and Lane County Transit Districts (0.7637% net income)*
  - *Self-employed are not subject to Oregon's statewide transit payroll tax (0.1% wages)*

# Miscellaneous Taxes

- Sales and Use
  - *Sales tax billed to client. Use tax paid by business for products consumed*
    - Exceptions for ingredients and inventory for resale
  - *No S/U Tax in Oregon (Montana, New Hampshire, Delaware, and Alaska)*
  - *Sales tax generally applies to sale of goods and enumerated services*
    - Not legal services in Washington
- Personal Property Tax
  - *Business assets: computer, furniture and fixtures, reference materials*
  - *Generally, county level*
  - *Assessed as of January 1 each year*
- City of Portland Business License
  - *Free to apply for Portland Business License*

# Tax Tips

- Obtain tax identification number from IRS.
  - *Use in place of your social security number.*
  - *FREE! Form SS4, can complete online or mail form.*
- Pay estimated taxes.
  - *Pay quarterly: April 15, June 15, September 15, January 15*
  - *Avoid penalties and interest at tax time.*
  - *Federal Form 1040-ES*
  - *Oregon Form OR-40-V*
- Portland Business License
  - *Free to apply. Online or paper. Minimum tax if over income threshold.*
- When in doubt, assume there is another form or layer of reporting . . . and then call Rebecca.

ALL THE NUMBERS



# Bookkeeping Basics for Tax Purposes

- Income
  - *Track all income derived from your work, even barter*
  - *Recommend a bookkeeping software or excel spreadsheet*
    - *If purchasing software, seek out programs that sync with your other practice software (e.g., practice management, CRM, accounting, billing, credit card processing)*
  - *If working in multiple jurisdictions, record where earned: city, county, and state.*
- Expenses
  - *Overhead costs of running business (e.g., website hosting, business cards, PO Box)*
  - *Business development and educational costs (e.g., networking, training, manuals)*
  - *All software and subscriptions (e.g., research portal, OJCIN, )*
  - *Mileage for business miles (e.g., visit client, attend training, deliveries)*
    - *IRS rate for 2019 is \$0.58/mile*
- More information: IRS Publication 535, Business Expenses

# Expensing Home and Auto

## ■ Home

- *Can treat a portion of your home as business expense*
- *Must be “exclusively and regularly used for your trade or business”*
- *Meet clients, conduct business, store inventory or products*
- *Cannot be dining room table or guest room that is generally used for non-business.*
  - *Could be portion of guest room if a desk in the corner and locked file cabinet.*
- *Flat rate or pro-rate actual costs*
- *More info: IRS Publication 587, Business Use of Your Home*

## ■ Auto

- *Cannot deduct commute*
- *Can deduct travel between primary office and secondary office / client site*
- *More info: IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses*

# Financial Accounts

- Bank accounts, credit cards, etc.
- Must you keep them separate?
  - *Sole proprietor: best to keep separate accounts for business and personal*
  - *Entity: imperative you keep separate accounts for business and personal*
- Lawyer Trust Accounts . . . beyond the scope of this presentation
  - *You need one when you accept retainers from clients or money on behalf of clients.*
  - *You do not need them when clients payments are for service rendered.*
  - *Set up an IOLTA account with your financial institution.*
    - Perhaps multiple: more than one bar license or one “Big Fish” client
  - *Call the bar association for more information. Seriously. You don’t want errors in your trust account procedures or records.*

# Connect with Rebecca

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