Tax Tips for Massage Therapists

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TAX TIPS

FOR LICENSED MASSAGE THERAPISTS

6 CE HOURS

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Approved By Texas Department of Licensing & Regulation (TDLR)

About the Instructor

My name is Melissa Wood, and I am a Naturopath, Massage Therapy Instructor, and Licensed Massage Therapist located in Sherman, Texas. I have been studying alternative and natural medicine for over 25 years.

My mission is to enable everyone on this planet to be healthy and to be actively involved in their health and healing. My goal is to offer information that will provide you with new insights that are useful in your path to wellness. I envision a time when everyone will seek out herbs, essential oils, vitamins, minerals, nutritional supplements, and whole foods (not processed food!) to help heal themselves, as these are very powerful tools for enhancing your health and well-being.

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Disclaimer

I am a Naturopathic Doctor (N.D.), Massage Therapy Instructor (MTI), Licensed Massage Therapist (LMT), and an Approved CE Provider in the State of Texas.

The information provided in this "Tax Tips" e-book CE class is for general informational and educational purposes only and should not be considered financial, tax, or legal advice. Every individual's tax situation is unique, and tax laws are subject to change.

I am not a CPA, tax attorney, or financial advisor, and this class does not create any client-professional relationship. It is strongly recommended that you consult with a qualified CPA who specializes in small businesses **to review your specific circumstances and ensure compliance with applicable tax laws.**

By participating in this class, you acknowledge that any decisions you make regarding your taxes and your financial situation, is your own responsibility. I am not liable for any actions taken based on the information presented in this course.

Melissa M. Wood, ND, MTI, LMT

Tax Tips for Licensed Massage Therapists

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CHAPTER 1
Introduction

Taxation for Massage Therapists

WELCOME!

Taking a class on taxes is probably not your idea of fun, and that is completely understandable! However, taxes are a part of life. This class will provide a solid foundation for massage therapists to understand tax responsibilities, make informed decisions about business structure, and implement effective record-keeping practices.

Taxes can feel like a foreign language—full of terms, rules, and forms that seem designed to confuse. But the truth is, the tax code is full of opportunities for savvy professionals like you to save money and make smarter financial decisions. That's why this class came to be: to demystify the tax process and empower you to take control of your finances with confidence and clarity, thereby helping you to have successful strategies when operating your own business (or starting your own!).

HAVING A BUSINESS DOESN'T HAVE TO BE OVERWHELMING!

Whether you're juggling self-employment, keeping track of expenses, or trying to figure out which deductions you can (and can't) take, it can be overwhelming. We'll break down the tax code in plain language and share tips that are specific to your profession, so you can maximize your deductions, stay compliant, and ultimately keep more of the money you work so hard for. After all, you earned it!

Let's face it: taxes are like that one client who shows up late, complains the whole time, and still expects a full refund—they're relentless, unavoidable, and, frankly, annoying!

But there is good news: with a little knowledge and organization, taxes don't have to be overwhelming. In fact, they can even work in your favor—yes, really!

This class is designed to help you clarify the tax process, avoid common pitfalls, and make smarter financial decisions that support your practice.

Whether you're working as an employee, an independent contractor, or running your own business, we'll explore **strategies tailored to the unique challenges and opportunities of the massage therapy profession**. From understanding your employment status to keeping track of deductible expenses, we've got you covered. Plus, we'll keep things straightforward and practical, so you'll leave with actionable tips you can use right away.

By the end of this class, you should be equipped with the tools and confidence to take charge of your financial health.

Legal Disclaimer

Before diving into the *exciting* world of tax tips…

Please understand that while the goal of this CE class is to provide you with helpful, practical information to help you save as much money as possible on your taxes, this course is **not legal or tax advice.**

Think of this class as a roadmap to guide you toward smarter financial decisions. Topics will include **strategies and tips tailored to massage therapists,** but every individual's situation is unique. The tax laws can be complex and vary by state, and what works for one person might not apply to someone else. That's why it has to be recommended that ***you consult with a licensed tax professional or attorney for personalized advice based on your specific circumstances***.

This course is meant to empower you with knowledge, not to replace expert guidance. Tax laws and regulations can and do change, so it's always a good idea to double-check with a professional AND review current IRS guidelines.

Ready? Let's get started!

Why Do Massage Therapists Have To Pay Taxes Anyway?

Massage therapists, like all working professionals, have to pay taxes because taxes are how governments fund essential services and infrastructure. From public schools and healthcare systems to roads, public safety, and social programs, taxes are used to pay for these services.

As a massage therapist, you contribute to these systems just like any other profession. If you're self-employed or working as an independent contractor, paying taxes is also how you cover contributions to Social Security and Medicare, which provide critical support in retirement and for healthcare later in life.

Additionally, **paying taxes is a legal responsibility**. Article 1 of the United States Constitution grants the U.S. government the power to establish and collect taxes. Congress delegated to the **Internal Revenue Service (IRS)** the responsibility of administering and enforcing the Internal Revenue Code.

Taxes reduce taxpayers' income. As a result, taxpayers have less for personal goods and services, savings, and investments. The more services the government provides, the more taxpayers have to pay for them. Whenever new public goods and services are proposed that require new taxes, taxpayers must vote to decide whether the additional benefits are worth the reduction in income.

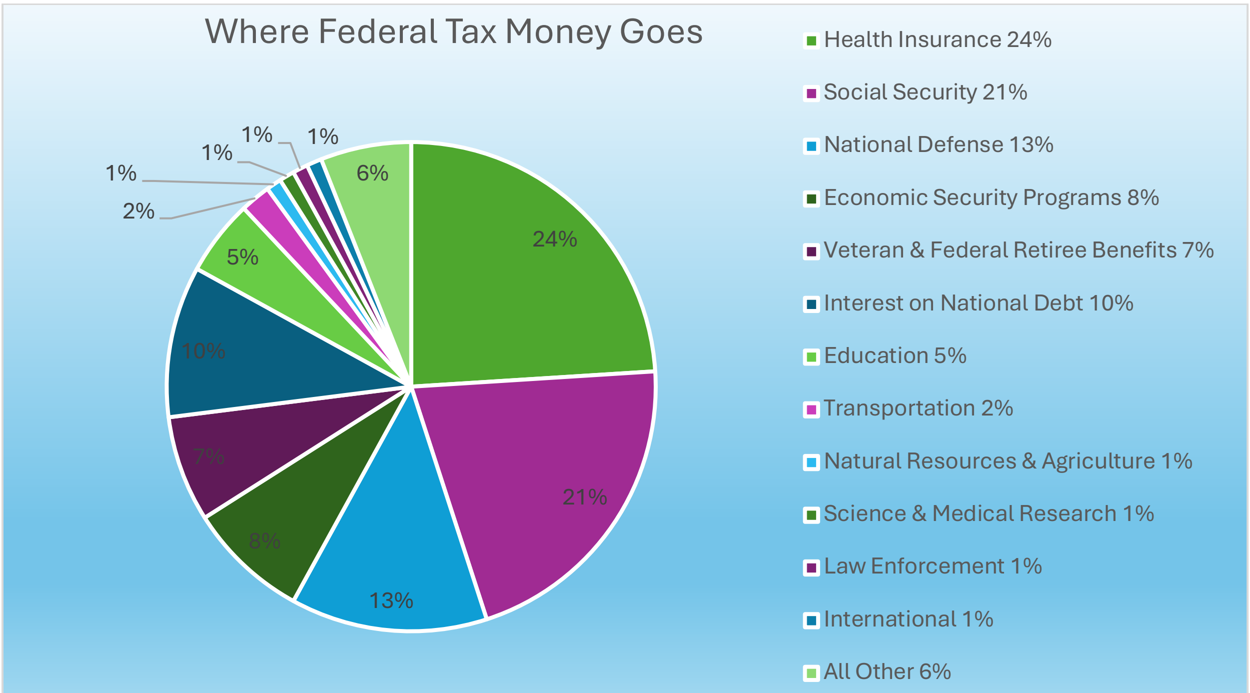
Whether you work as an employee or run your own practice, the government requires everyone to report their income and pay their fair share. Staying compliant with tax laws protects you from penalties or audits and ensures you can continue building a successful career without unnecessary stress.

While taxes can feel like a burden, understanding the system and maximizing deductions can help reduce your tax liability. This means more of your hard-earned money stays in your pocket while you fulfill your responsibilities as a citizen and professional.

WHERE DO TAX DOLLARS GO?

Federal Taxes

The federal government collects taxes to fund a wide range of public services for the country. Looking at where this money goes helps us see how taxes contribute to the bigger picture.



Data based on CBPP.org and by the Office of Management and Budget for 2023

In 2023, the government spent $6.1 trillion. The largest chunk of that went to healthcare programs such as Medicare, Medicaid, and the Children's Health Insurance Program (CHIP). The next most sizable category of spending is Social Security which offers monthly benefits to retirees, disabled individuals, and families of deceased workers. National defense spending accounts for a smaller yet still substantial share, funding military personnel, equipment, and operations.

Other areas of spending include economic security programs, such as unemployment benefits, food assistance, and housing aid, which support people facing financial hardships. Additional funds go toward education, transportation, and scientific research.

A substantial portion of government spending goes toward paying interest on the national debt. The national debt is the money the federal government has borrowed to cover the outstanding balance of current and past expenses. Notably, $4.4 trillion of the $6.1 trillion 2023 expenses were paid with tax revenues, the rest were financed through borrowing.[1]

The US runs a budget deficit because the government spends more money than it collects in taxes. To pay for the deficit (the $1.7 trillion difference between the spending and the taxes collected), the federal government borrows additional funds, which increases the debt. In 2024, the federal government spent $1.83 trillion more than it collected, resulting in an even greater deficit.[2] The total debt for the U.S. through December 04, 2024, was $36.17 trillion.[3]

The federal government collects tax revenue from a variety of sources, including individual income taxes, payroll taxes, corporate income taxes, and excise taxes.

Local Taxes

Local taxes fund services including police and fire departments, education and health services, libraries, road maintenance, and other programs and projects that benefit the local area. Many of these services offset some of these costs with federal funds in the form of grants.

Local taxes also come in many forms, from property taxes and payroll taxes to sales taxes and licensing fees.

Overview of the US Tax System

The United States tax system can seem daunting, but understanding its structure is essential for navigating your responsibilities as a massage therapist. The system operates on a pay-as-you-go model, meaning taxes aren't just paid once a year during tax season—they're collected throughout the year. For employees, this happens through payroll withholding, where your employer deducts taxes from your paycheck. For independent contractors or self-employed individuals, it involves making quarterly estimated payments to ensure you stay current on your tax obligations.

Two Main Parts

Your tax money goes to fund services at the federal level (whole country) and at the local level (your town, city, county, and state).

There are two key players that oversee the tax system.

First, there's the **Internal Revenue Service (IRS),** the federal agency responsible for collecting taxes and enforcing tax laws. The IRS ensures that individuals and businesses comply with tax regulations, processes tax returns, and facilitates government funding by managing revenue collection.

Then, you have **state and local tax authorities**, which add layers of complexity with income taxes, sales taxes, and possibly even specific business taxes depending on where you live and work.

Texas does not have a state income tax, which simplifies things compared to other states. Likewise, in Texas, massage services are not subject to sales tax. However, selling any products like oils, lotions, or gift certificates for taxable goods, are taxable.

For massage therapists, navigating these federal, state, and local requirements is like fitting puzzle pieces together. It might feel tricky at first, but when it clicks, you'll find it easier to comply with the law and avoid unnecessary stress.

What Is the IRS and What Does It Do?

Let's start with the basics: the Internal Revenue Service, or IRS, is the federal agency responsible for collecting taxes and enforcing tax laws in the United States. Think of the IRS as the nation's bookkeeping department. Its job is to ensure that everyone—individuals and businesses alike—pays their share to fund important public services like education, healthcare, transportation, and defense.

For massage therapists, the IRS plays a central role in how you manage your taxes. Whether you're filing as a W-2 employee, an independent contractor, or a small business owner, the IRS oversees how much you owe in federal income tax, self-employment tax, and other contributions like Social Security and Medicare. They also provide forms and resources to help you stay compliant.

While the IRS can feel intimidating, their primary goal is to make sure the system is fair and that everyone follows the rules. By keeping good records, filing on time, and understanding your deductions, you can maintain a smooth relationship with the IRS and avoid any unexpected surprises.

Understanding State and Local Taxes

In addition to federal taxes, most massage therapists will also need to navigate state and local taxes. These can vary widely depending on where you live and work. Some states, like Texas and Florida don't have a state income tax; however, others like California and New York do have state income tax rates. If you practice in multiple states, you may be required to file income tax in those states. Understanding your state's specific requirements is essential to staying compliant and avoiding penalties.

State taxes may also cover sales tax if you sell products like essential oils, candles or other items. If you run a home-based or mobile massage practice, your local government might require a business license or specific permits, which can come with additional taxes or fees.

Don't forget about local taxes, which can include city or county-level business taxes. For example, some cities have their own income tax, separate from the state. Others may require you to pay for zoning permits or business registrations. While these smaller taxes can feel like a hassle, they're often straightforward and easy to manage with a little planning.

Self-Employment Taxes

- As independent contractors or self-employed professionals, massage therapists must pay self-employment taxes to the IRS, which include **Social Security** and **Medicare taxes**.
- These are calculated at 15.3% of net earnings and reported on federal tax forms (Schedule SE).

Federal Income Tax

- Therapists must report their earnings and pay federal income taxes based on their tax bracket.
- Quarterly estimated payments may be required to avoid penalties.

In Texas, massage therapists need to be aware of the following taxes and related obligations:

Self-Employment Taxes

Federal Income Tax

Sales and Use Tax (if selling products)

Employment Taxes (if applicabe)

Property Taxes

Local Fees and Permits

Sales and Use Tax

- Massage services in Texas are **not subject to sales tax**, but any **retail sales** of products like oils, lotions, or gift items are taxable.
- Therapists selling products must obtain a **sales tax permit** and collect, report, and remit sales taxes to the state.

Employment Taxes (if applicable)

- Therapists who employ others must pay and report **state unemployment taxes (SUTA)** and handle federal employment taxes (Social Security, Medicare, and income tax withholding).

Property Taxes

- If you own a studio or business equipment, such as massage tables or furniture, Texas may assess **business personal property taxes** on those items.

Local Fees and Permits

- While not taxes, some Texas cities or counties require **occupational licenses** or permits for massage therapists. Be aware of these costs as part of operating locally.
- For example, Texas law requires a massage establishment to file an application and pay a fee, and likewise, may `"employ only licensed massage therapists to perform massage therapy or other massage services."`
  (Section 455.202: https://statutes.capitol.texas.gov/Docs/OC/htm/OC.455.htm)[4]

In Texas, massage therapists are regulated at the state level by the Texas Department of Licensing and Regulation (TDLR). However, certain cities, such as Austin, may have additional requirements for massage therapy establishments. For specific municipality details, you should check with the city government offices where the business operates. For instance, Austin's Development Services Department or similar entities in other cities can provide clarity on additional requirements.

Fortunately, Texas does not impose a **state income tax**, which simplifies the overall tax burden compared to many other states.

Across Texas, all licensed massage therapists must:

- Obtain a state massage therapy license from the TDLR.
- Adhere to fingerprinting and criminal background check requirements for the business owners of the establishment.

Keeping track of these layers of taxation may sound overwhelming, but a solid bookkeeping system and a basic understanding of your state and local tax rules can make it manageable. When in doubt, check with your state tax agency or consult a local tax professional who understands the specifics of your area. By staying informed, you can focus more on your practice and less on tax worries!

The Short Version

The United States tax system operates under a pay-as-you-go model, meaning taxes are collected throughout the year, primarily through payroll withholding or quarterly estimated payments.

- **Internal Revenue Service (IRS): The federal agency responsible for tax collection and enforcement.**
- **State and Local Tax Authorities: Responsible for additional taxes such as income, sales, and business taxes, which vary widely by state.**
- Massage therapists must navigate a combination of federal, state, and sometimes local taxes depending on their practice's location and business structure. Understanding these layers is crucial to compliance and financial success.

The Difference Between a W-2 Employee and a 1099 Independent Contractor

As a massage therapist, you might find yourself working under one of two main employment categories: as a W-2 employee (you might be in this category if you're employed by a spa) or a 1099 independent contractor (business owner). Each has its own tax implications, and understanding these differences is critical for your financial well-being.

If you're a W-2 employee, taxes are fairly straightforward. Your employer automatically withholds income taxes, Social Security, and Medicare contributions from your paycheck. They also cover a portion of your payroll taxes and may offer benefits like health insurance or retirement contributions (likely only if you're a full-time employee).

On the other hand, if you're a 1099 independent contractor, the game changes. You're responsible for calculating and paying your own income taxes, including self-employment tax, which covers both the employee and employer portions of Social Security and Medicare. While this means more administrative work, it also opens up opportunities for tax deductions.

A deduction is an amount you subtract from your income when you file so you don't pay tax on it. By lowering your income, deductions lower your tax.[5]

Business-related expenses, like massage supplies, mileage (if you have a mobile massage business), continuing education classes (like this one!), or even part of your home office, can often reduce your taxable income. However, as an independent contractor, you won't receive employer-sponsored benefits, so you'll need to plan for expenses like health insurance and retirement savings on your own.

Massage therapists often work as either W-2 employees or 1099 independent contractors. In some cases, massage therapists might do both. You could be employed by one of the massage chains on a full-time basis, while also having your own massage business on the side, evenings and weekends. This scenario would allow you to earn extra income, while also having some deductions. Keep in mind that it's possible your spa or workplace would prohibit you from doing that or demand you fill out a Non-Compete Agreement, which means you wouldn't be able to have your own business on the side. Make sure you check any contract or paperwork you signed with a company BEFORE you start your own side gig.

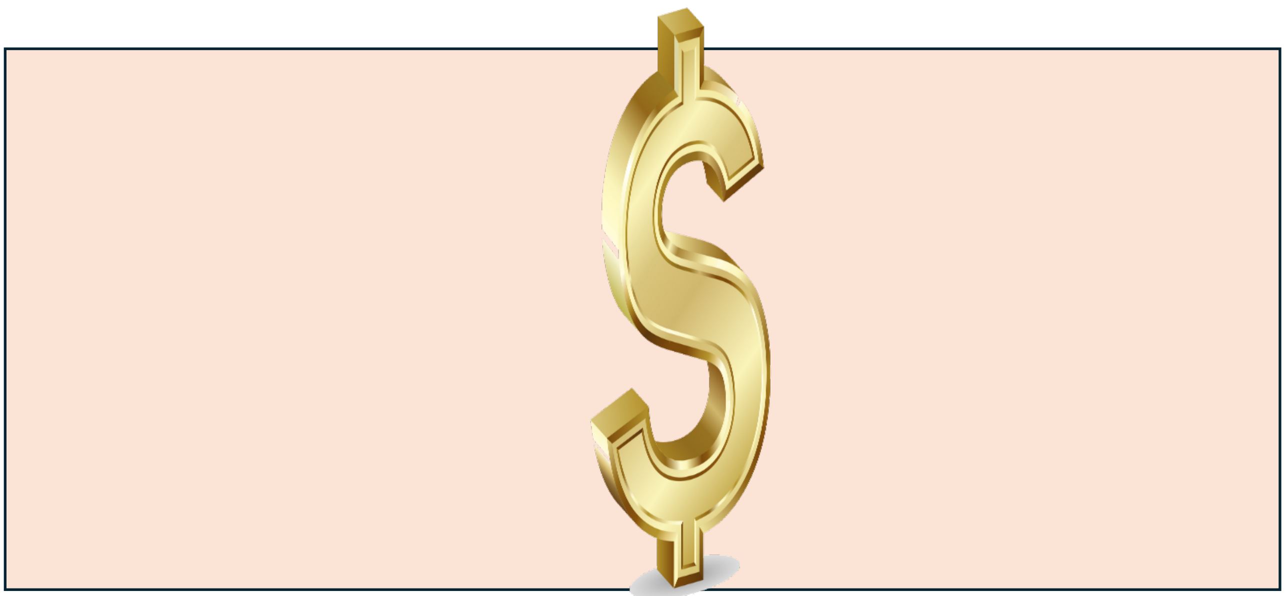
Here's a breakdown of the key differences:

W-2 Employee

- Taxes are withheld directly from paychecks by the employer.
- The employer contributes to Social Security, Medicare, and unemployment insurance.
- Limited deductions for work expenses under current tax law.

Independent Contractor

- Responsible for calculating and paying your own taxes, including income tax, self-employment tax, and maybe making estimated quarterly payments.
- Greater potential for deductions related to work expenses.
- No employer-provided benefits like health insurance or retirement contributions.



Benefits and Challenges of Self-Employment from a Tax Perspective

Many massage therapists are drawn to the freedom and independence of self-employment, but with that freedom comes unique tax-related responsibilities. One of the greatest advantages of self-employment is the ability to deduct legitimate business expenses.

From massage oils and linens to professional development classes and seminars and even travel for work, these deductions can significantly lower your taxable income. You also have more control over your financial picture, as you decide how to manage income, expenses, and long-term planning.

That said, self-employment isn't without its challenges. Self-employed individuals are subject to a self-employment tax, which covers Social Security and Medicare contributions.

Unlike W-2 employees, who share this cost with their employer, self-employed therapists bear the full 15.3% tax on their net earnings.[6]

> The self-employment tax rate is 15.3%, which is a combination of a 12.4% Social Security tax (also known as OASDI tax) and a 2.9% Medicare tax on net earnings. Self-employment tax is not the same as income tax. In 2024, only the first $168,600 of earnings is subject to the Social Security portion.

This can feel like a hefty amount, but careful planning and regular quarterly payments can help you stay on track. Tracking every expense, saving receipts, and staying organized is critical to both compliance and maximizing deductions. Finally, the administrative burden is higher—you're not just a therapist but also your own bookkeeper and tax preparer (unless you outsource these tasks).

If you're employed as a massage therapist by someone else, the process for tax deductions works a bit differently compared to self-employment. In short, as an employee, you have fewer opportunities to deduct business-related expenses, and you will rely more on your employer for reimbursed expenses or taxable benefits.

As an employee, you typically have taxes withheld from your paycheck, including federal income tax, Social Security, and Medicare taxes. Your employer is responsible for paying a portion of these taxes on your behalf. **Your ability to claim business-related tax deductions as an employee is much more limited than if you were self-employed.** For example, you can't deduct expenses for things like office supplies, travel, or home office space directly related to your massage work unless you have certain types of work-related expenses that are directly reimbursed by your employer.

In the past, employees could deduct certain unreimbursed work-related expenses (like uniforms or tools required for the job), but this is no longer the case for most employees under the 2017 Tax Cuts and Jobs Act.[7] Now, these deductions are only available for specific situations (such as for certain types of employees like those in the military or specific occupations).

If your employer offers certain benefits, such as health insurance or retirement contributions, these may be deducted pre-tax from your paycheck, which can reduce your taxable income. For example, if your employer provides health insurance and you pay a portion of the premium, those payments can be taken out of your paycheck before taxes. This reduces your taxable income because the amount you pay for your health insurance isn't counted as part of your salary when calculating taxes.

Example: If you earn $3,000 a month and pay $200 for health insurance, your taxable income would be reduced to $2,800 for tax purposes.

Likewise, if your employer offers a retirement plan like a 401(k), or a Health Savings Account, the money you contribute to that plan (up to the legal limit) can also be deducted pre-tax. Furthermore, the money in your 401K and HSA grows tax-free, meaning any interest, dividends, or gains made from investments within the account are not subject to taxes.

Standard Deduction vs. Itemizing

When filing taxes, both individual taxpayers and small business owners have the choice between taking the **standard deduction** or **itemizing deductions**. The best option depends on the specific financial situation, including income, expenses, and record-keeping habits.

For Individual Taxpayers

The **Standard Deduction** is a fixed dollar amount set by the IRS, which reduces your taxable income automatically without needing to list specific expenses.

Advantages: Simple and quick: No need to keep detailed records of expenses. Beneficial if your deductible expenses are less than the standard deduction amount.

Example: If you're a single filer with $12,000 in deductible expenses, taking the $13,850 standard deduction (2024 single filer rate) is better because it's higher.

Itemized Deductions: Itemizing allows you to list deductible expenses, such as mortgage interest, charitable contributions, medical expenses exceeding 7.5% of your adjusted gross income (AGI).

Advantages: Can provide a larger deduction if your deductible expenses exceed the standard deduction.

Disadvantages: Requires thorough documentation and record-keeping and can be time-consuming to calculate.

Example: If you have $15,000 in deductible expenses, itemizing may save you more in taxes compared to taking the standard deduction.

For Small Businesses

The biggest tax advantage of being a small business owner is the ability to deduct a wide range of business-related expenses, which directly reduces taxable income and can result in significant tax savings.

The standard deduction is **not directly applicable to business expenses**, as businesses report their income and expenses separately.

For business purposes, "itemizing" means listing allowable business expenses to reduce taxable income. These expenses are not part of the personal itemized deductions but are reported separately on the tax return.

Self-Employment Tax Advantages

Self-employment offers a rewarding level of autonomy but requires commitment to financial organization and proactive tax management. Also, having total control over income and expense reporting allows for strategic tax planning.

Business Expense Deductions

Self-employed massage therapists can deduct various business-related expenses. We'll go into tax deductions in Chapter 4, but they include expenses such as supplies, travel, continuing education, and home office space.

Health Insurance Premiums

If you pay for your own health insurance, these premiums may be deductible, provided you meet certain criteria.

Tax-Advantaged Retirement Contributions

You can set up a Solo 401(k) or SEP IRA, allowing for larger tax-deductible retirement contributions than traditional employee plans.

Tax Disadvantages

The big downside of being self-employed is that you are responsible, therefore you will need to have meticulous record-keeping and make regular estimated tax payments.

Self-Employment Tax

- Self-employed individuals must pay the full 15.3% self-employment tax (covering both employer and employee portions of Social Security and Medicare), whereas employees split this cost with their employers.

Complex Tax Filings

- Self-employed individuals must file additional tax forms, such as: Schedule C (Profit or Loss from Business) and Schedule SE (Self-Employment Tax).

No Automatic Withholding

- Self-employed massage therapists are responsible for calculating and paying estimated taxes throughout the year, which requires discipline and planning.

2.

3. **Non-Deductible Personal Costs:**
   - Personal expenses, even if related to your health (like massages for self-care), generally aren't tax-deductible.

4.

5. **Risk of IRS Scrutiny**:
   - Sole proprietors often face greater scrutiny from the IRS for misclassified expenses or deductions, increasing the risk of audits.

CHAPTER 2
Business Structure and Tax Considerations

Choosing the Right Business Structure

Massage therapists can operate under various business structures, each with tax and legal implications.

Business types and Tax Format

1. **Sole Proprietorship**: The simplest structure owned and operated by one individual; all income is reported on the individual's tax return.

2. **Partnership:** A business with two or more individuals sharing ownership, profits, liabilities, and responsibilities, yet each partner generally files individually on personal tax forms.

3. **Limited Liability Company (LLC):** Offers liability protection of a corporation with the flexibility of a partnership or sole proprietorship, including flexibility in taxation.

4. **S-Corporation (S-Corp):** Allows owners to reduce self-employment tax by paying themselves a salary and pass profits and losses to shareholders to be reported on their personal taxes.

5. **C-Corporation (C-Corp):** A separate legal entity from its owners, providing liability protection, the ability to issue stock, and opportunities for growth but subject to double taxation on corporate profits and shareholder dividends.

6. **Nonprofit:** Tax-exempt organizations created for charitable, educational, religious, or scientific purposes, with profits reinvested to further the mission.

Sole Proprietorship

As a massage therapist, if you're operating as a **sole proprietor**, it means you're using the simplest business structure available. With this setup, all the income and expenses from your massage therapy practice are reported on your personal tax return, typically on **Schedule C (Profit or Loss from Business)**.

This structure is easy to manage because there's no need to establish a separate business entity, like an LLC or corporation. However, as a sole proprietor, you and your business are legally considered the same entity, meaning you are personally responsible for all liabilities and debts of your business.

This approach is perfect if you're just starting out or prefer minimal administrative work, but as your practice grows, you might want to explore other structures that offer added legal protections. For now, focusing on accurate record-keeping and understanding your tax deductions will help you maximize the benefits of this simple setup!

Limited Liability Company (LLC)

A Limited Liability Company (LLC) is a popular business structure for massage therapists because it combines liability protection with flexibility in taxation.

Liability Protection: As an LLC, your personal assets (like your home or savings) are typically protected from business debts or legal claims. This means if something happens in your massage practice, such as an unforeseen client issue, only the business assets are at risk—not your personal property.

Tax Flexibility: An LLC offers options for how you're taxed. By default, single-owner LLCs are treated as sole proprietorships, and multi-owner LLCs are taxed as partnerships. However, you can also choose to be taxed as an S-Corporation or C-Corporation, which can provide tax-saving opportunities based on your income level and financial goals. This flexibility allows you to choose the structure that works best for your unique situation.

Creating an LLC is a step toward protecting yourself and gaining control over your business finances while continuing to deliver quality care to your clients!

S-Corporation

An S-Corporation (or S-Corp) can be a helpful option for massage therapists who are self-employed and want to reduce their self-employment tax obligations.

Here's how it works:

When you're self-employed, you're responsible for paying self-employment taxes, which cover both the employer and employee portions of Social Security and Medicare. This can add up quickly! However, if you choose to structure your business as an S-Corp, you can divide your income into two categories: **a reasonable salary** and **distributions (profits)**.

- **Reasonable Salary**: As the owner-employee of your S-Corp, you pay yourself a salary, and you'll pay employment taxes (Social Security and Medicare) on that amount. This part is taxed the same way as any job.
- **Distributions (Profits)**: Any income left over after your salary can be taken as a distribution. The big advantage? Distributions aren't subject to self-employment taxes, which can save you money!

An S-Corp Example

Imagine your massage therapy business earns $80,000 annually. As a sole proprietor, you would pay self-employment taxes on the entire $80,000. With an S-Corp, you might set a **reasonable salary** of $50,000 (on which you'd pay employment taxes) and take the remaining $30,000 as a distribution (which avoids those taxes).

Important Notes

- **Reasonable Salary**: The IRS requires that your salary be reasonable for the work you do, so you can't just set a super low salary to avoid taxes.
- **Additional Costs**: S-Corps require more administrative work, such as payroll processing and filing additional tax forms.
- **Professional Guidance**: It's a good idea to work with a CPA or tax advisor to make sure your S-Corp is set up and managed correctly to maximize your benefits and stay compliant with tax laws.

C-Corporation

For most solo massage therapists or small practices, a sole proprietorship, LLC, or S-Corp is likely more practical. However, if your massage business has ambitious growth plans, involves multiple investors, or requires significant reinvestment, exploring a C-Corp structure with a qualified attorney or CPA can help determine if it fits your needs. This structure involves more complexity and costs than other options, but it can provide unique benefits.

Circumstances When a C-Corp May Be Beneficial

1. **Business Expansion and Investment**:
    - If you plan to hire multiple employees or open multiple locations, a C-Corp can facilitate raising capital through the sale of shares.
2. **Desire for Limited Liability Protection**:
    - Like other corporations, a C-Corp separates the business from the owner(s), offering strong personal liability protection.
3. **Reinvesting Profits into the Business**:
    - C-Corps are taxed separately from their owners. This means you can reinvest profits back into the business without immediately passing all income to your personal taxes. While double taxation (corporate and personal taxes) is a downside, lower corporate tax rates may offset this if profits are reinvested rather than distributed.
4. **Health Insurance and Benefits**:
    - A C-Corp can offer more robust benefits, such as health insurance, retirement plans, and other perks for owners and employees. These benefits may be tax-deductible for the corporation.
5. **Long-Term Strategic Goals**:
    - If you're positioning the business to be sold eventually or want to bring on a board of directors to manage the business professionally, a C-Corp structure might align better with those goals.

Disadvantages of a C-Corp for Massage Therapists

- **Double Taxation**: C-Corps are taxed on their profits, and shareholders are taxed again on dividends.
- **Administrative Burden**: C-Corps require more paperwork, compliance, and governance (maintaining bylaws, shareholder meetings, and filing corporate taxes).
- **Cost**: Higher filing and administrative fees compared to simpler structures.

To Review ~ Tax Implications of Each Business Structure

1. Sole Proprietorship:

- Income is taxed on the individual's return using Schedule C.
- Self-employment tax applies to net earnings.

2. LLC:

- Can be taxed as a sole proprietorship, partnership, or S-Corp, depending on election.
- Provides liability protection without requiring a corporate tax structure.

3. S-Corp:

- Owners are considered employees and must draw a reasonable salary.
- Salaries are subject to payroll taxes, but profits beyond salaries avoid self-employment tax.

4. C-Corp:

- Treated as a separate legal entity, paying its own taxes on profits at the corporate level.
- Offers liability protection and is ideal for larger businesses seeking significant growth or attracting investors.

Pros and Cons of Different Business Structures for Massage Therapists

Sole Proprietorship: Simple and inexpensive to set up but offers no liability protection.

LLC: Flexible and provides liability protection but requires filing fees and compliance.

S-Corp: Reduces self-employment tax on profits but involves more administrative work and costs.

C-Corp: Owners are taxed again on dividends, leading to "double taxation." More paperwork and higher administration fees.

CHAPTER 3
Record Keeping

And

Expense Tracking

Importance of Accurate Record-Keeping

Good record-keeping is the foundation of effective tax management!

Keeping meticulous records is essential for massage therapists to ensure compliance with tax laws, accurately report income and expenses, and maximize deductions. Detailed documentation will **reduce your stress** and **support your claims should you be audited.** Good records also minimize errors that could result in penalties. Furthermore, you can get a clear financial picture of **how your business is doing** and to help you **plan for tax obligations** effectively. Proper record-keeping also helps **maintain professionalism** and instills confidence in clients and partners, as it reflects a well-organized and ethical business practice.

Essential Records for Tax Purposes

- Income records (invoices, payment receipts)
- Expense documentation (receipts, bank statements)
- Tax documents (W-2s, 1099s, prior tax returns)
- Mileage logs if using a vehicle for business
- Home office usage records, if applicable

Income Records (Invoices, Payment Receipts)

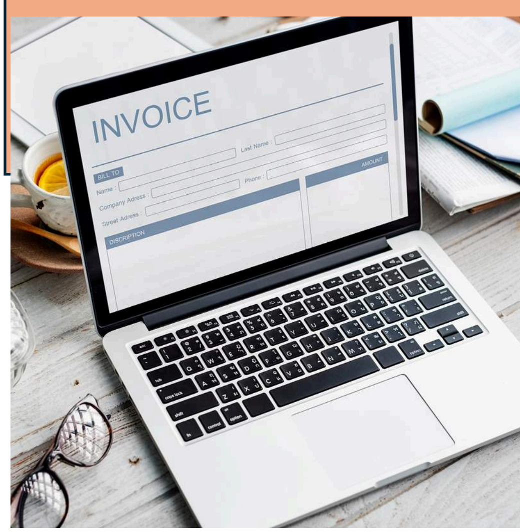
These documents show how much money your business earns. Invoices and payment receipts confirm completed transactions and provide a paper trail for all sources of income. This ensures accurate income reporting, helping to avoid underreporting issues that might trigger audits.

Invoices: Every time a service is provided, you should issue an invoice that includes the date of service, the client's name, the type of service provided, the rate, and the total amount due. For example, an invoice for a 60-minute massage at $75 should clearly state that. This document serves as proof of income.

Payment Receipts: A receipt should be issued for each transaction, especially for cash, checks, or credit card payments. This provides documentation of payment received and helps track any outstanding balances. If you accept online payments or use platforms like PayPal, Zelle or Venmo, it's crucial to save digital records of these transactions, as they often include necessary details like the payment date and amount. Not to mention, you'll be able to write off the fees associated with those services, so you'll need those receipts!

Sales Ledger: Maintaining a sales ledger or daily log where all income is recorded can be an essential tool. This log could be a simple spreadsheet or a professional accounting software system (like Quickbooks, Quicken, Mint, Xero or You Need a Budget) where daily, weekly, or monthly sales are entered and categorized, allowing you to track total earnings and identify trends over time.

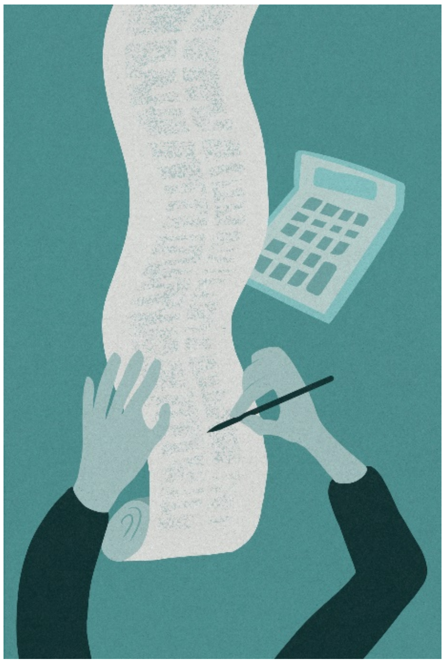
Client Records: While not required, keeping track of client information (e.g., contact details, service history, and amounts paid) can help with billing accuracy, repeat client retention, and offering tailored services. This is particularly useful if you offer memberships, packages, or discounts. Not to mention how these records help in the care and treatment plans for your clients!



Tax Documents (1099 or W-2): If you are self-employed and receive 1099 forms for services provided to spas or health centers, these forms need to be kept as part of the overall income records.

Expense Documentation (Receipts, Bank Statements)

Having expense documents will help you track where your money goes and will make it easy to validate your claims if the IRS questions your deductions. To properly record purchases and expenses, **you should establish an organized system** that categorizes and documents every expense related to your business.



Receipt Tracking

Keep receipts for every purchase related to your massage therapy business, whether it's for rent, supplies (e.g., oils, lotions, towels), equipment, continuing education (like the receipt for this class!), or business-related travel. You can use a physical filing system (I personally use this monthly expanding file to keep all my receipts in for the year) or you can use digital tools like scanning apps to store these receipts. By doing so, you ensure that you have evidence to back up deductions when filing taxes. Keeping copies as you incur those expenses is MUCH easier than trying to go back years later (in the event of an audit) to try to find receipts….do it as you go and you'll be fine! A great place to store scanned receipts is in a cloud-based service like Dropbox or Google Drive.

Save that receipt! Even the cost of the **essential oils** used for aromatherapy during sessions can reduce the amount of taxes you pay!

Bank and Credit Card Statements

Regularly review your bank and credit card statements, noting any charges related to your business. You'll definitely want to have two separate accounts and credit cards; one for personal use and one for business use. For example, if you use your business credit card to buy work attire, such as **scrubs** or clothing specifically designed for professional use, it might qualify as a tax deduction. Keeping your personal and business expenses separate will also make the record-keeping process easier. Don't forget to check your online banking platforms as well. Watch out for payments made with a Debit card that could easily be missed when trying to calculate your expenses.

Mileage and Travel

If you travel for business purposes (e.g., to clients' homes), keep a mileage log to record your trips. Use mileage apps or maintain a written log of travel dates, purposes, and miles driven so you can deduct the cost of mileage incurred…in 2025, the mileage rate is $0.70 per mile, so it adds up!

Tracking Utility Bills for Home Office

If you operate your business from a home office, track utility bills (electricity, internet, phone) to calculate the percentage of your home used for business. This could be a deductible expense. Keep monthly bills and ensure you can substantiate the percentage of your home used for business purposes.

Tax Documents (W-2s, 1099s, Prior Tax Returns)

W-2s and 1099s reflect income from employment or independent contract work. Keeping prior tax returns helps track trends, correct discrepancies, and serves as a reference for filing future returns. These are critical if you're audited or need to adjust a filing. The **IRS generally has three years**[8] from the date you file your tax return to initiate an audit. This is known as the 'statute of limitations.' There are several exceptions to the three-year timeline, so the **BEST PRACTICE** for most individuals and small businesses is to keep records for **SIX YEARS**.

Mileage Logs (If Using a Vehicle for Business)

If you use a vehicle for business purposes, you can potentially claim your mileage as a tax deduction. The IRS allows deductions for miles driven specifically for work-related tasks, such as traveling to clients' locations, picking up supplies, or attending professional development events. For this year, it's $0.70 PER MILE!

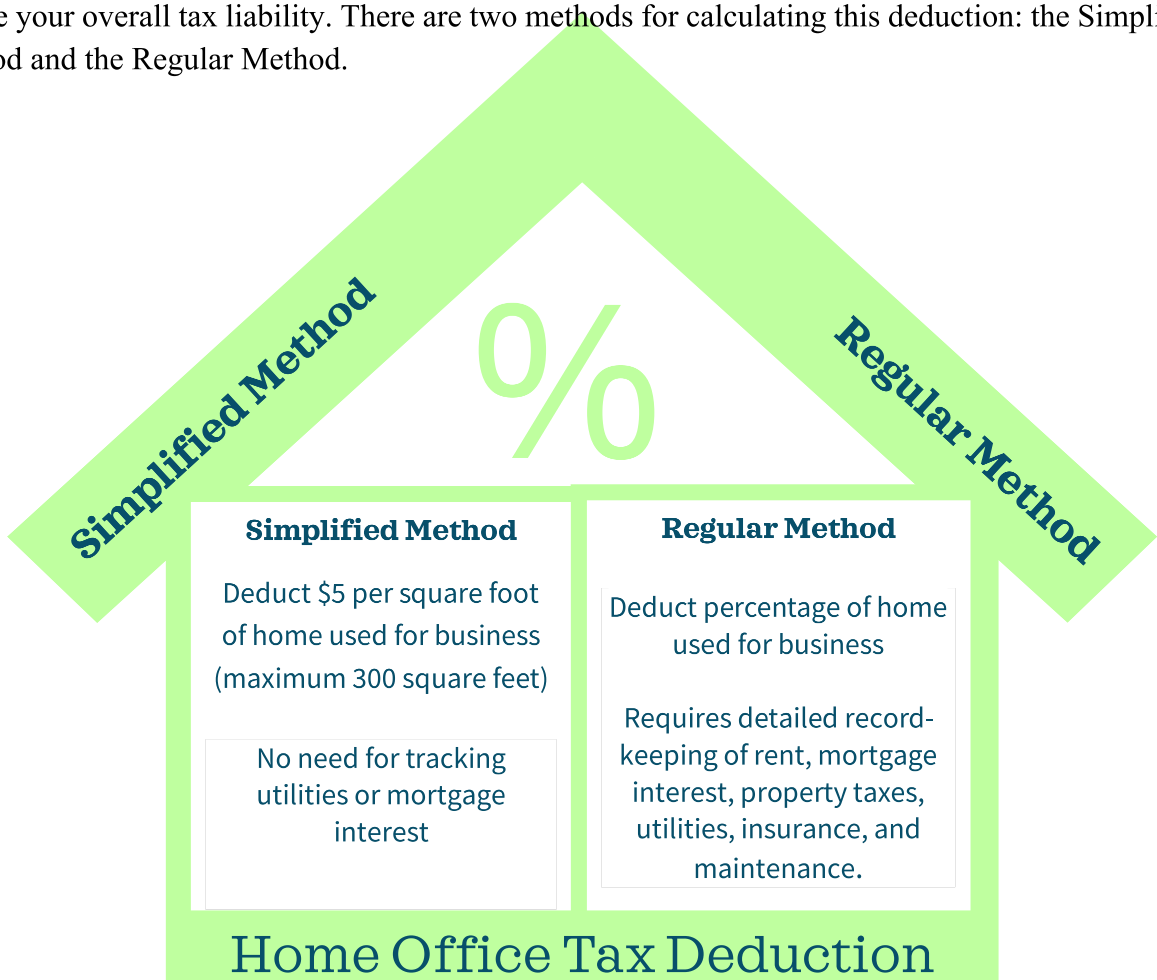
So, if you drive for business purposes, maintaining an accurate mileage log is essential to claim business-related mileage deductions. Logs should include dates, destinations, purposes of trips, and miles driven to comply with IRS requirements. We'll go into more detail about the best way to do this later in the chapter in the section **Track Mileage if You Drive for Business**.

Home Office Usage Records (If Applicable)

If you claim a home office deduction, you'll need records showing the percentage of your home used exclusively for business. This can include floor plans, utility bills, and expenses related to the upkeep of the massage space.

For Example: If you dedicate a 10'x10' room exclusively for massage client sessions and keep utility bills to calculate the percentage of home expenses deductible for business use, your precise documentation can support claims for home office deductions, ensuring compliance with strict IRS requirements for exclusive business use. Keep in mind you can also deduct a portion of your real estate taxes, mortgage interest, homeowner insurance and any repairs/maintenance done on your home in that tax year.

The Home Office Deduction is a valuable tax benefit for massage therapists who run their practices from a dedicated space in their home—or if you have a space in your home dedicated to work-related tasks. By claiming this deduction, you can offset a portion of your home-related expenses, which can reduce your overall tax liability. There are two methods for calculating this deduction: the Simplified Method and the Regular Method.



Simplified Method: This straightforward option allows you to deduct $5 per square foot of your home office, up to 300 square feet. It's a great choice if you prefer simplicity and want to minimize record-keeping. For example, if your dedicated massage therapy space is 100 square feet, you could claim a $500 deduction without tracking specific expenses like utilities or property taxes.[9]

Regular Method: This method calculates the deduction based on the actual costs associated with your home office. You'll allocate a percentage of your mortgage or rent, property taxes, utilities, insurance, and maintenance expenses based on the size of your office relative to your home. Although this method requires detailed records, it can result in a larger deduction if your home-related expenses are significant. For instance, if you dedicate a 10' x 10' room (100 square feet) in your home exclusively for your massage practice, you can claim 10% of eligible home expenses. Whether you see clients or handle administrative work there, proper documentation ensures you're prepared to claim this benefit.

Setting Up a Bookkeeping System for Massage Therapy Practices

Organizing your finances with a bookkeeping system is essential for running a successful massage therapy practice. **This doesn't mean you have to have expensive software!** You just have to have an effective SYSTEM for keeping all of your financial transactions in one place in a manner that **can be easily added to, maintained, quickly referenced, and reviewed.**

A system helps you track income, monitor expenses, and prepare for tax season with ease. Whether you're working as a sole proprietor or managing a team, having a clear system ensures you understand your financial health and can make informed decisions for your business.

Start by choosing a bookkeeping method that works for you. Many massage therapists opt for digital accounting software like QuickBooks, Quicken, Xero, or Wave, however, if you prefer a hands-on approach, you can use spreadsheets with Excel or Google Sheets (free) to log your income and expenses manually. **The keys to tax filing success are 1. Documentation 2. Consistency and 3. Categorization**—record every payment, from client sessions to tips, and every business expense, such as supplies, rent, or continuing education costs.

Always **remember to back up your records**!

Categorization

Organize your expenses into categories (e.g., office supplies, marketing, professional development, supplies, utilities, travel).

This makes it easier to analyze your spending and ensure you're claiming everything you're entitled to. Many accounting software tools can help categorize expenses and generate reports.

Choose a system that fits your practice size and preferences:

- Manual Systems: Spreadsheets or paper ledgers for smaller practices.

- Software Solutions: Tools like QuickBooks, Quicken Wave, or Xero for more robust tracking.

- Professional Services: Hiring a bookkeeper or CPA/accountant for larger operations or if taxes are complex.

Free Accounting Tools Available to Help

- **Wave:** This is a free, user-friendly accounting software that allows users to manage income, expenses, and tax deductions. It also includes features for invoicing and generating financial reports.
- **Zoho Books:** Although Zoho Books offers a paid version, it also has a free plan for businesses with annual revenue below a certain threshold. It allows you to track expenses, send invoices, and maintain records.
- **Google Sheets:** While not a dedicated accounting tool, using a spreadsheet is a free and flexible way to track and categorize expenses. There are many templates available online for small business accounting, and it allows you to manually enter expenses and income.
- **Expensify:** Known for tracking receipts and categorizing expenses, Expensify offers a free version for personal use, but it can also be useful for small business owners managing receipts for tax purposes.

Software & Apps with Free Services for Financial Tracking

Record transactions, generate financial reports, and keep everything in one place! These tools offer free services to automatically pull transactions from your bank accounts for budgeting cash flow.

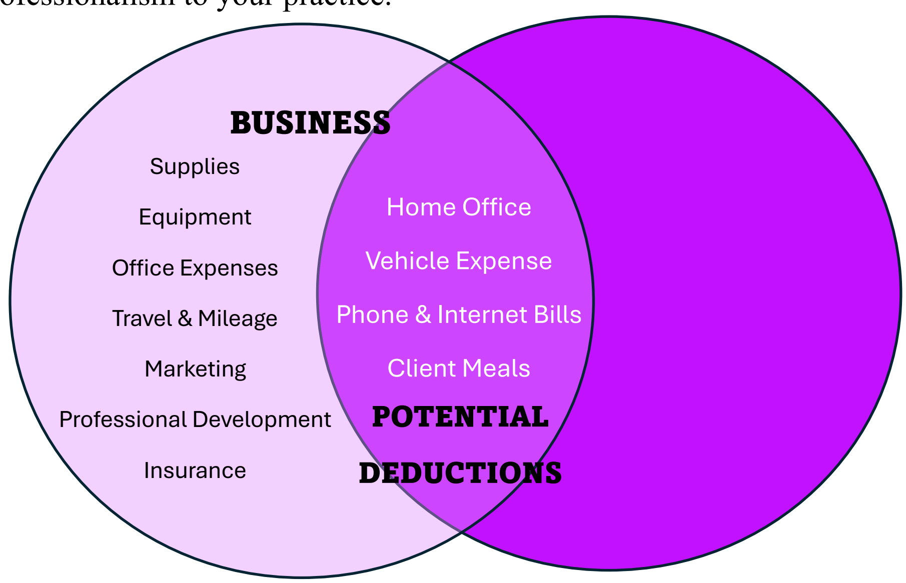
- **Credit Karma:** A free app best-known for credit tracking, but also does account categorization with some paid features available to opt in
- **Rocket Money**: A free app that allows users to link accounts, track spending, create budgets, and more
- **NerdWallet**: A free app that lets you track cash flow, net worth, debt, and credit
- **Quicken Simplifi**: A budgeting and money management app
- **Empower**: A budgeting and money management app
- **PocketGuard**: A budgeting and money management app
- **Goodbudget**: A budgeting and money management app
- **You Need a Budget (YNAB)**: A budgeting app that charges a monthly or annual subscription fee after a free trial period

Paper Ledgers

Using paper ledgers to track small business finances has its pros and cons. On the positive side, paper ledgers are cost-effective and simple to use, **requiring no special software or technical skills.** They provide a tangible record of transactions, which can feel more secure to those who prefer physical documentation. Writing things down can also help reinforce financial awareness, making it easier to track patterns or spot errors. However, paper ledgers have significant drawbacks. They can be time-consuming to maintain and are prone to errors due to manual entry. Unlike digital systems, they lack automation features such as expense categorization or report generation. Additionally, paper records **are vulnerable to loss, damage, or theft**, and they can quickly become unwieldy as your business grows. For small businesses with straightforward finances, paper ledgers can be a practical option, but they may not be the best fit for those seeking scalability or efficiency.

Separate Business and Personal Accounts

Consider setting up a separate business bank account to simplify tracking. This way, all your income and expenses are in one account, making it easier to reconcile your books at the end of each month. Even though some expenses may overlap, you might also want to use a business credit card for business-related purchases to maintain an accurate record of deductible expenses. This separation of personal and business finances not only streamlines bookkeeping but also adds a layer of professionalism to your practice.



Importance of Saving Receipts and Documentation

It bears repeating, keeping receipts is critical for substantiating deductions in case of an audit.

You can simply take a photo of your receipts with your cell phone and send them to yourself by email or save them to a cloud file (Dropbox or Google Drive), or you can use tools like scanners or apps like Expensify or Neat to digitize and store receipts securely. **Getting in the habit of doing this regularly will minimize the risk of losing an important receipt.** Keep documentation for at least three years, as required by the IRS.

A System for the Home Office Deduction

Massage therapists who run their practices from home can benefit from the Home Office Deduction, which helps reduce overall tax liability by offsetting home-related expenses**. Even if you perform your massage services at a separate location, you can still claim a home office deduction** if you use a dedicated space in your home exclusively for business purposes -- such as managing paperwork, client records, scheduling, and other administrative tasks.

You can calculate this deduction using the **Simplified Method** or the **Regular Method,** explained earlier**.** To qualify, your space must be used exclusively for business, whether for client sessions or administrative tasks. Keep good records to claim this benefit confidently.

You can use a measuring tape and calculator to calculate the square footage of your home office space. The length of the space multiplied by the width will give you the total area also known as the square footage. Free apps like SmartDraw, RoomSketcher, Canva, or can help you create a home layout; while not typically submitted with your tax return, it may be required in an IRS audit.

- ✓ **Keep a floor plan showing the home office space relative to your total home size**
- ✓ **Keep and track recurring bills (electrical, sewer, water, garbage, internet, phone, rent/mortgage, insurance, property taxes, and maintenance.)**
- ✓ **Keep a log of activities performed in the home office (e.g., scheduling, billing, massages).**

Track Mileage if You Drive for Business

Massage therapists often need to track mileage if you use a vehicle for business purposes, such as traveling to clients, purchasing supplies, attending professional events, or other work-related trips. Tracking mileage is essential because it allows you to claim deductions on your taxes for the miles driven for business purposes, which can significantly reduce your taxable income. For tax year 2025, the IRS allows you to deduct $0.70 PER BUSINESS mile, so tracking any business related mileage can have a HUGE impact on the amount of taxes that you'll pay. Make sure you record your "beginning mileage" on your odometer as close to January 1st of each tax year and record the ending mileage on December 31st; those 2 numbers are required on your tax return when filing out mileage information.

Tips for Accurate Tracking to Help You Stay Compliant with IRS Requirements

- Record mileage immediately after each trip to avoid forgetting details.
- Keep records organized and backed up, whether digitally or on paper.
- Use your vehicle exclusively for business during certain trips to simplify record-keeping.

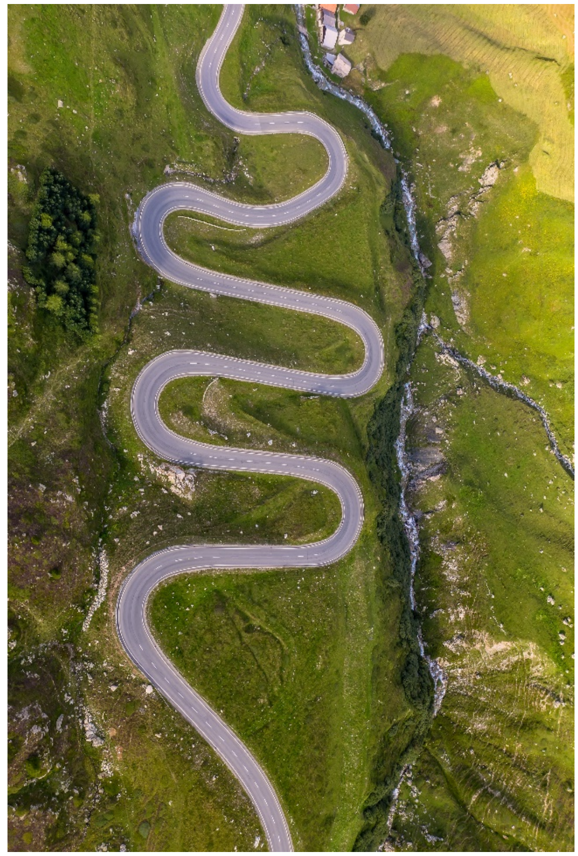
Best Ways to Track Mileage

Digital Apps: Mileage-tracking apps automatically record trips using GPS. These apps let you categorize trips as business or personal, generate reports, and calculate potential deductions. They're user-friendly and reduce the chance of forgetting to record trips.

Mileage Logs: If you prefer a manual method, you can use a notebook or spreadsheet to document each trip. Be sure to include:

- Date of the trip
- Starting and ending odometer reading
- Purpose of the trip
- Total miles driven

There are several free mileage-tracking apps, including:



FreshBooks	**Fuelio**
MileIQ	**DriverNotes**
TripLog	**Everlance**
Hurdlr	**Stride**
Timeero	**Rydoo**
MileageWise	**SherpaShare**
Zoho Expense	**TripLog**
	QuickBooks

Dedicate Time for Bookkeeping

Schedule regular bookkeeping check-ins, whether weekly or monthly. Dedicate a specific time to log receipts, update income records, and review your financial reports. Staying on top of your bookkeeping means fewer headaches keeping your bills organized, streamlining taxes, and ensuring you always have a clear picture of your business's performance. A well-organized system can empower you to focus on what you love most—helping clients feel their best!

Set a Regular Schedule

- **Tip:** Choose a consistent time each week or month for bookkeeping. For example, schedule "Money Mondays" or dedicate the last Friday of the month to review finances and helps you stay on top of expenses, income, and tax requirements.

Use Short, Frequent Sessions

- **Tip:** Spend 10–15 minutes daily or a quick 30 minutes twice a week updating records. Small, frequent efforts make the tasks more manageable and less overwhelming.

Automate When Possible

- **Tip:** Link your business accounts to software to auto-categorize expenses, save time, minimize human error, and give you an ever-ready financial view of cashflow.

Create a Dedicated Space

- **Tip:** Have a specific spot for bookkeeping tasks, complete with your records, receipts, and computer; this will encourage focus and make it easier to gather materials quickly.

Reward Yourself

- **Tip:** Pair bookkeeping time with a reward, like a favorite snack or relaxing break afterward. Positive reinforcement makes the task more enjoyable and encourages consistency.

CHAPTER 4
Deductions

For

Massage Therapists

Common Deductions Available
For Self-Employed Massage Therapists

Taxes can feel more rewarding when you know how to make deductions work for you!

Are you taking advantage of all of the tax credits and deductions available to you?

Eligibility Requirements for Deductions

Remember **the Golden Rule for deductions** is simple: expenses that are considered **<u>ordinary and necessary for running your business</u>** are likely to be tax deductible!

Small Business Deductions

Why It Matters

Leveraging your tax deductions can substantially improve your practice's financial health. These might seem like small deductions individually, but remember, IT ADDS UP! Tax deductions directly reduce taxable income, which means less money goes to taxes and more stays in your pocket to reinvest in your business or personal goals.

Reducing your tax burden frees up funds for **expanding your practice, upgrading equipment, or enhancing your skills** with additional certifications. This ensures you stay competitive and maintain a high standard of care.

By proactively considering which deductions apply to your practice, you not only improve your financial outlook but also create a stable foundation for long-term success. Deducting **expenses like oils, linens, CE courses, or equipment** means you're accurately reflecting the true cost of running your business. For example, if you spend $3,000 annually between CE classes, massage supplies, advertising and don't deduct it, you're paying taxes on money you never really earned!

Furthermore, without knowing what deductions you're eligible for, you risk overpaying your taxes.

You know the IRS is not going to tell you if you overpay!

The IRS is only concerned with ensuring you are compliant and that you pay every penny you owe. So, for example, missing out on the home office deduction or not tracking mileage can be a missed opportunity and cause unnecessary financial strain.

The Difference Between Deductible and Non-Deductible Expenses

There are rules for everything you spend on your business in order for it to be deductible. Non-deductible expenses might include commuting costs from home to your workplace--the IRS considers commuting a personal expense unless the travel is between multiple business locations or to a temporary worksite. Clothing that doesn't meet the uniform requirement--even if it's professional or worn during sessions--is not deductible unless it qualifies as a uniform, like branded or specialized attire or scrubs that you ONLY wear while doing massage. Subscriptions to magazines or a gym membership may seem related to your work as a massage therapist, but these are personal expenses unless directly tied to your business; an exception would be a subscription to a Massage-related journal/magazine. Business fines or penalties are not deductible either. Everyone's situation is unique, so do the research to avoid mistakenly claiming ambiguous costs.

Deductions You Should Consider Claiming

Continuing Education, Licensing Fees, and Professional Memberships

Investing in your professional development not only enhances your skills but also serves as a valuable tax deduction. An educational expense can be claimed because state licensing fees are considered **ordinary and necessary** business expenses and are tax deductible.

Continuing education is required to maintain licensure or improve skills, so it qualifies as a legitimate business expense. Expenses for attending workshops, seminars, webinars, and CE courses as well as membership fees for professional organizations like the AMTA or ABMP, are fully deductible on Schedule C!

You can claim the money you spent on this CE course as a business expense!

The Self-Employment Tax

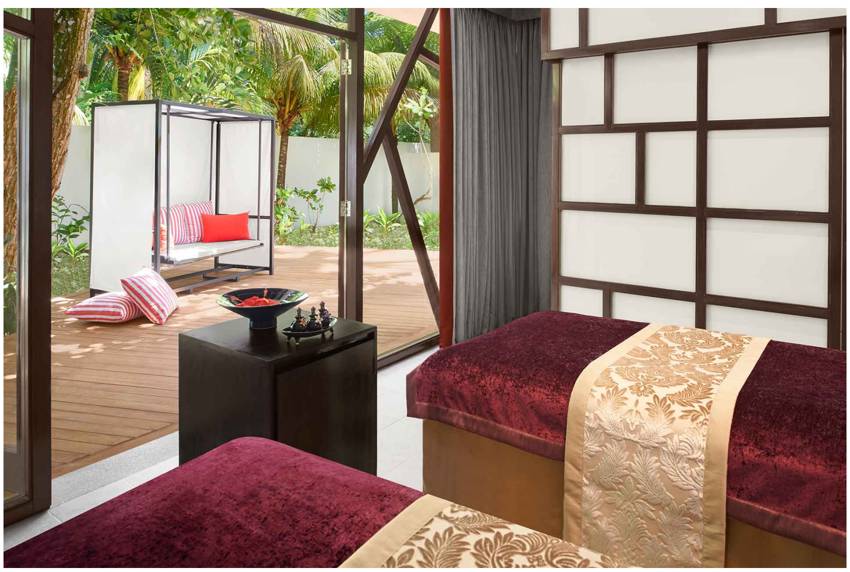
In addition to income tax, there is a separate tax self-employed people must pay on net earnings called the Self-Employment Tax. **Self-employed workers are subject to federal taxes as well as a 15.3% self-employment tax on net earnings above $400.** (Technically, the rate is 15.3%, with 12.4% applying to the first $168,600 of net earnings in 2024 and 2.9% applying to all earnings. There's an additional Medicare tax of 0.9% for single filers with net earnings over $200,000 and married joint filers with net earnings above $250,000.) The self-employment tax is a Social Security and Medicare tax that helps pay for old-age benefits. People with W-2 jobs pay for Social Security and Medicare too, but they split the cost of this payroll tax with their employer.[10]

While this is substantial, you are able to take a deduction **for half** of the tax on Line 15 of your Schedule 1, which lowers the amount of your earnings that are subject to income tax...**because it is painful to pay taxes on taxes!!!**

Qualified Business Income (QBI)

The **Qualified Business Income (QBI) deduction** lets self-employed individuals and owners of pass-through businesses (like sole proprietorships, partnerships, LLCs, and S-corporations) deduct up to 20% of their business income from their taxable income. Introduced in 2017 to reduce taxes for small business owners, the deduction has income limits and may not apply to high earners, especially in service industries like law or consulting. Overall, it's a great way for small business owners and entrepreneurs to lower their tax bill.

Office Space & Utilities



Rent or lease payments for office space are tax-deductible as a **business expense** because they are considered "ordinary and necessary" costs of operating a business under IRS guidelines. **Utilities, property insurance, and maintenance fees may also be deductible.**

Key Requirements for Deductibility

1. **Exclusive Business Use**: The office space must be used entirely for business purposes. If it's shared with personal use, only the business portion of the expense is deductible.
2. **Proper Documentation**: To claim the deduction, you must keep accurate records of:
    - Lease agreements
    - Rent payments
    - Receipts or invoices

If your business rents office space for $2,000 per month, you can deduct $24,000 annually as a business expense. If utilities and maintenance fees are included in the lease and total $5,000 annually, those can also be deducted, bringing the total deduction to $29,000.

Marketing and Advertising Expenses

Promoting your massage therapy practice is essential, and the costs involved are fully deductible. This includes creating and printing business cards, posters, banners, and signs. Expenses for hiring a photographer to take professional images of your practice, massage room, or yourself is marketing and deductible! If you hired a graphic designer to design a logo for you, or contracted with a developer to create your website, their fees are fully tax deductible! Running social media ad campaigns or offering introductory discounts can be deducted from taxes. For instance, if you spend $200 on Facebook ads to promote a service, that amount can directly reduce your taxable income!

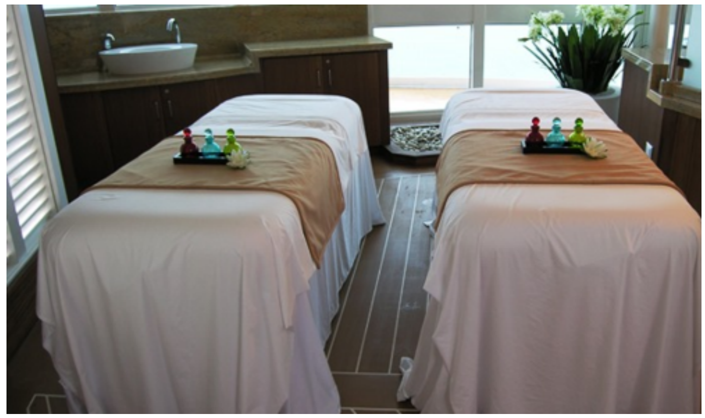
The cost of branding your own merchandise--such as pens, t-shirts, or reusable bags with your logo--counts if given away for marketing purposes. Costs for booth rental at health fairs, expos, or wellness events and expenses for demonstrations or sample massages to promote your service are also considered marketing. From membership fees for local business groups and wellness coalitions to costs for attending networking events related to your business should all be tracked and added into the deductions.

Business Supplies

Everyday essentials like massage oils, lotions, linens, and cleaning supplies are integral to your practice and completely deductible. Keep detailed records (and receipts!) of these purchases throughout the year. For example, a $50 monthly expenditure on oils and sanitizing wipes amounts to $600 annually that you can deduct from your taxes!

Any notebooks, stamps, postage fees, ink cartridges, printers, and even your laptop is tax-deductible. It goes without saying that these items need to be used specifically for business purposes. If you use your printer for both business and personal use, it will require calculating which percentage you use it for business to count as a deductible expense on your tax return. The same goes for your phone, tablet, and software.

Equipment Rental and Depreciation



If you rent specialized equipment, like massage chairs or therapy tools, the rental fees are deductible. Additionally, if you've purchased durable equipment like a massage table or hydrotherapy tools, you can claim depreciation over several years. For example, a $1,000 massage table might allow you to deduct $200 annually over five years as depreciation. Depreciation is basically an allowance to offset the wear and tear of your equipment.

Home Office Deduction

You've already learned that if you use a space in your home for managing your massage therapy practice, you may qualify for the home office deduction. If you use the Simplified Method, you can claim up to $1,500. If you use the Regular Method, this allows you to claim a portion of your **rent or mortgage interest, real estate taxes for you rhome, utilities, depreciation, insurance, and some maintenance** costs. For instance, if your home office occupies 10% of your home's square footage, you can deduct 10% of these expenses. Just ensure the space is used exclusively for business and maintain thorough records. The standard way to deduct home office expenses is by filling out IRS Form 8829. Additionally, you can record home office expenses on Line 30 of your Schedule C between Lines 18 and 27.

Phone and Internet Expenses

If you use your phone and internet for scheduling appointments, contacting clients, or maintaining an online presence, you can deduct the business-use portion of these expenses. For example, if 50% of your phone usage is for business, you can deduct half of your monthly phone bill. So, if your internet bill comes to $60 a month and you figured out that you spend about 50% of your time online for your business, you can deduct half that amount. In this case, that's $30 each month, or a $360 annual deduction. Keeping usage logs ensures you can justify these deductions.

Travel Expenses

Whether you're driving to provide in-home massages or traveling to attend a workshop, these expenses are deductible.

Keep accurate mileage logs for business travel or save receipts for airfare, hotel stays, **and meals** during professional trips. The IRS scrutinizes business travel, so using apps helps track mileage. For calculating the amount to claim, it is easiest to use the IRS standard mileage rate. For instance, driving 100 miles round-trip to a client's home at the IRS mileage rate of $0.70 per mile (as of 2025) would allow you to deduct $70. If you had lunch with that client or with a business partner, you could add half of that too! Mileage apps like MileIQ, MileageTracker, Stride and MileKeeper can help you keep track of your business miles and are simple to use.

Legal and Accounting Fees

Hiring a professional to prepare your taxes or provide legal guidance is an investment in your business—and fully deductible. Whether it's paying an accountant to ensure your deductions are accurate or consulting a lawyer to review a lease agreement, these expenses are directly related to running your practice and reduce your taxable income.

Retirement

This deduction helps encourage saving for retirement by offering immediate tax benefits. We'll go into retirement options more and you can reference the Appendix A & B, but for self-employed individuals or business owners, you can have many options to contribute toward retirement while also benefiting from deductions. Most plans offer tax-deferred growth, meaning you won't pay taxes on the contributions until you withdraw them in retirement.

Recommendations

For self-employed massage therapists: A **Solo 401(k)** or **SEP IRA** is ideal for high contribution potential and tax advantages.

For employees: A **Traditional IRA** or **Roth IRA** works well to supplement employer-provided benefits.

$ More Deductions = Less Taxes $

Interest on Loans and Business Credit Cards

The deduction for loan interest can be a valuable tax benefit for small business owners. The loan must be used for business purposes, such as purchasing equipment, paying for operating expenses, or funding business expansion. The loan must be in the business's name, or if you're a sole proprietor, it should be clearly used for business-related expenses. Only the interest portion of your loan payments is deductible, not the principal repayment.

If the loan is partially for personal and business purposes, you can deduct the portion of interest that applies to the business use. For example, if 60% of a loan is used for business and 40% for personal reasons, only 60% of the interest is deductible.

Interest on business-related credit card charges can also be deducted. You'll need to keep detailed records of the credit card, loan agreements, payments, and how the funds were used. If you're a sole proprietor, report deductible interest on **Schedule C (Profit or Loss from Business)**. For partnerships, LLCs, or corporations, the deduction is claimed on the entity's business tax return.

Charity

Charitable deductions allow individuals and businesses to deduct contributions made to IRS-recognized qualified charitable organizations (specifically a 501(c)(3s) registered nonprofit organizations) on federal income tax returns. Cash donations are deductible up to 60% of your income. Non-cash donations, such as clothing or household items, are deductible at their fair market value, provided they are in good condition. **Obtain and keep receipts**, bank records, or acknowledgment letters for donations over $250. This deduction is available if you itemize your deductions, rather than taking the standard deduction.

There are limits of how much you can deduct based on your income and the type of donation, but excess contributions can typically be carried forward for up to five years!

Business owners donating inventory or equipment must follow specific valuation rules, and the deduction is typically limited to the cost basis, not fair market value.

Insurance

Health insurance As an individual or self-employed person, you can deduct your health, dental, and long-term care premiums so long as you're not qualified for a plan through your spouse's employer. If you have a spouse, children, or dependents age 26 or younger, you can also deduct health insurance premiums you paid on their behalf. Health insurance costs go on Line 17 of your Schedule 1. **Premiums are often a large expense and can really help to offset owed tax dollars!**

As an individual, you can also deduct medical expenses exceeding 7.5% of your adjusted gross income (AGI), so if you had surgery, an ER visit, or various doctor visits, do the math and see!

Business insurance You can also deduct premiums for costs related to protecting your business. This includes malpractice insurance, liability, property insurance (homeowners' insurance is not typically deductible, except a portion if you use a home office deduction), product liability, fire insurance, credit insurance, and car insurance (if the vehicle is used for business). Business insurance costs go on Line 15 of your Schedule C.

Health Saving Accounts (HSAs)

If you have an LLC as your business, as an employee, you can contribute pre-tax dollars to an HSA through payroll deductions, reducing their taxable income. If they contribute directly (outside payroll), these contributions are tax-deductible when filing taxes. Keep in mind that your insurance plan has to be an HAS plan, so be sure to check when signing up!

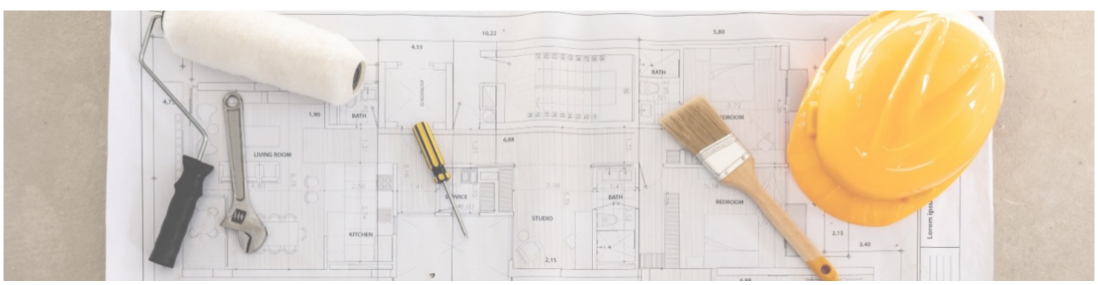
Any interest or investment gains in the HSA account are not subject to taxes. Funds used for eligible medical expenses are not taxed, maximizing savings.

If you have employees, not contractors, you can benefit from HSAs as an employer:

1. **Tax-Deductible Contributions**: Employer contributions to an employee's HSA are tax-deductible as a business expense.
2. **Payroll Tax Savings**: If employees contribute via payroll deduction, the business avoids paying payroll taxes (like Social Security and Medicare) on these amounts.
3. **Incentive for Attracting Employees**: Offering HSA contributions can enhance benefits packages, helping to attract and retain talent.
4. **Lower Healthcare Costs**: Paired with high-deductible health plans, HSAs often lead to lower insurance premiums for employers while encouraging employees to manage healthcare spending wisely.

Contract Labor

As a business owner, you may incur **contract labor expenses** when you hire others to help with your business operations. If you hire help, **be sure to classify them correctly as employees or independent contractors.** Contractors are deductible on Schedule C (Form 1040 Line 11)**.**



Tax Deductible!

- Hiring administrative support to handle scheduling, client intake, bookkeeping, etc.
- Paying a plumber to replace the leaky sink in your massage studio.
- Enlisting another licensed massage therapist to handle overflow clients, provide specialty services, or cover for you during busy periods can help offset your taxable income.
- Paying a specialist—such as an aromatherapist or reflexologist—would enhance your client offerings as well.
- Contracting someone to launder linens or clean your massage space (if they are not considered employees).

A 1099-MISC or 1099-NEC is the form businesses use to report income, such as income earned as a contract or freelance worker, as well as fees, royalties, commissions and rental income. If you are an employer who uses contractors or freelance workers whom you paid at least $600 during the year, you must provide them with a 1099-MISC or 1099-NEC form to report this income.[1]--Yearli

Tip: A lesser-known tip is to **hire your children or family members!** The work they perform must be ***legitimate, necessary for business, and age-appropriate*** and you must pay them a reasonable wage comparable to what you would pay an unrelated person for the same work. Wages paid to children under **21 years old** are exempt from Federal Unemployment Tax (FUTA), but their earnings are still subject to income tax—although it may be low enough to avoid taxes entirely under the standard deduction ($13,850 in 2024).
Children or family members must receive a **W-2 form** if they are considered employees. Payments to children as contractors (1099-NEC) are rare but possible, so maintain detailed records of hours worked, tasks performed, and payments made. Avoid overpaying your child as it could raise red flags with the IRS.

In some situations, you can get the contract labor deduction AND the Work Opportunity Tax Credit!

An Example for a Sole Proprietor Massage Therapist

A massage therapist with their own practice operating out of their home and paying a 17-year-old $16 per hour for 20 hours a week from May 1st to September 15th to do administrative work, can count the home office deduction, the supplies, phone, internet, marketing, depreciation for equipment, the contract labor deduction, and even the Summer Youth Employee (WOTC) credit. There is much more that could be applied, but just as an example, look how it adds up…

This is simply to show an example of how deductions might work. This is NOT tax advice!

Schedule C (Profit or Loss from Business, Part II: Expenses)

1. **Advertising:**
    - Facebook ads: $75 quarterly x 4 = **$300**
2. **Office Expenses:**
    - Essential oils for business & office supplies: = **$680.95**
3. **Supplies (Not Included in Cost of Goods Sold):**
    - Work uniforms (scrubs): $110 x 2 = **$220**
4. **Depreciation:**
    - Massage table (deducted $200 for the year): **$200**
5. **Utilities:**
    - Internet ($60/month w/50% business use): $30/month x 12 = **$360**
    - Phone ($60/month w/50% business use): $30/month x 12 = **$360**
6. **Insurance:**
    - Health insurance premiums: $500/month x 12 = **$6,000** (also put on Schedule 1)
    - Malpractice and liability premiums = **$200**
7. **Home Office Deduction:**
    - 10’x10’ home office: = **$1,500**
8. **Legal and Professional Services:**
    - TurboTax software: = **$50**
9. **Contract Labor:**
    - Paid 17-year-old: $16/hour x 20 hours/week x 20 weeks = **$6,400**

Deductible Expenses: $16,270.95

Schedule 1 (Additional Income and Adjustments to Income):

- **Self-Employed Health Insurance Deduction (Line 17):** $6,000

Form 5884 (Work Opportunity Tax Credit - Summer Youth Employee):

- **Calculation of WOTC Credit:** 40% of first $6,000 of wages =paid $16/hr x 20hrs x 20 weeks = $6,400 x 40% = **$2,560 tax credit**

Crazy Deductions That Have Been Successfully Claimed! [11]

You can tell there are many ways to get deductions if you are self-employed. **The biggest tax deduction** depends on the biggest expenses. If you have employees, wages paid, along with benefits such as health insurance and retirement contributions, can be major deductible expenses. Likewise, if you lease a storefront, office space, or equipment, these payments are fully deductible and can represent a significant portion of expenses. The same goes for if you use part of your home exclusively and regularly for business; you can deduct expenses like rent, mortgage interest, utilities, and maintenance.

Do ensure that each deduction is accurately calculated and legitimately necessary to not only maximize your tax savings but to maintain compliance and peace of mind when filing.

Pet-Related Expenses: If a pet serves a legitimate business purpose, such as a guard dog for a business property, its costs (training, food, and veterinary care) might be deductible. However, the pet's role must be well-documented.

Swimming Pools for Medical Reasons: In some cases, individuals with certain health conditions have deducted the cost of installing and maintaining a swimming pool as a medical expense, provided it's prescribed by a doctor and used for therapy.

Clarinet Lessons for Dental Improvement: The IRS approved a deduction for clarinet lessons for a child whose orthodontist recommended it to improve overbite issues.

Breast Implants as a Business Expense: A professional exotic dancer deducted the cost of breast implants as they were deemed necessary for her job, which the IRS accepted as a business-related expense.

Moving a Giant Tree A taxpayer once deducted the costs of relocating a large tree as part of home improvements that increased the property’s value, allowing the expense to qualify.

Bodybuilder Tanning Products: A professional bodybuilder successfully deducted the cost of body oil and tanning products because they were essential to his profession and competitions.

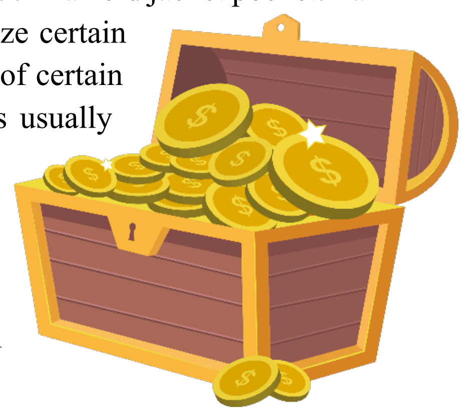
We're not suggesting you try deducting wacky expenses, but they just go to show that the IRS has to honor its own rules!

CHAPTER 5
Tax Credits

For

Massage Therapists

Beyond adding up the satisfying deductions, tax credits are like hidden treasures in the tax system—finding one can be even more exciting than discovering $100 in an old jacket pocket. Tax credits are offered on both the federal and state levels to incentivize certain actions, such as purchasing an electric vehicle or to offset the cost of certain expenses (e.g., raising or adopting a child). To qualify, taxpayers usually must meet a strict set of criteria relevant to that credit, exemption, or incentive.



Because Texas doesn't have state income tax, Texas doesn't have tax credits but does offer state and local exemptions and incentives. Federal credits will still apply.

Tax Deductions vs. Credits

While a tax deduction lowers your taxable income for the year, a tax credit gives you a dollar-for-dollar reduction of the tax you owe to begin with. Generally, tax credits tend to be more valuable compared to deductions. You can choose any of the options you qualify for. The best one for you depends on your overall tax situation. Still, it's worth learning about both types of benefits when looking for ways to catch a break on your taxes!

For comparison: Let's say there is a credit and a deduction that are both valued at $1,000 and that your tax liability is $4,000...With the $1,000 tax credit, your tax bill is reduced to $3,000. With a tax deduction, it lowers your taxable income. So, if you're in the 10% tax bracket, that $1,000 deduction takes $100 off of your taxable income (not your tax bill) leaving you owing $3,900.

Some Tax Credits are Refundable, Some are Not

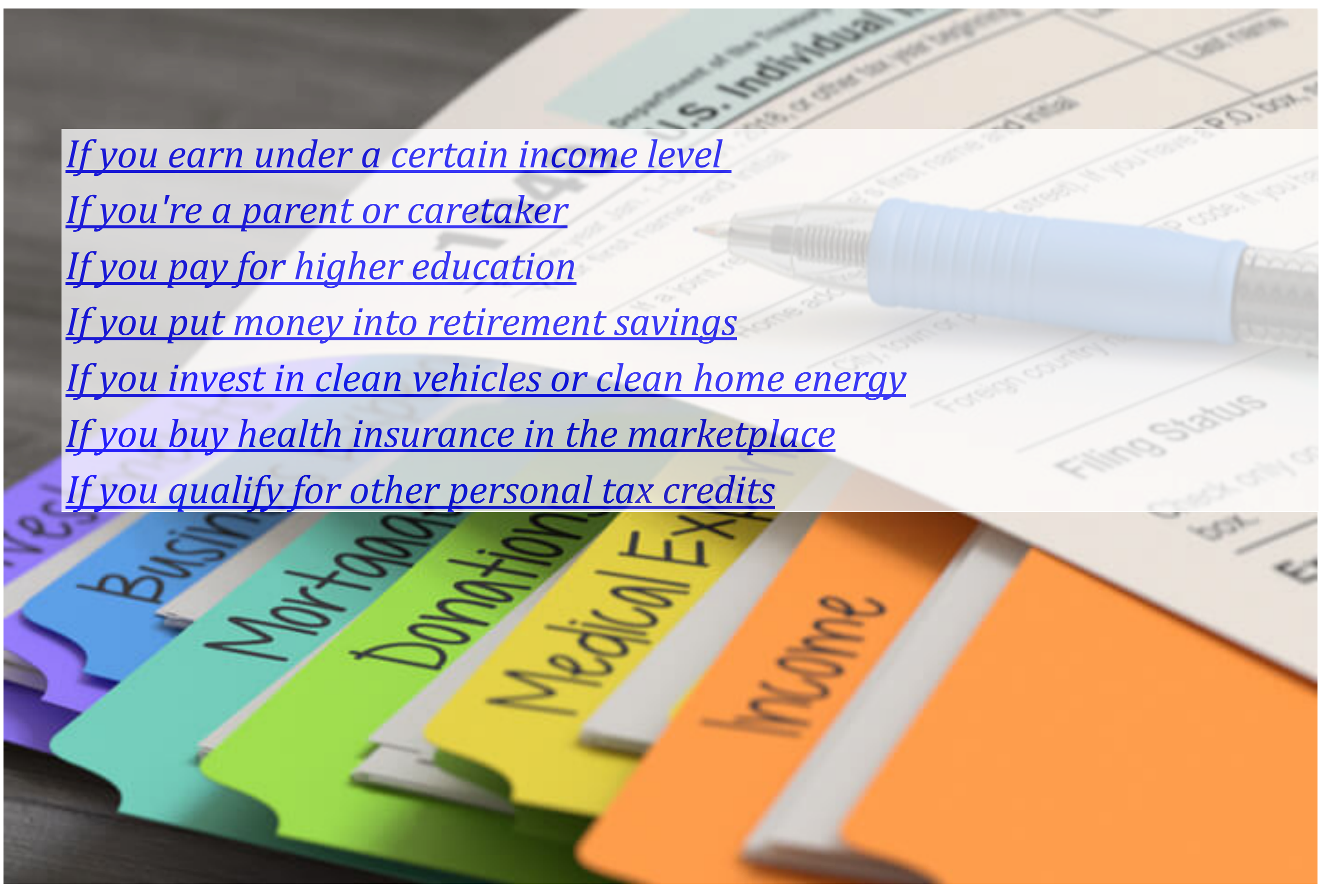
Some tax credits can add up to exceed the amount of tax liability you owe, resulting in a tax refund.

Some tax credits are nonrefundable and will reduce your taxes, but once you zero out your taxes owed, you won't get any overage of the unused tax credit back as a refund. So, even if you qualify for a $2,000 tax credit but only owe $500 in taxes, you will not get a $1,500 tax refund check, but you would owe $0 in taxes.

And, in true middle-ground fashion, some tax credits are partially refundable! Partially refundable credits can lower your tax bill by the corresponding credit amount, and if your tax liability is lower than the credit amount, you may get a partial refund for the overage.

The majority of tax credits are nonrefundable.

The credits you can claim AS AN INDIVIDUAL OR FAMILY fall under one of these IRS delineations. You can follow these links to the IRS's website to see if you qualify. We'll get on to the business credits!



If you earn under a certain income level
If you're a parent or caretaker
If you pay for higher education
If you put money into retirement savings
If you invest in clean vehicles or clean home energy
If you buy health insurance in the marketplace
If you qualify for other personal tax credits

Tax Credits and Incentives for Small Businesses

Employer-Provided Childcare Credit

Businesses that provide childcare for their employees are eligible for a tax credit.

Work Opportunity Tax Credit (WOTC)

If you hire employees from certain target groups (e.g., veterans, individuals on government assistance, or the long-term unemployed), you could qualify for the WOTC. This credit incentivizes hiring people who face significant barriers to employment.

Disabled Access Credit

If you invest money to make your massage therapy practice accessible to people with disabilities (e.g., installing ramps, wider doorways, or accessible equipment), you may qualify for this credit. It covers up to 50% of eligible costs, up to a maximum of $5,000 per year.

Energy-Efficiency Property Improvement Tax Credits

If you make energy-efficient upgrades (e.g., installing solar panels, energy-efficient windows, or HVAC systems), you may qualify for tax credits tied to home and business improvements.

Electric Vehicle Tax Credit

If you use an electric vehicle for business purposes, you may qualify for this credit, which can offset the cost of purchasing an electric or plug-in hybrid vehicle.

Health Coverage Tax Credit (HCTC)

If you're self-employed and qualify for certain health coverage plans (e.g., COBRA or Affordable Care Act options), you may be eligible for the HCTC.

Research and Development Tax Credit (Uncommon)

If you innovate within your practice—for example, developing a proprietary massage technique or product—you may qualify for this credit. However, it's more applicable to businesses involved in substantial innovation.

CHAPTER 6
Retirement Planning and Tax Advantaged Accounts

Retirement Planning for Self-Employed Massage Therapists

Planning for retirement is a smart move for your financial future

As a self-employed massage therapist, you have the freedom to shape your financial future, and planning for retirement is one of the smartest investments you can make. Self-employment doesn't just offer independence in your work; it also provides unique opportunities to build a retirement nest egg while enjoying significant tax advantages.

According to a Bankrate survey, more than half—57%—of working Americans say they're behind on retirement.

Save on Taxes While Securing Your Future

Taking the time to invest in your future today can ensure that the rewarding career you've built as a massage therapist translates into a secure and fulfilling retirement.

The **retirement deduction** refers to the ability for individuals, including self-employed individuals and business owners, to deduct contributions made to eligible retirement accounts, thereby lowering their taxable income for the year. This deduction helps encourage saving for retirement by offering immediate tax benefits.

Tax-advantaged accounts are your best friend when it comes to balancing retirement savings and tax obligations. Contributions to plans like a SEP-IRA or Solo 401(k) are tax-deductible and grow tax-deferred, meaning you won't pay taxes on earnings until you withdraw them in retirement.

Benefits of Contributing to Retirement Accounts for Tax Savings

Not only do contributions lower your current taxable income, but they also help you build long-term financial security. By planning ahead, you're not just setting yourself up for a comfortable retirement—**you're also reducing what you owe to the IRS right now. It's a win-win!**

Tailor Your Retirement Strategy

Being self-employed means your income may fluctuate from year to year, so it's essential to choose a retirement plan that matches your financial situation.

For example:

- In high-income years, you can maximize contributions to take advantage of tax savings.
- In lower-income years, you can contribute less while still making progress toward your retirement goals.

Consider Professional Guidance - Retirement planning can feel complex, especially when you're juggling the responsibilities of running a business. Working with a financial advisor can help you understand your options and optimize your savings strategy. Many financial institutions also offer tools and resources designed for self-employed professionals, making it easier to plan for a comfortable retirement.

Traditional IRA (Individual Retirement Account) & Roth IRA

Anyone earning an income is eligible to open a traditional IRA. Other types of IRAs, such as Roths, have income limits, which means high earners may not be able to contribute. Contributions to a Traditional IRA may be tax-deductible, while Roth IRAs provide tax-free growth, provided certain conditions are met.

IRAs (Individual Retirement Accounts) let you deposit money from a bank account or other income sources to save for retirement. After funding the account, you can choose how to invest the money, such as in stocks, bonds, or mutual funds, allowing your savings to grow tax-advantaged over time.

A traditional IRA is a tax-advantaged retirement savings account that allows you to contribute pre-tax or after-tax dollars.

- Contributions to a **Traditional IRA** are generally deductible from your taxable income, meaning you pay less in taxes for that year, depending on your income and whether you or your spouse have access to a retirement plan at work.
- The **deduction limit** for a Traditional IRA contribution is up to **$6,500 per year** (or **$7,500** if you're 50 or older) in 2024.
- Generally, you can take penalty-free distributions from a traditional IRA starting at age 59 ½. If you take money out before then, you may have to pay a 10% penalty (there are some exceptions).[12]
- However, when you withdraw the money in retirement, the withdrawals are taxed as ordinary income.

As a Business Owner

- **Traditional IRA:** As a business owner, you can contribute to a Traditional IRA for yourself, with the same tax-deductible benefits as an individual. Contributions lower your taxable income in the year you make them.
- **Roth IRA:** Like an individual, you can contribute to a Roth IRA for yourself. The main difference from an individual is that, as a business owner, you may have more flexibility in managing your tax situation, potentially maximizing contributions.

401(k) Contributions

A 401(k) is another retirement savings plan where employees contribute income pre-taxed. Like with a Traditional IRA, you don't pay taxes on the money you contribute until you withdraw it in retirement.

If you're self-employed, a Solo 401(k) is an excellent retirement savings option. **You can contribute both as an employee and an employer**, maximizing your contributions. See Appendix A comparing several types of 401Ks. In 2024, you could contribute up to $22,500 as an employee (or $30,000 if you're 50 or older), plus an additional employer contribution up to 25% of your net earnings.

Fun Fact:

The idea for the **401(k)** retirement plan was unintentionally discovered!

In 1980, a benefits consultant named Ted Benna noticed a little-known section in the U.S. tax code (Section 401(k)) that allowed employees to save pre-tax money for retirement.

"He devised the plan for a client who declined to use it because of the fear that once the government realized the tax loss potential of the plan the 401k provision would be repealed. After the client rejected it, Ted Benna persuaded his own company to use it."[13]

The plan became so popular that it revolutionized retirement savings. In 2024, 401(k)s held over **$7 trillion in assets**!

A 401(k) **and a** Roth IRA **are both powerful retirement savings tools**, but they differ in key ways. A 401(k) is typically offered by employers, allowing pre-tax contributions that lower your taxable income now, with withdrawals taxed in retirement. Roth IRAs, on the other hand, are individual accounts funded with after-tax dollars, offering tax-free growth and tax-free withdrawals in retirement.

The 401(k) has higher contribution limits ($22,500 in 2024, plus $7,500 catch-up for 50+), and often includes employer matching, making it attractive for employees. Roth IRAs have lower limits ($6,500 in 2024, plus $1,000 catch-up for 50+) and income restrictions, but they offer greater flexibility, including no required minimum distributions (RMDs) and tax-free withdrawals of contributions at any time. **Choosing between the two depends on your current tax situation, future income expectations, and retirement goals.**

Explore Self-Employed Retirement Plans

If you're self-employed and want a simpler option than a Solo 401(k), consider a SEP IRA.

Both SEP and SIMPLE IRAs offer tax-deferred growth, meaning you won't pay taxes on the contributions until you withdraw them in retirement.

Simple Savings, Big Benefits

Two popular retirement options for self-employed individuals are the SEP-IRA (Simplified Employee Pension Individual Retirement Account) and the Solo 401(k). Both plans are tailored for small business owners and freelancers, offering high contribution limits and tax-deferred growth on your savings.

- **SEP-IRA**: This plan is easy to set up and manage. You can contribute up to 25% of your net earnings, with a maximum limit of $66,000 (as of 2023). Contributions reduce your taxable income, allowing you to save on taxes now while building a retirement fund for the future.
- **Solo 401(k)**: Ideal for those who have no employees (other than a spouse), this plan combines high contribution limits with the ability to make both employee and employer contributions. This flexibility can allow you to save more aggressively for retirement while benefiting from tax deductions.

Contributions to these retirement plans are tax-deductible, meaning the money you invest in your future also reduces your taxable income.

This dual benefit helps you minimize your tax burden today while creating long-term financial security.

Additionally, earnings within these accounts grow tax-deferred, allowing your money to compound faster over time.

CHAPTER 7

Compliance and Reporting Requirements

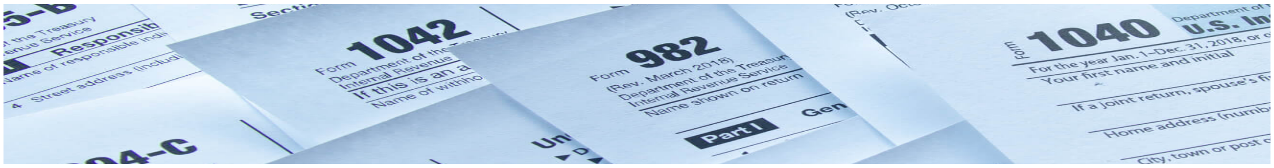
Accurately reporting your income and expenses is key to maintaining financial health and staying on the right side of tax laws. It ensures you're paying the right amount of taxes—no more, no less—while making the most of eligible deductions and credits.

Staying on top of tax compliance and reporting requirements is essential for keeping your business running smoothly and avoiding unnecessary stress. It means filing accurate tax returns on time, paying estimated taxes if you're self-employed, and meeting any state or local tax obligations.

Keeping good records of your income and expenses makes compliance much easier and helps you take advantage of deductions and credits you're entitled to. **Staying compliant shows professionalism, builds trust with clients and partners, and protects you from penalties or audits.** It also gives you a clear picture of your business's financial performance, setting you up for long-term success.

Using accounting and tax software can make this process simple and stress-free, helping you track everything in real time. You certainly can do your taxes by yourself; however, a tax professional can also be a great resource to help you navigate the rules and ensure you're meeting all requirements.

The Main Tax Forms



Business Income and Expenses

1. **Form 1040**: The standard individual income tax return used to report all income, deductions, and tax credits.

   If you're self-employed, you'll also need to attach **Schedule C** and **Schedule SE**

2. **Schedule C (Form 1040):** Reports income and expenses for a sole proprietorship. This is where the therapist details business income, deductible expenses, and calculates net profit or loss from your massage therapy business.

3. **Schedule SE (Form 1040)**: Calculates self-employment tax, which covers Social Security and Medicare contributions

Form 8829

Used if you claim a home office and will calculate the percentage of your home expenses (e.g., utilities, rent) that can be attributed to business use.

Form 4562

For claiming depreciation on business equipment like massage tables, chairs, or other durable assets.

Employee and Contractor Reporting

Form W-2: Issued to employed workers to report their wages, withholding, and taxes; must be sent to employees by January 31.

Form 1099-NEC: Used to report payments of $600 or more made to independent contractors. Must be issued to contractors by January 31 and filed with the IRS.

W-9 Form

Completed by independent contractors you hire to provide their taxpayer identification number (TIN).

Health Insurance and Retirement Contributions

Schedule 1 (Form 1040): Reports deductions for self-employed health insurance and contributions to retirement accounts (like SEP IRAs

Estimated Taxes

Form 1040-ES: Form 1040-ES, also called as "Estimated tax for individuals" is an IRS tax form used to calculate and pay quarterly estimated taxes if the practice generates "substantial" self-employment income. Generally, individuals who expect to owe $1,000 or more in tax for the current year, **after accounting for deductions and credits**, are required to pay estimated taxes. This includes self-employed individuals, freelancers, independent contractors, and those with significant investment income. This also is if your tax liability exceeds the amount withheld from other income sources (e.g., a part-time job or spousal income).

A massage therapist who owns his/her own practice may need to use **Form 1040-ES** to pay **estimated taxes** if he/she is self-employed and expects to owe taxes that are not covered through withholding. This form is used to calculate and pay estimated taxes on income, including:

1. **Self-Employment Income**: Income earned through providing massage therapy services as a sole proprietor or independent contractor.
2. **Self-Employment Tax**: This includes Social Security and Medicare taxes for self-employed individuals.
3. **Income Taxes**: Federal income taxes based on the earnings from the practice.
4. **Additional Taxes, Deductions, or Credits**: For example, if the practice qualifies for certain tax deductions or credits, this impacts the estimated payment calculations.

Payment Deadlines

Estimated taxes are paid in four installments

1. **April 15** (for January 1–March 31 income)
2. **June 15** (for April 1–May 31 income)
3. **September 15** (for June 1–August 31 income)
4. **January 15 of the following year** (for September 1–December 31 income)

Use the **Form 1040-ES worksheet** to Calculate the Payments

- Net income from self-employment.
- Deductions, such as business expenses for supplies, rent, or training.
- Self-employment tax (15.3% in 2024 for Social Security and Medicare on net earnings).

To avoid penalties for underpayment, pay at least **90% of your current year's tax liability** or pay **100% of your prior year's tax liability**.

CHAPTER 8
Tax Planning Strategies

Leverage Business Deductions

Small business owners, including self-employed massage therapists, can take advantage of a wide range of tax deductions to lower their taxable income. Deductible expenses may include rent for office or studio space, equipment (massage tables, oils, and tools), professional licensing fees, continuing education courses, and marketing costs. Keeping detailed records of all expenses ensures that deductions are accurate and comprehensive.

Use the Qualified Business Income Deduction

The QBI deduction allows eligible small business owners to deduct up to 20% of their qualified business income from their taxable income. This is especially valuable for massage therapists operating as sole proprietors, partnerships, or S-corporations.

Take Advantage of Health Savings Accounts

If you have a high-deductible health insurance plan, contributing to an HSA can provide a triple tax advantage: contributions are tax-deductible, earnings grow tax-free, and withdrawals for qualified medical expenses are also tax-free. An HSA can double as a retirement savings tool since unused funds roll over indefinitely and can be withdrawn for non-medical expenses.

Plan for Estimated Taxes

Self-employed massage therapists need to pay estimated taxes quarterly to avoid penalties. Calculate estimated taxes based on your previous year's income or current year's projections. Set aside a percentage of your income for taxes in a separate account to ensure you're prepared when quarterly payments are due. Using accounting software or hiring a tax professional can make this process smoother and more accurate.

Depreciate Big Purchases

For larger investments, such as massage chairs, studio furniture, or even a vehicle used for business, small business owners can benefit from depreciation. Section 179 of the tax code allows you to deduct the full cost of certain business equipment in the year it's purchased rather than spreading the deduction over several years. This can provide a significant tax break in years with large purchases.

Maximize Retirement Contributions

For both individuals and self-employed massage therapists, contributing to retirement accounts is one of the best tax-saving strategies. Options like Traditional IRAs and Roth IRAs are ideal for individuals, while small business owners can benefit significantly from SEP IRAs or Solo 401(k) plans. These accounts not only help save for the future but also offer immediate tax advantages, such as tax-deductible contributions for Traditional IRAs or tax-free growth with Roth IRAs. Massage therapists with higher incomes should consider SEP IRAs or Solo 401(k)s to maximize contributions and reduce taxable income effectively.

Keep Accurate Records

Accurate and organized record-keeping is the foundation of effective tax planning. Use accounting software (Quickbooks, Sage, FreshBooks or Wave) to track income and expenses daily. Keep receipts, invoices, and proof of payments for at least three years in case of an audit. Having clear records ensures that you don't miss deductions and can substantiate claims to the IRS if necessary.

By implementing these strategies, individuals and massage therapists can effectively reduce their tax burden while preparing for a secure financial future. Working with a tax professional or accountant can further optimize your tax planning and compliance.

Deadlines and Penalties

Meeting tax deadlines is crucial for massage therapists and other small business owners to avoid unnecessary penalties and interest charges. Missing deadlines can result in late filing penalties, which are typically 5% of the unpaid taxes for each month (or part of a month) that your return is late. Additionally, late payment penalties and interest on unpaid taxes can quickly add up, increasing your overall tax liability. For those required to pay estimated quarterly taxes, failing to pay on time or underpaying can also lead to penalties, even if you file your return on time.

To avoid these issues, it's essential to stay organized and track all relevant deadlines. **The most common deadlines for self-employed individuals include quarterly estimated taxes (due April 15, June 15, September 15, and January 15)** and the annual tax return (**due April 15,** unless you file for an extension).

Some business entities' income tax returns have due dates other than April 15. The instructions for each type of form note the appropriate due date. For any due date that falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.[14]

Setting calendar reminders, using accounting software, or working with a tax professional can help you stay on top of these obligations. Proactively addressing your tax responsibilities not only reduces stress but also allows you to focus on growing your practice without the burden of unexpected financial penalties.

You Don't Have To Do It Alone!

Taxes can be complex, even for the most organized and detail-oriented massage therapist. Between keeping track of expenses, understanding deductions, and filing the correct forms, it's easy to feel overwhelmed. Add in the ever-changing tax laws and the unique circumstances of running a massage therapy practice, and the process can quickly become stressful. Rather than letting taxes consume your time and energy, it's smart to consider options that simplify the process and reduce errors.

Remember that hiring professional service providers is a tax deduction!

A tax advisor or accountant who understands small businesses and the wellness industry can provide personalized guidance to ensure you're maximizing your savings while staying compliant. Their expertise could uncover opportunities you might have missed, helping you keep more of your hard-earned income!

Free Tax Help

IRS Free File

The **IRS Free File Program** offers free tax preparation software for individuals and businesses with an adjusted gross income (AGI) of $73,000 or less.

Access it at IRS Free File.

IRS Forms & Publications

The IRS provides free access to tax forms, schedules, and instructions, including forms for small business owners like Schedule C, 1099s, and Form 8829 (home office deduction).

Visit IRS Forms and Publications to download what you need.

Volunteer Income Tax Assistance (VITA) Program

The **VITA program** offers free tax preparation for individuals and small business owners with an income of $60,000 or less, people with disabilities, and those with limited English proficiency.

Find a VITA site near you at IRS VITA Locator.

But You CAN Do It Alone!

1. Gather Your Documents

Start by collecting all the necessary paperwork.

- **Personal Information**: Social Security numbers for you, your spouse, and dependents.
- **Income Forms**: W-2s for employment, 1099s for freelance work or contract labor, and other income documents like investment earnings or unemployment benefits.
- **Expense Records**: Receipts for deductible expenses (e.g., business supplies, charitable donations, health insurance premiums).
- **Tax Forms**: Prior-year tax return, mortgage interest statements, and retirement contributions.

2. Decide how you'll file

- **Paper Filing**: Download forms from the [IRS website]() and mail them after completion.
- **Online Filing**: Use software like TurboTax, H&R Block, or Cash App Taxes for a user-friendly experience.
- **IRS Free File**: If your income is under $73,000, you can use IRS-sponsored free tax preparation software.

For those who prefer a do-it-yourself approach, modern tax software is a great help. Programs like TurboTax, HR Block, or Cash App Taxes **can walk you through the filing process step by step**, ensuring you don't overlook important details. Many of these tools are designed for small business owners and include features tailored to independent contractors and sole proprietors, such as expense tracking and deduction calculators. Investing in user-friendly software can save you time and provide the confidence that your taxes are done correctly—and, you guessed it, **it's deductible!**

Tax Software

TurboTax Premium Online

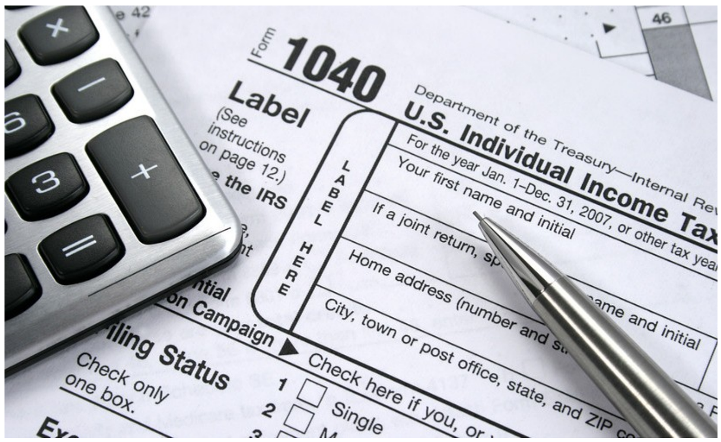
H&R Block Self-Employed Online
FreeTaxUSA Self-Employed
TaxSlayer Self-Employed
TaxAct Self-Employed

3. Determine Your Filing Status

Choose the correct status: single, married filing jointly, head of household, or other categories. Your filing status affects your standard deduction and tax bracket.

4. Decide Between the Standard Deduction and Itemizing

- **Standard Deduction**: A set amount based on your filing status (e.g., $13,850 for singles in 2023).
- **Itemized Deductions**: List specific expenses (e.g., medical costs, mortgage interest, charitable donations) to reduce taxable income if they exceed the standard deduction.



5. Fill Out Your Forms

- **For individuals: Use** Form 1040 **for most taxpayers.**
- **For business owners: Include** Schedule C **for self-employment income and** Schedule SE **for self-employment tax.**
- **Use IRS instructions to complete the forms accurately.**

6. File Your Taxes

- E-File**: The fastest and most accurate method; many online tools include e-filing.**
- Mail**: If you file paper forms, send them to the IRS address listed in the form instructions.**

7. Pay Taxes or Expect a Refund

- **If you owe taxes, submit payment electronically through the IRS Direct Pay system or by check.**
- **If you're owed a refund, include direct deposit details for faster processing**.

Avoiding Common Tax Mistakes

Taxes can feel like a big knot that needs untangling, but with a little attention and the right strategies, you can keep things smooth and stress-free!

Consider forming a legal entity, like an LLC or S-Corp, to potentially reduce tax burdens depending on income level.

1. **Mixing Personal and Business Finances**
2. **Forgetting to Keep Receipts**
3. **Missing Out on Deductions**
4. **Neglecting Quarterly Tax Payments**
5. **Improperly Classifying Workers**
6. **Not Claiming the Right Credits**
7. **Doing It All Alone**

Just like in massage therapy, a little preparation and the right technique can make all the difference!

Tips for Organizing and Tracking Expenses

- Separate personal and business finances, keep detailed records and receipts

- Categorize expenses consistently (e.g., supplies, rent, utilities, marketing).

- Automate where possible, such as using apps for tracking receipts and mileage.

Maximizing deductions and tax credits is about strategy and compliance. Maintain detailed records, plan ahead for major expenses, and take advantage of tax-planning opportunities throughout the year. If you're unsure about a deduction, consult with a tax professional to avoid costly errors.

To avoid surprises, calculate your estimated taxes quarterly and make timely payments to the IRS and state tax agencies.

Tips for Success

- Start Early**: Avoid last-minute stress by working on your taxes ahead of the deadline (April 15 for most individuals, quarterly for most businesses).**
- Double-Check Everything**: Ensure all names, numbers, and calculations are correct.**
- Stay Organized**: Keep tax-related documents for at least three years in case of an audit.**

You've Got This!

Please return to the website to take your assessment and fill out the Feedback Form.

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Appendix A: Retirement Account Differences

Retirement Account Type	Best For	Contribution Limits (2024)	Tax Advantages	Employer Contributions	Unique Features
Traditional IRA	Self-employed or working for a small business	$6,500 ($7,500 if 50+)	Tax-deductible contributions; taxed upon withdrawal	Not applicable	Simple, low-cost retirement savings; good for those without access to employer-sponsored plans.
Roth IRA	Self-employed or those expecting higher future taxes	$6,500 ($7,500 if 50+); income limits apply	Contributions made with after-tax dollars; tax-free withdrawals in retirement	Not applicable	Great for long-term tax-free growth; income limits may reduce eligibility.
SEP IRA	Self-employed or small business owners	Up to 25% of net income, capped at $66,000	Contributions are tax-deductible; growth is tax-deferred	100% employer-funded	High contribution limits; flexible for years with fluctuating income; easy setup and low administrative burden.
Solo 401(k)	Self-employed individuals with no employees	Up to $66,000 (employee + employer contributions); $73,500 if 50+	Tax-deductible contributions; Roth option available; tax-deferred growth	Self-funded (employee + employer contributions)	Combines flexibility and high contribution limits; allows both pre-tax

Retirement Account Type	Best For	Contribution Limits (2024)	Tax Advantages	Employer Contributions	Unique Features
					and after-tax (Roth) contributions.
SIMPLE IRA	Massage therapists in small practices	$15,500 ($19,000 if 50+)	Tax-deductible contributions; taxed upon withdrawal	Mandatory match (up to 3% of salary) or 2% non-elective contribution	Easy to administer; good for small businesses with a few employees.
HSA (Health Savings Account)	Massage therapists with high-deductible plans	$3,850 (individual) or $7,750 (family); $1,000 catch-up if 55+	Triple tax advantage: pre-tax contributions, tax-free growth, and tax-free withdrawals for medical expenses	Not applicable	Can serve as a retirement account for healthcare costs; unused funds roll over year to year.
Brokerage Account	Massage therapists seeking flexible investing	No limit	No upfront tax benefits; taxed on capital gains and dividends	Not applicable	Offers investment flexibility without contribution limits; can supplement other retirement accounts.

Appendix B: Types of 401 (k)

Type of 401(k)	Who It's For	Contributions	Employer Contributions	Taxes	Unique Features
Traditional 401(k)	Employees of companies offering the plan	Pre-tax contributions; reduces taxable income for the year	Optional, often with matching	Taxed upon withdrawal in retirement	Most common; optional employer matching, contribution limit of $22,500 (2024),
Roth 401(k)	Employees of companies offering the plan	After-tax contributions; no tax deduction now, but tax-free withdrawals in retirement	Goes into a separate pre-tax account, taxed upon withdrawal	Contributions grow tax-free; withdrawals are tax-free if conditions are met	Great for higher future tax expectations; same contribution limits as Traditional 401(k).
Safe Harbor 401(k)	Small businesses avoiding compliance tests	Pre-tax or after-tax contributions (Traditional or Roth)	Required, immediately vested contributions (matching or non-elective)	Taxed upon withdrawal (Traditional); tax-free growth and withdrawal (Roth)	Simplifies IRS compliance; ensures fair benefits for all employees.
SIMPLE 401(k)	Small businesses with ≤100 employees	Pre-tax contributions; lower contribution limits than Traditional 401(k)	Mandatory: Match up to 3% of salary or 2% non-elective contribution	Taxed upon withdrawal in retirement	Simplified option for small businesses; fewer administrative requirements.
Solo 401(k)	Self-employed individuals with no employees	Both employee ($22,500 max) and employer (up to 25% of net income) contributions	Contributions made as the business owner	Taxed upon withdrawal (Traditional); tax-free growth and withdrawal	High contribution limits ($66,000) ideal for self-employed individuals.
Automatic Enrollment 401(k)	Employers increasing participation	Pre-tax or after-tax contributions (Traditional or Roth)	Optional, often with matching	Taxed upon withdrawal (Traditional); tax-free growth and withdrawal	Automatically enrolls employees; often includes automatic contribution escalation.
Pooled Employer Plan (PEP)	Multiple small businesses pooling resources	Pre-tax or after-tax contributions (Traditional or Roth)	Optional, but often included	Taxed upon withdrawal (Traditional); tax-free growth and withdrawal	Cost-effective plan for small businesses; simplifies admin sharing resources across employers.
Profit-Sharing 401(k)	Employers wanting flexibility	Employee pre-tax contributions Employer profit-sharing contributions	Discretionary contributions tied to company profits	Taxed upon withdrawal, tax-free growth and withdrawal	Employers can adjust contributions annually, combines with 401(k) features.

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