



GROWTH TAX TIPS FOR SMBS

THE MULTIPLIER

PROXXY

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THIS WHITEPAPER WILL INTRODUCE THE CONCEPT OF SMB GROWTH AT TAX TIME:

- ❖ Defining growth tax tips for SMBs
- ❖ An overview of popular growth tax tips
- ❖ Background of the development of growth tax tips for SMBs
- ❖ Variables that impact your choice of growth tax tips
- ❖ The importance of growth tax tips
- ❖ Determining the need for growth tax tips (program triggers)
- ❖ Variables that impact your choice of growth tax tips (program triggers)
- ❖ Steps for implementing growth tax tips
- ❖ Case studies on the effective use of growth tax tips for SMBs



OVERVIEW OF POPULAR GROWTH TAX TIPS FOR SMBS

Another advantage of outsourcing your taxes is that it unlocks a slew of business growth strategies that the average business owner doesn't know about.

Creative Business Structures

Many new business owners dive right into the company without giving any thought to future financial implications. But taking the time to choose an entity for your business can pay off come tax season. There are many options to consider depending on your ultimate goals, including:

- Self-employment
- Commercial company
- Partnership
- Not-for-profit
- Social enterprise
- Charity

Investments

It's always prudent to keep taxes top of mind when deciding where to invest your money. Taxes can impact your investment returns from one year to the next, which may put your long-term goals at risk. The greater your current income tax bracket, the more you have to gain from considering taxes before making any changes to your investments.

Contribute to Accounts That Are Tax-Efficient

Determine if you're eligible for tax-efficient retirement accounts to help reduce both current and future taxes. For example, traditional IRA accounts might be tax-deductible, and there's a dollar limit for annual contribution to traditional IRAs and Roth IRAs.

Form a Single-Member LLC

This refers to a limited liability company that has one owner. A single-member LLC reports business income taxes on Schedule C. It carries many advantages:

It's a separate business entity from its owner, therefore carries no attachment for tax or liability purposes.

- It's recognized as a legitimate business.
- The business name is registered, meaning no one else in the state can use it.
- It's considered a disregarded entity; therefore, the IRS only collects tax through the Schedule "C" of an individual's income tax return.



OVERVIEW OF POPULAR GROWTH TAX TIPS FOR SMBS CONTINUED

Determine if your company qualifies for different tax treatment

Certain SMB owners can deduct 20% of legitimate business income when they calculate their federal taxes. But the deduction isn't automatic and applies mainly to income from "Pass-throughs."

- Pass-throughs refer to business owners who pay tax themselves— not through their business. The law limits the deduction for specific service businesses. In 2020, business, legal, and accounting business owners saw reduced deductions when their taxable income exceeded \$326,600 for joint filers and \$163,300 for all remaining filers.
- However, owners of service businesses whose taxable income exceeded \$426,600 for joint filers and \$213,300 for all remaining filers get no deduction.

For the 2021 year, an SMB owner may want to consider changing their status from a Pass-through to a C- Corporation, regardless of the 20% tax cut due to the following:

- In a C-corporation, the owners are taxed separately from the entity. Consequently, the liability of investors and firm owners is limited. i.e., if the business fails, the most it can lose is the amount of the original investment.

Determine if you are eligible for a Qualified Business Income deduction

The IRS defines QBI as the net amount of items that can be qualified as they relate to income, gain, deduction, and loss from any verified trade or business. Items must be included in taxable income in order to be considered. First, you have to confirm that your business qualifies. Next, you need to consider additional key factors, including:

- The amount of net income from the business for that year
- Your total taxable income as a taxpayer for that year. If your income exceeds the limit, the reduction amount may be lowered or eliminated entirely
- It's important to note that for a QBI, the deduction only applies to the business owner, not the business

Capitalize on this year's losses with the CARES Act

The pandemic has been devastating for SMBs. But through the CARES Act, qualifying small businesses can apply their net operating loss from 2018-2020 to income from the last five years and receive a refund right away. The law serves as an incentive to up your 2020 losses through more expenditures.



BACKGROUND/HISTORY & IMPORTANCE OF GROWTH TAX TIPS

Tax season is notoriously difficult—doubly so if you are an SMB owner. In fact, more than half of SMB owners view tax preparation as challenging and complicated. Additionally, half of all SMB owners handle their company's taxes on top of their personal taxes—which is both stressful and complicated. And many SMB owners lack awareness of the strategies that are available to them to help their business manage taxes. SMBs face several additional challenges at tax time:

Disorganization

Disorganization has a huge impact on a company's profitability and its approach to tax season. For example, only 23% of struggling or failing businesses describe their workplace as organized, versus 53% of thriving SMBs. Not only does lack of organization have a negative impact on a company's productivity levels, but it also affects taxes.

Confusion About Tax Rules

The rules that govern tax rules are confusing. To make matters worse, new rules are constantly being added. As an SMB owner, you may not realize that tax treatment is different for an employee versus an independent contractor, for example. There are also tax differences when buying equipment versus leasing it.

Lack Of Money Management Training

Money management becomes critical when a business starts to make a profit. While some business owners are able to handle taxes on their own, many flounder and make mistakes. As a result, they miss out on possible tax breaks and legitimate write-offs. This is especially important because the complexity of bookkeeping increases with each new client. Over 40% of SMBs have consulted with a financial advisor.

Loss Of Income Due To The Pandemic

The COVID-19 pandemic has had a disastrous effect on many SMBs. With various government and employee initiatives at play this year, tax season looks to be even more complicated.



DETERMINING THE NEED FOR GROWTH TAX TIPS

There are several signs your company isn't performing as well as it could and would benefit from a tax professional:

□ **Client Dependence**

If you attribute more than half your income to a single client, you fall under the category of "independent contractor," more so than "SMB owner." While it can be tempting to work exclusively with a lone client who pays well and on time, it puts you in the subcontractor category, even if you have other employees. This category will be reflected at tax time. For example, while subcontractors may be eligible for certain tax breaks, they have to be deemed essential for the company. .

□ **Stress And Fatigue**

Not surprisingly, many SMB owners put in far more hours than do their employees. And many resist taking time off for fear the business will falter while they're away. This feeling of stress is exacerbated come tax season. If the mere thought of completing your company's taxes causes stress, then you won't be in the right mindset to think about business growth.

□ **Business failing to thrive or expand**

There are several variables associated with a lack of growth in a company. Many SMBs falter once they actually start to make a profit. That's because increased profitability— and the boost in clients and employees that come with it —means more complex books come tax time. For some business owners, this can be a deterrent to further expansion.





There are several signs your company isn't performing as well as it could and would benefit from a tax professional:

□ ***Time Invested***

In order to get organized and figure out what your business needs, you'll need time. This includes time to gather your documents and time to attend to administrative tasks like updating employee and independent contractor info, to name a few.

□ ***Tax preparation software program***

Companies who choose to complete their taxes themselves will need to invest in the appropriate software. By using the right software, business owners can maximize savings and refunds. Among the most highly recommended:

- Turbo tax
- H & R Block
- Jackson Hewitt
- Tax Slayer

□ ***Cost of outsourcing your tax preparation***

Whether you hire an accounting firm, financial advisor, or a third party to handle your tax returns, there will be a cost investment.





How to Determine the Right Growth Tax Tips to Utilize

Proxy uses a three-phase process to assess, evaluate, and implement the best growth tax tips to employ in your company. It's important to keep the focus on what's best for the business.

Quick Overview:

Phase 1: Collect initial metrics

Meet with SMB owners and collect paperwork to establish the current financial state of the company, as well as company goals.

Phase 2: Strategize

Determine if the company qualifies for different tax treatments or tax breaks. Consider moving business to a Single-member LLC, for example, or moving business from a Pass-through to a C-corporation. If a business closed due to the pandemic, discern if it's eligible for Employee Retention Tax Credit (ERTC). Finally, maximize deductions.

Phase 3: Create a smart plan for paying taxes

Devise and implement a plan to put money aside or arrange a line of credit to better prepare the company for cash flow disruptions. Guide the company in setting up or adding to an RRSP. Offer year-round tax advising.



EXAMPLES & CASE STUDIES

Companies that have implemented the right growth tax tips have experienced increased productivity, better decision-making, and an increased personal profit.

Let's take a look at a few real-world examples of companies that found success by implementing the right employee engagement strategy!

Case Study 1 - Accounting Firm Growth Stories: A Tax Firm In Financial Trouble

After earning 6-figures for several years as a controller, Tiffany Phillips realized her dream of starting an accounting firm with a focus on payroll. She quickly realized that it was a mistake, however, as she was only bringing in \$25,000. She was also in debt, without tools, and unsure how to grow her company.

Tiffany invested in tax planning services and learned about the critical role that tax planning plays in a company's success. She applied it to her own business and quickly reaped the rewards. In fact, the benefits were so apparent that she made a niche out of offering tax planning to SMB owners. Her firm's success has since skyrocketed. She is projected to at least double her revenue every year. Tiffany also hired 4 staff members and started outsourcing her tax preparation. Without the burden of tax prep, Tiffany was able to invest more time into structuring her accounting company for maximum growth.

By tackling her own business shortcomings and apprising herself of the latest laws and legislation, Tiffany has achieved financial success while helping clients resolve their own tax problems.

Findings

 Firm's success has skyrocketed

 More time to structure her company for further growth

NOTES:



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