



## Creative Financial Solutions for Business Owners 4.6.21

### **Thank you to our panelists!**

[Mac Gardner](#), FinLitTech & Certified Financial Planner and Author  
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[Zdravko "Z" Ivanov](#), KPMG Spark - [Book a consultation](#) with KPMG Spark to learn more about getting your books in order and the proper tax forms for your business.

### **A Financial Plan is Essential**

- Planning is key
  - Gives you a chance to align your personal and professional plans
  - Assets, liabilities, income, expenses to organize for personal and professional - just start with a piece of paper to get a baseline
- Consider engaging a professional
  - A Certified Financial Planner and a CPA - both have different but complementary areas of expertise
  - Find a good attorney who understands the legal ramifications of creating and growing a businesses
  - These will be partners in your success for a long time!
  - Communicate with your team BEFORE you make a major move on financing, expansion, hiring, taking money out of the business, etc.

- [LetsMakeAPlan.org](https://www.letsmakeaplan.org) to find a Certified Financial Planner in your area and make sure to ask for someone who is knowledgeable about needs of business owners
- “Mac Nugget” - The 1-3-5 Rule
  - 1 year; 3 year; 5 year goals for personal and professional
- Having up to date financial statements is essential to business success
  - Create a plan to keep your data organized year to year
- “Mac Nugget” - 3 Knows
  - Things you know you know
  - Things you know you don’t know
  - Things you don’t know you don’t know - find the experts who can help you!
- First steps to starting a new business
  - Create a plan - even a basic plan
  - File for a tax code for your entity (EIN)
  - Set up an LLC - Sunbiz.org
  - Reach out to a CPA who can help you navigate through the process
- “Mac Nugget” - Follow the 4 Money Rules
  - Spend Cautiously
  - Save Diligently
  - Invest Wisely
  - Give Generously

## **It’s Tax Season!**

- Re-evaluate the tax structure that aligns with your current business
- Re-evaluate if that structure supports your business goals and growth
  - Ex. if you’re a sole proprietor consider keeping LLC structure very simple is best but if you’re considering that you’ll be adding shareholders/investors in the future consider the tax structure you need today to support that growth
    - There are restrictions on the type of entity that can have shareholders
    - LLC can be treated in several ways by the IRS

- Default tax classification is a pass through entity so income would flow to schedule C but you can elect to
  - Form 8832 "Check the Box" election to tell the IRS you're changing from an LCC to a Corporation or a Partnership
  - Form 2553 to be treated as an S-Corp
- A C Corp may be an ideal option if you plan on attracting new equity investment in the future
- There are limitations on how frequently you can change the business designation - best to consult a tax advisory to assess pros/cons (may be up to 5 years or more)
- Can LLCs be shareholders in an S-Corp?
  - LLC owner is considered to be the shareholder of the S Corp
  - If your LLC is treated as a partnership or corporation for tax purposes, the S-election will be terminated may be problematic for tax purposes
  - An LLC is a legal formation with the federal and state legal framework it can take different forms within the tax code
- You can elect to create/acquire an S-Corp at any time and can change the structure as determined by the tax code

## **Retirement Accounts**

- Determine what your retirement plan will be
  - Is your business your retirement plan?
  - Will you create a retirement account(s)?
- Pay yourself first!
  - Take a tax deduction
  - Opportunity for liquidity
  - Creditor protection from those assets - any money in any retirement account, life insurance or annuity cannot be touched in the event that your business is sued.
- Sep IRA - specifically designed for small businesses owners
  - Can deduct up to 25% tax deduction for contributions

- Liquid account now growing on a tax deferred basis
  - Essential for small businesses owners
- Solo K (401k) - Sole proprietors can opt for this for a spouse can get up to 60k tax deduction for the businesses
- Simple IRA - under 100 employees; must make a match
- 401K - Option can be costly
- Pension
- Non-qualified deferred pension plans

## **Capital Raises**

- Debt or Equity
  - Debt - taking out a loan that you'll ultimately repay
  - Equity - giving away shares of your business
- Are there considerations in your personal finances that may impact your business loans?
  - SBA Loans - business owner may turn to a financial institution for a loan so you are the personal guarantor and your personal finances will be evaluated
  - Crowdfunding - raising capital from the community via a public platform (capped at \$5m)
- "Mac Nugget" - Always know your exit strategy when you start your business so you're raising capital in a way that will help you meet your end goals

## **PPP Loans - Where are they now, what's next?**

- Pres. Biden just extended the application deadline to May 31st
- PPP application is now based on gross receipts (not net income as was previously the case)
  - Everyone who generates revenue can now apply for support
- Lenders and payment websites can help small businesses complete their applications (PayPal, Blue Vine are moving quickly in this space)
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- Employee Retention Credit (ERC)

- Provides refundable employment tax credit up to \$5k per employee for 2020
- Now extended through 2021 for up to \$28k per employee
- Must prove your business was negatively impacted by the COVID pandemic - shut down, operations suspended, (25% reduction in revenue in a quarter in 2020 vs the corresponding quarter in 2019)
- Business must have existed before Feb 15, 2020
- Revenue must have been under \$1m
- Claimed through your payroll provider
- R&D Credit
  - Can be use to offset income AND payroll tax
  - Companies younger than 5 years old
  - Apply up to \$250k R&D credits against your payroll tax (with form 6765, check box on page 2)
  - File in the quarter after the quarter in which your taxes were filed
- KPMG is helping small businesses owners with their PPP application by providing real time financial statements which are needed in the application process.
  - You need to demonstrate that you have suffered from the pandemic (25% loss v 2019)

### **Managing Towards the Exit Strategy**

- Advisors are especially key as the business has matured and is positioned to be acquired
  - Work with someone who is expert in business valuations - owners usually over value their business relative to the market
  - Complimentary valuation services are available at large advisory firms that are good as a baseline but not for a formal transaction
- Business continuity - Planning for the rainy day scenario
  - Get a valuation of the business
    - Buy/Sell Agreement - if there are 2 partners in the bz that is owned 50/50, there is an agreement that stipulates what will happen to the shares owned by a deceased business owner;

- could be that the spouse of a deceased person may come to the business and that may (or may not) work out.
- Could be that the surviving owner buys those shares at a valuation determined in the agreement.

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