

Help With Tax.

FREE GUIDE

7 QuickBooks Mistakes That Cost New Contractors \$10,000+ Their First Year

The most expensive bookkeeping errors I see when contractors come for help after a year of doing it themselves — and the exact fix for each one.



Foad Nabi, EA

Enrolled Agent · Federally licensed by the IRS

Why this guide exists

I spent the early part of my career at a tax resolution firm — the place people call after the IRS catches a problem. Penalties, back taxes, audit notices. Almost every case traced back to the same root cause: the books were wrong long before the return was filed. Often a credentialed professional signed that return anyway.

Contractors were overrepresented in those files. Not because contractors are careless — because construction bookkeeping has more moving parts than almost any other small business: job costs, subcontractors, equipment, vehicles, materials bought across three jobs on one receipt. QuickBooks handles all of it, but only if it is set up and used correctly. The default setup is built for no one in particular.

These are the seven mistakes I see most often when a contractor brings me a year-old QuickBooks file. Each one is expensive. Each one is fixable in an afternoon. And every dollar figure in this guide reflects the rules in effect for the 2026 tax year — including the changes made by the One Big Beautiful Bill Act.

The seven mistakes

1	Running on the default chart of accounts
2	Mixing business and personal money
3	Throwing everything into "Supplies"
4	Skipping job costing "until things settle down"
5	Entering transactions by hand (or not at all)
6	Losing receipts — and the deductions attached to them
7	Ignoring W-9s and 1099s until January

MISTAKE 1

Running on the default chart of accounts

WHAT IT TYPICALLY COSTS

\$2,000–\$5,000 a year in missed or misclassified deductions, plus cleanup fees.

When you create a QuickBooks Online company file, it hands you a generic chart of accounts built to fit any business — which means it fits no business well. A general contractor's money flows through categories the default list doesn't have: direct job materials, 1099 subcontractor costs, permits and inspection fees, equipment rental, small tools.

Here is why that costs real money. Every account in your books should map to a specific line on your tax return — Schedule C if you are a sole proprietor or single-member LLC, Form 1120-S if you have elected S-Corp. When categories don't map cleanly, one of two things happens at tax time: deductions get missed entirely, or your preparer bills you hours to reconstruct what each account was supposed to mean. In an audit it is worse — vague categories invite line-by-line scrutiny.

THE FIX

- Replace the default list with a contractor chart of accounts mapped to your tax form. A ready-to-import one is free at helpwithtax.com/resources.
- Put job-related costs — materials, subs, permits — in Cost of Goods Sold, not Expenses. That is what makes per-job gross margin visible.
- Keep it tight: 30–45 accounts is plenty. More accounts means more misfiled transactions, not more insight.

2026 note: If you file as an S-Corp, your books feed Form 1120-S and a reasonable-salary calculation. A clean chart of accounts is the first thing the IRS — or your preparer — looks at to judge whether the rest is trustworthy.

MISTAKE 2

Mixing business and personal money

WHAT IT TYPICALLY COSTS

Lost deductions, a pierced liability shield, and the single biggest audit red flag there is.

One debit card for groceries and lumber. A truck payment from the personal account. A customer check deposited to savings. Commingling feels harmless month to month — then tax season arrives and someone has to decide, twelve months later, which of 1,400 transactions were business. Nobody remembers. Deductions die quietly in that pile.

It is also a legal problem. If you formed an LLC for liability protection, commingled funds are exactly how that protection gets pierced in court. And if the IRS examines a commingled account, every deposit is presumed income until you prove otherwise — including the birthday money from your mother-in-law.

THE FIX

- Open a dedicated business checking account and business credit card. Every business dollar in and out flows through them — no exceptions.
- Pay yourself by transfer (owner's draw, or payroll if S-Corp). Don't pay personal bills from the business account.
- Caught a personal charge on the business card? Code it to Owner's Draw immediately — don't leave it for "later."

Worth knowing: audit rates for typical small businesses are well under 1%. But a Schedule C with round numbers and commingled accounts is how you volunteer for the short list. Clean separation is the cheapest audit insurance that exists.

MISTAKE 3

Throwing everything into "Supplies"

WHAT IT TYPICALLY COSTS

Inflated gross margins, missed depreciation elections, and audit-prep hours you will pay for later.

The lumber for the Hendersons' deck, the new compressor, printer paper, and a \$3,200 tile saw — all coded to "Supplies." Each is deductible, but they belong on different lines with different rules, and lumping them together breaks your numbers in three ways.

Materials used on customer jobs belong in Cost of Goods Sold — they are part of what each job truly cost. Job supplies (consumables: blades, fasteners, safety gear) are job costs too. Office supplies are overhead. Mix them and your gross margin per job — the most important number a contractor can know — becomes fiction.

The tile saw is the expensive part. Equipment over \$2,500 generally must be capitalized, then deducted via Section 179 or bonus depreciation — elections made on your return. Bury it in Supplies and nobody makes the election properly.

THE FIX

- Use three buckets: Materials (COGS), Job Supplies (COGS), and Office Supplies (Expense).
- Items over \$2,500: code to a Fixed Asset account and tell your preparer. Under \$2,500: the de minimis safe harbor lets you expense immediately.
- Adopt the de minimis election in writing at the start of each year — one paragraph, signed, in your files.

2026 figures: The de minimis safe harbor remains \$2,500 per item or invoice. Section 179 now allows up to \$2,560,000 of equipment expensing (One Big Beautiful Bill Act), and 100% bonus depreciation is permanent for qualifying property. Translation: nearly any equipment a small contractor buys in 2026 can be fully deducted in year one — if it is coded correctly.

MISTAKE 4**Skipping job costing "until things settle down"****WHAT IT TYPICALLY COSTS**

Years of bidding low on losing work. Often the most expensive mistake on this list.

Without job costing you know whether the business made money, but not which jobs did. Contractors who turn it on after a year are routinely shocked: the longtime client whose jobs always lose money, the "bread and butter" work running at single-digit margins, the job type they almost never bid that quietly carries the company.

QuickBooks Online's Projects feature ties every dollar of revenue, materials, sub invoices, and labor to a specific job, then shows profit per job in one report. But it cannot reconstruct history — transactions tagged to nothing stay nothing. Every month you wait is a month of data you never get back.

THE FIX

- Turn on Projects today: gear icon, Account and Settings, Advanced, Projects. You need QBO Plus or higher (about \$115/month at 2026 full price — the per-job visibility pays for itself on one bid).
- Create a project for every job, even small ones. Pick a naming convention and stick to it: 2026-06 Henderson - Deck.
- Tag every job-related transaction at entry. Split multi-job receipts across projects — or better, have the lumber yard ring jobs separately.
- Run the P&L by Project report monthly. Look for the jobs and customers that consistently underperform.

MISTAKE 5

Entering transactions by hand (or not at all)

WHAT IT TYPICALLY COSTS

5–10 hours a month of unpaid admin — or a December backlog that costs \$1,500+ to clean up.

Manual entry fails in one of two directions. Either you spend evenings keying receipts like it is 1995, or — far more common — you don't, and by Q4 there are nine months of uncategorized transactions and a shoebox. Cleanup at that point is expensive whether you pay a bookkeeper or burn your own January doing it.

QuickBooks bank feeds sync every business account daily. Bank rules then auto-categorize the predictable transactions — the gas station, the lumber yard, the insurance draft, the phone bill. A contracting business can realistically get 80–90% of transactions categorized automatically.

THE FIX

- ' Connect every business checking, savings, and credit card account to QBO bank feeds.
- ' Build a rule the second time you see any vendor. Rule of thumb: if it will recur monthly, it deserves a rule.
- ' Review the feed weekly — 15 minutes with coffee. Approve the rules' work, categorize the stragglers, match deposits to invoices.
- ' Reconcile every account monthly against the statement. Reconciliation is what makes your books provable, not just plausible.

The discipline that matters: weekly review, monthly reconciliation. A 15-minute weekly habit prevents the \$1,500 year-end cleanup and means your P&L is current enough to actually run the business from.

MISTAKE 6

Losing receipts — and the deductions attached to them

WHAT IT TYPICALLY COSTS

A single bad vehicle log can cost \$1,000+. Lost receipts compound across every category.

Contractors generate paper at a pace office businesses never see: lumber yards, hardware stores, fuel stops, parking, equipment rental counters. Every lost receipt is either a lost deduction or — if you deduct it anyway — a deduction you cannot defend if examined. The IRS standard is not "I am sure I bought it." It is substantiation.

Vehicles deserve special attention because the numbers are big. For 2026 the standard mileage rate is 72.5 cents per business mile (up from 70 cents in 2025). A contractor driving 18,000 business miles is looking at a \$13,050 deduction — but only with a mileage log to back it up. The alternative "actual expense" method (fuel, repairs, insurance, depreciation) is often better for heavy trucks — but it demands receipts for everything.

THE FIX

- Use the QBO mobile app's receipt capture: photograph every receipt before leaving the parking lot. OCR attaches it to the transaction.
- Run a mileage tracker (QBO's built-in tracker or a dedicated app) from day one. Reconstructed logs rarely survive an audit.
- Year one of a vehicle: keep records for both methods, then pick the better one at filing. The first-year choice locks options for that vehicle's life.
- Digital copies are accepted by the IRS and storage is free — there is no reason to lose another receipt.

MISTAKE 7

Ignoring W-9s and 1099s until January

WHAT IT TYPICALLY COSTS

Penalties that can reach hundreds of dollars per form, per copy — and subs who vanish in December with their EIN.

If you pay unincorporated subcontractors, you may owe each one a Form 1099-NEC in January — and the IRS a copy. The information you need (legal name, EIN or SSN, address, entity type) lives on Form W-9. The mistake is waiting until January to collect it, when the sub who poured your footings in March has changed phones and has no reason to call back.

Big change for 2026: the One Big Beautiful Bill Act raised the 1099-NEC reporting threshold from \$600 to \$2,000 in payments per recipient per year, beginning with payments made in 2026 (inflation-adjusted going forward). Fewer forms to file — but the discipline matters more, not less: the sub you paid \$1,900 this year is the one you will pay \$20,000 next year.

Remember: the threshold changes who gets a form, not what counts as income — and your deduction for sub labor still depends on records proving who you paid and for what.

THE FIX

- Collect a signed W-9 before any sub's first check. Make it non-negotiable: no W-9, no payment.
- Mark each sub as a 1099 vendor in QBO with their tax ID so January is a button-click, not an archaeology project.
- Calendar the deadline: 1099-NEC forms for 2026 payments are due to recipients and the IRS by February 1, 2027.
- Worker classification is a separate, bigger question — paying someone like an employee but calling them a sub is the costliest version of this mistake. See the 1099-vs-W-2 article at helpwithtax.com.

The 30-minute action plan

You do not need to fix all seven today. Do these in order — each one stops active bleeding:

1. Open dedicated business checking + credit card accounts if you have not. (Mistake 2)
2. Connect all business accounts to QBO bank feeds. (Mistake 5)
3. Turn on Projects and create one for every active job. (Mistake 4)
4. Import a contractor chart of accounts. (Mistake 1)
5. Put the QBO mobile app on your phone; photograph today's receipts. (Mistake 6)
6. Start a mileage log — today's odometer reading is your baseline. (Mistake 6)
7. Email every current sub a W-9 request before the next check run. (Mistake 7)
8. Set a weekly 15-minute calendar block: review the bank feed, tag transactions to jobs. (Mistakes 3–5)

2026 numbers referenced in this guide

Standard mileage rate	72.5 cents per business mile (IRS Notice 2026-10)
1099-NEC reporting threshold	\$2,000 per recipient (payments made in 2026; was \$600)
1099-NEC deadline (2026 forms)	February 1, 2027
De minimis safe harbor	\$2,500 per item/invoice (no audited financials)
Section 179 limit	\$2,560,000 (phase-out begins at \$4,090,000)
Bonus depreciation	100%, permanent (One Big Beautiful Bill Act)
Social Security wage base	\$184,500 (15.3% SE tax up to base; 2.9% above)
QuickBooks Online Plus	about \$115/month at full price

About the author

Foad Nabi is an Enrolled Agent — the only federal tax credential, granted directly by the IRS and valid in all 50 states. He holds a B.A. in Accounting and Economics from UC Santa Barbara, trained with Intuit QuickBooks, and started Help With Tax after years of tax-resolution work cleaning up problems that better books would have prevented.

Everything he publishes is free to read at helpwithtax.com — articles, templates, and checklists, with no consultations sold and no upsells.

Keep going

helpwithtax.com/resources — the article library: QuickBooks setup, job costing, S-Corp math, audit triggers, quarterly taxes, and more. Plus free downloads: a contractor chart of accounts you can import, a W-9/1099 tracker, a job costing worksheet, and a year-end checklist.

This guide is educational information for the 2026 tax year, current as of June 2026. It is not personalized tax advice; rules change and individual facts matter. © 2026 Help With Tax.