

Bookkeepers and Taxes: TFB Spotlight on Wayne Davies

By Gabrielle Fontaine, PB ASBC of The Freelance Bookkeeper Blog

Tax season is a busy time for bookkeepers, especially when working with new clients who need our help to get their books caught up to date so they can get them to their tax preparer. Your existing clients may be asking questions about what they can deduct, or what expenses should be included on their books too. That's why I've invited my colleague and friend, Wayne Davies, who is an Enrolled Agent and true tax expert in all 50 states to step into the TFB Spotlight and help us out.

Wayne recently published his book on Kindle, and it's a keeper! It's a handy reference you can use to work with your clients and make them glad to have you as their bookkeeper, even if you don't do any kind of tax work. Your clients will truly value your help when it saves them on their tax bill. Using information like this proactively with your clients is a great way to stand out as different and keep them for life!



Here's the recent interview I conducted with Wayne so he could share with us his journey, his book and some VERY valuable insight into how we, as bookkeepers, can collaborate with tax professionals for true win-win relationships!

It's a meaty interview, so grab a cup of coffee and enjoy!

Please give us a brief history of how you came to write your book, *Small Business Tax Deductions Revealed: 29 Tax-Saving Tips You Wish You Knew (for Self-Employed People Only)*

WD: My book was first released in 2004 under a different name – "The Small Business Tax Reduction Toolkit." I wrote it because the most common question I get from clients is this: "What can I do to pay less tax?" So one day I decided to sit down and write a book for self-employed people that contained plain English explanations of legal tax reduction strategies.

Rather than pursue the traditional publishing route, I self-published it as an ebook and sold it through my website (www.YouSaveOnTaxes.com). Ebooks were really starting to take off back then, and I didn't really know anything about how to sell an ebook, so I got some help from [Jim Edwards](#) to learn how to market it and use it to promote my tax business. This ebook has done well for me over the past 10+ years. And it has helped many small business owners learn how they can legally reduce their taxes.

In January 2015 I decided to convert the ebook to the Kindle format and sell it on Amazon. I also changed the title to "[Small Business Tax Deductions Revealed: 29 Tax-Saving Tips You Wish You Knew](#)". It's the same ebook, but now you can read it on your Kindle!

GF: Yes, I re-read it once it hit Kindle, and was delighted to see that you have updated it completely. It got me excited again about using some of the tips you share in common, easy-to-understand language with my clients as part of the consulting I provide them.

Taxes are often something self-employed people think about only at tax time, when it hurts the most. Based on your own experience, what are some of the most costly mistakes these business owners are making?

WD: Only thinking about taxes at tax return time is a huge mistake. Unfortunately, however, it's also a very common one. People who do this are leaving a lot of money on the table for at least two reasons.

1. If you wait until the tax return is due to gather your records, you will likely complete the recordkeeping process in a hurried rush. You'll be stressed out by the upcoming deadline, and the old saying will become true right before your very frazzled eyes – "Haste makes waste." In your haste to throw together some numbers at the last minute, you will probably miss some deductions and end up paying more tax than necessary.

There is a much better way! Tax recordkeeping, or bookkeeping, or accounting, or whatever you want to call it, should be done throughout the year. One of the easiest ways to reduce taxes is to keep good records. And it becomes increasingly difficult to keep good records if you are doing the whole year all at once right before doing the tax return.

Instead, you should have a bookkeeping system in place whereby income and expense transactions are tracked regularly during the year -- every week or every month. Then you can keep your finger on the pulse of your business and know what is happening while it is happening. You should be reviewing financial statements at least monthly.

Waiting till the end of the year to see where you stand is a terrible way to run a business, and this is one reason why small businesses remain small. And it is also one of the reasons why self-employed people overpay their taxes by millions of dollars every year – they are missing out on deductions simply because they don't have a good bookkeeping system in place.

2. Something else to realize is that some of the best small business tax reduction strategies cannot be implemented right before the tax return is due. Some tax deductions take a little bit of planning – such as setting up a retirement plan that allows you to contribute more than an IRA does. There are retirement plans specifically designed for self-employed people, but you can't wait until April 15 to do the paperwork.

Another great tax strategy is to incorporate a sole proprietorship. I've had clients lower their taxes by forming a corporation. But again, if you wanted to incorporate your business for 2014, you can't wait until April 2015 to do that and make it retroactive.

Now for some sole proprietors, incorporating may not be a good idea; it may be that remaining a sole proprietorship is fine. For many self-employed people, this is a perfectly legal way to pay less tax, but either way, there is some paperwork involved and you have to be proactive about setting things up the right way and at the right time.

GF: These are some great points we can share with those clients who drag their feet in giving us the info we need to keep their books up to date, as well as helping them see WHY it is so important!

Specifically, what has been the #1 challenge you've had in helping your business clients save on taxes? Do you have any war stories you can share?

WD: The biggest challenge I have faced is simply getting clients to implement good tax reduction strategies. Let's go back to this idea of forming a corporation. We call this "Choice of Entity." And I highly recommend that every small business owner takes a close look at this question: What type of entity should my business be – sole proprietorship, partnership, corporation, or LLC?

Now, if you [research this](#) and discover that incorporating is a good thing for you, do it! Don't put it off. Take action and do it. There is no better time than the present to dramatically improve your tax situation.

I've worked with many wonderful clients. And I truly enjoy working with them. I've helped many small business owners and self-employed people go through this choice of entity decision. Those that take the time to do it never regret it. Some end up with thousands of dollars in tax savings for many years to come.

But occasionally I get a client like Tony, the typical small business owner who is just "too busy" running his business to deal with any extra paperwork. Tony came to me and I offered to take him through a choice of entity analysis. He just shrugged his shoulders and said, "Sure. Whatever you say."

So I did the analysis and called him with the results. Tony could save over \$3,600 per year by converting from a Sole Proprietorship to a Corporation. He liked the sound of that, and so he made an appointment to get started with the paperwork.

But making the appointment is all Tony ever did. On the day of the appointment, Tony cancelled. Something came up.

A month later, he called to reschedule. And on the day of that second appointment, Tony cancelled. Something came up.

And on three more occasions, Tony made an appointment to get his corporation started, and each time, he either cancelled or didn't show up.

I still do his tax return each year, and each year I remind him of the simple fact that he overpaid his taxes by approximately \$3,600 (again). Over the past five years, Tony has paid nearly \$18,000 more than necessary, just because he's not focused enough to follow through on a simple one-time change in his business choice of entity.

GF: That's a great example to show how valuable the help of a professional is to our clients, and as in the case of Tony, if his bookkeeper had been there to encourage him to MAKE the time to get the paperwork done, he might be saving a bundle. So that leads to my next question...

What role do you see bookkeepers playing in helping self-employed business owners save on taxes?

WD: As I mentioned earlier, having a good set of books is huge. Without it, clients will overpay taxes just because of overlooked deductions that are probably there, but didn't get recorded properly.

Self-employed people are good at whatever their business does (whether it's providing a service or selling a product), but they are notorious for being naïve about some of the best small business deductions allowed by the tax code. A good bookkeeper should know what's deductible and what's not. The idea is to advise the client and take care of it for them, so they can concentrate on doing what they do best – operate their business and making a profit.

GF: I couldn't agree more, Wayne! This is a HUGE reason why bookkeepers who do not prepare taxes would do well to grab a copy of your book so they can be educated on how to really help clients save on taxes. This makes bookkeepers invaluable to their clients.... and can even serve as a segue to lucrative business consulting services.

In your experience, how are most of these businesses getting their bookkeeping done? Are they doing the books themselves, or do they have a hired bookkeeper?

WD: Both. I have clients who do their own bookkeeping and I have clients who outsource it. And I must admit that I'm always a bit baffled by those who do their own bookkeeping. I always wonder, "Is it really worth doing it yourself?" The most common reason I hear for a small business owner doing his own books is, "I can't afford to hire a bookkeeping."

My response is, "How can you afford not to outsource it?" If they just took the time they are spending on bookkeeping and spent it on marketing, they likely could increase sales more than enough to offset the expense of hiring a bookkeeper!

GF: Right on, brother! And as you just illustrated, not only will they more than justify the cost by more profitability using their time, but also the savings a bookkeeper provides for taxes and late payments and so many other ways still adds to the bottom line for the client, rather than costing them. Our services are just a smart investment!

Where do you think freelance bookkeepers are really dropping the ball when it comes to helping clients save on taxes?

WD: A good bookkeeper should have a working knowledge of the most common small business tax deductions. A good bookkeeper should also have a good working relationship with a tax professional that she can consult with on tax questions that come up from time to time.

If a bookkeeper isn't sure about what is deductible and what's not, she should find out the answer to the question by discussing the issue with a qualified tax pro, or be honest with the client and let them know that this is something that requires further research. If the bookkeeper can't get the answer, encourage the client to consult with their own tax pro to get a definitive answer.

GF: This is why we're friends, Wayne! What you are saying is what I've been preaching for years. Bookkeepers should know the basics of what's deductible (at least), but also proactively reaching out to their clients' tax professionals so that they can work as a team to support the client.

When we do that, not only are the clients thrilled to have us supporting their interests, but we also get noticed by the tax pro and build a valuable strategic alliance who can refer clients who need a good bookkeeper. It's the perfect complementing partnership! In fact, that's the whole reason I put together the [CPA Referral Marketing](#) training course. I do this myself and have had fantastic results... and it's really quite easy to do.

Do you recommend that bookkeepers venture into recommending some of the tips in your book, or should they defer to the client's tax professional?

WD: I don't have a problem with a bookkeeper recommending the tax strategies mentioned in my book. But I think the bookkeeper should also say, "Don't forget to run this by your own tax person."

Of course, it's also good to remember that many small business owners don't have a tax person, which is unfortunate. It's not uncommon for self-employed people to do their own tax returns. And this fact presents the bookkeeper with an opportunity to help the client by urging the client to seek professional help with their tax return.

Successful business owners rarely do their own tax returns. They outsource it. Just like with bookkeeping, the temptation is there to "do it yourself" and save some money. But at what cost?

So I think the best thing a bookkeeper can do to help clients save on taxes is to encourage them to find a good tax professional to prepare the returns and provide year-round tax planning.

GF: I couldn't agree more!

How do you feel about bookkeepers who also provide tax services themselves? Do you think there's any problem for the bookkeeper to do both?

WD: I have no problem with a bookkeeper providing tax services – as long as the bookkeeper has the proper tax training and the credentials to demonstrate competency in the field of tax preparation.

Have you found freelance bookkeepers to be a good source of referrals for your tax practice?

WD: No. Believe it or not, when you referred Bill to me, that was the first time that a bookkeeper has referred a potential tax client to me. So over the years I've not taken time to develop relationships with bookkeepers (except for you!). But I am still so grateful that you thought of me.

GF: Sadly, I think most bookkeepers only focus on receiving referrals from tax professionals and don't understand how powerful it can be for building relationships to send referrals first. I'll have to make sure I send you more referrals, whenever they come my way, Wayne! :-)

In a perfect world, what are the key qualities that you'd want to see in a freelance bookkeeper that would really make them a pleasure to work with on a regular basis?

WD: Two qualities stand out:

1) Technical knowledge. I'm stating the obvious, but a good bookkeeper should have good bookkeeping skills. Be good at what you do, and be constantly striving to get better at it.

2) Reliability. A good bookkeeper should be a person you can depend on. Just like any professional that you work with – you want them to be a person who keeps their word. If I say I'm going to have a tax return done by the 15th, I better get it done by the 15th!

If a bookkeeper says he's going to get a project done by the 15th, he should do whatever it takes to get it done by the 15th. You want someone you can trust to do what they say they're going to do by the date they say they're going to do it. Nothing destroys trust more than failing to keep commitments.

GF: You're spot on with that! No one is perfect, but I definitely agree that we really want to try to deliver what we promise if we want to be seen as professional by everyone we work with.

For freelance bookkeepers who are just getting their business up and running, what advice can you offer for building strategic relationships with Enrolled Agents?

WD: Many EA's offer more than just taxes. Some EA's offer a full line of accounting, payroll and tax services. Some EA's offer bookkeeping services. So I would first find out what services any particular EA offers. If you find an EA who happens to offer bookkeeping services, don't necessarily rule them out as a referral partner. Be upfront with them and find out if they are ever in a situation when they are "overbooked" (pardon the pun) and could use some help with their bookkeeping load.

Of course, the ideal EA to work with is one who does not do bookkeeping and has clients who need bookkeeping services. It only takes a few of these EAs to send you a steady stream of quality clients. This is the best type of EA to work with, and once you find one, treat him or her well!

GF: Yes! And don't forget to thank them in some way for sending referrals. Appreciation means a lot.

What specific "insider" tips, tricks or techniques can you share with us that would help any freelance bookkeeper win the respect and trust of tax professionals?

WD: Well, I'll be the first to admit that what I'm about to say will hardly sound like an "insider" trick. But here it is: Be honest. Honesty is just as important as technical expertise or years of experience. EAs are required to comply with a rigorous set of ethical standards and we are expected to live up to those standards set by the IRS.

To put it simply: No funny money. No "looking the other way" when you know that the client is doing something unethical or illegal.

GF: Yep! Bookkeepers need to remember that the client's actions can jeopardize our own business if we're doing their books and they're doing something illegal. You are not necessarily held harmless if they get into trouble! So I couldn't agree more.

Do you have any last advice that would help bookkeepers get a better understanding about what you face as a tax professional so that we can make your life easier and build true win-win relationships?

WD: Be respectful of how stressful tax season can be for tax professionals.

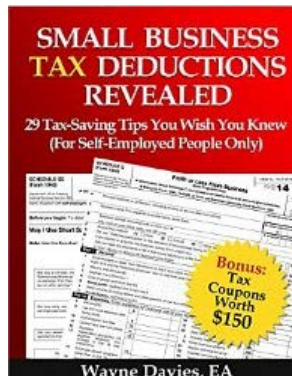
It's really hard to describe how crazy things can get in the office of a tax preparer during tax season. It's kinda like surfing a huge wave. At first, the wave doesn't look that big. And you think, "No problem. I can handle this." And so you hop on your surfboard and start riding this little wave.

Before long, however, the wave starts to get bigger and bigger. In fact, before you know it, it's the biggest wave you've ever seen in your life! You have no idea how you're going to make it to shore alive. The longer you ride this wave, the better you get at handling it, but it is still an incredibly challenging wave and you often wonder, "Why in the world did I get on this thing? Maybe I should jump!" But something inside you says, "Stick with it. You can do this. And in the end, it will be worth it." So you stay on the wave, using all your strength, ability, perseverance and focus.

The wave continues to grow, but just as it reaches its maximum size, it crashes on the beach and you somehow manage to land on the soft sand with a boatload of seaweed in your hair. You're exhausted and spent, but actually feeling pretty good. It's April 15 and the ride is over.

Your surfboard is sitting next to you, a bit mangled but repairable, and you head to the nearest hammock to take a nice long nap. Tax season is over and you lived to tell about it ☺

GF: LOL! Wow, Wayne! That is the best description ever for what it's like to "ride the wave" of tax season when you prepare taxes professionally. I did it myself for over 20 years, but finally decided to turn in the surfboard a few years ago.



Thank you so much for taking the time to share your experiences and advice with us. It is extremely helpful and I'm sure my readers will appreciate it as well.

If you're a freelance bookkeeper, then you really NEED to pick up a copy of Wayne's Kindle book so you have it handy and can help your clients (and yourself) save on taxes. From where I sit, this is a must-have reference for every bookkeeper's toolbox.

[Click Here to go to Amazon and get your copy.](#)