We all have them - clients who become self-employed.

Some of them lose their jobs and decide to become consultants. Others graduate from tech school and become carpenters or electricians. Some just tire of being told what to do and when to do it, while others start a hobby that becomes more successful than they ever imagined.

What do most of them have in common? They don't come to see you until tax season. Few of them have paid estimated taxes. Many don't keep records, and those who do are the legendary "shoebox" clients. When you complete their returns, most of them want to know if there are any deductions they've missed and are shocked at the amount of tax they owe. After all, no one ever told them about self-employment tax. So, how can we help these clients *before* their tax situation becomes a problem?

Eleventh-Hour Strategies

So what do you do with clients who come in to have their 1040 return prepared and, just as you're concluding the client interview, casually mention, "Oh, by the way, I've started a business?" At this point, regroup and begin the interview all over again. For starters, you'll need to know what type of business it is, when it began, if it's still in operation (yes, people who are laid off often become consultants for only a few months until they find another job).

Then, if they have records, you need to go over that information. It's amazing how many clients will give you all their expenses, but will not bother to mention the income part of the equation!

Recordkeeping

One of the first and most obvious questions is, "Do you have a mileage log book?" The answer is almost invariably, "no." If the client did not maintain a log book, as required to deduct mileage, ask if he has a planner for keeping track of appointments. If so, ask if it's possible to reconstruct the business mileage from the planner. Warn the client that the IRS requires sole proprietors to maintain a log book. Stress how important it is to keep the log book current and that, if the client is audited and has no record of mileage, the IRS can disallow *all* the mileage.

Deductions

Some of your clients will say they work from home and don't have any mileage. This is an opportunity to add value to your services by asking a few questions:

- Do you go to the post office to mail packages or letters (invoices/receipts/appointment reminders)?
- Do you drive to any business seminars or networking meetings?
- Do you ever meet clients at their home or business?

If your clients answer "yes" to any of these questions, they have business mileage. If they answer "yes" to the second question, they probably have deductions for the seminar or meeting.

Many clients often overlook deductible expenses for office-in-home, such as repairs to the office and painting, carpeting, curtains, and decorating. You'll also want to gather all the expenses for utilities, lawn care (if the client sees clients at the home), snow removal, etc.

Almost anyone in business will have expenses for supplies. Besides the supplies required for their individual business, clients will probably have expenses for pencils, pens, paper, Post-it® notes, paper clips, and other often-overlooked office supplies. Remind clients who have only one telephone line that, although the expense for that one line is not deductible, expenses for long distance calls related to their business *are* deductible. Expenses for cell phones used for business are deductible, but if the cell phone is also used for personal calls, the expense should be prorated between the two uses.

Remember to deduct at least a portion of the tax preparation fee as a legal and professional expense on Schedule C. Conservative preparers take only the amount they charge for Schedule C and the required schedules, forms, and worksheets for that Schedule C. This is also the position the IRS takes. More aggressive preparers would argue that, without the Schedule C, the clients would be preparing their own returns, so the entire preparation fee should be on Schedule C. Preparers who take this position may want to discuss it with their clients, so they are aware that, upon audit, the IRS may disallow a portion of the fee.

Be sure to ask your clients if they paid for health insurance. It is now a 100-percent adjustment to income on the front of the return (subject to income limitations).