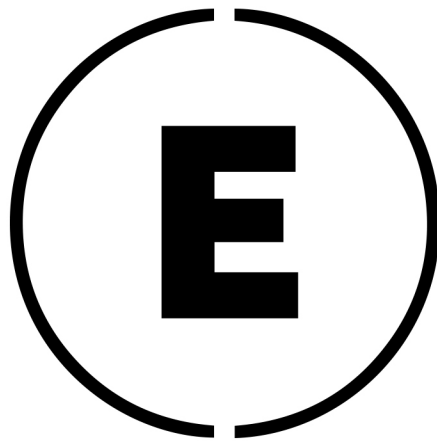




ESBA

TAXES DURING THE LEAN SEASON

[illegible]

[illegible]

My number one takeaway from this video

My number one takeaway from this video

CONTENTS

Taxes during the lean seasons	5
Paying taxes	6
Limiting the amount owed on taxes	7
Lean seasons don't reduce the tax requirements	8
Calculating what you owe	9
Catching those self-employed breaks	10
Sample s-corp considerations	10
Understanding state vs. federal taxes	11
Understanding sales tax	12
Software systems and processes	12
Software recommendations for bookkeeping	13
Lowering your tax bracket / taxes owed	14
Basic tax strategies	15
Ordinary and necessary deductions	16
Cost-cutting measures for your budget	17
Areas of saving	18

TAXES DURING THE LEAN SEASONS

Taxes are often cited as one of the most ‘surprising’ aspects of small business ownership and as a primary reason for debt in small businesses. It’s important to understand what you owe, who you owe and when you owe - as well as when you shouldn’t owe.

“[But] in this world nothing can be said to be certain, except death and taxes.” - Benjamin Franklin, 1789

The struggle for many business owners is learning how to budget for taxes throughout the year while limiting the amount owed for taxes.



PAYING TAXES

Federal taxes should be paid as estimated quarterly tax payments, also known as ETP.

Note: This information is for an LLC. If you and your advisors chose a different election, such as an S-Corp, your dates may be different. This is paid from your small business on a form 1040-ES. Due dates for each calendar year change, but are typically laid out as follows:

Estimated Tax (actual dates are subject to change):

- EPT #1: Due April 17
- ETP #2: Due June 15
- ETP #3: Due September 17
- ETP #4: Due January 15

You submit a payment 'voucher' (a printed piece of paper that your CPA will provide for you, pre-completed) that will include your social security number (and your spouse's, depending on ownership structure, which is why you should consult with a CPA), your address and the amount of your estimated tax that you are paying. Failure to do so resulted in penalties being assessed immediately.

A new change went into effect in 2018, requiring that payments be made each quarter, otherwise a penalty will be incurred. Before, small business owners could make a payment in September and one in April.

If you cannot pay your ETP, which we've been there and unable to pay when due, make even a partial payment as soon as you can to mitigate additional, compounding penalties.

LIMITING THE AMOUNT OWED ON TAXES

Poor Uncle Sam gets a bad reputation. In our own home, our oldest daughter, who was 6 years old at the time, began crying one day over her dad's "mean uncle who steals all dad's money!"

Perplexed, I searched my memory for which uncle she could be referring to when it occurred to me, "Are you talking about his Uncle Sam?"

"YES!" She was wailing now.

After that day, my husband is (only slightly) more careful about explaining taxes to our daughters. He often tells our youngest about his uncle who charges him tax. This 'teaching' most often looks like him taking one-fourth of her cookie / ice cream / hamburger...you get the point.

This story illustrates an important truth: taxes are a necessary part of doing business. But we live and do work in a structured environment, where you can predict and plan for your taxes and look for ways to reduce the amount owed by being wise.



LEAN SEASONS DON'T REDUCE THE TAX REQUIREMENTS

When you're responsible for the bills, it's important that you learn what rates you owe, when you owe them and what products or services you owe them on and for. This knowledge has changed the opportunities we've pursued in business, based solely on wanting to avoid paying a certain type of tax.

What are some of the stories you've heard about taxes? _____

What is your current personal tax rate? _____

State tax rate? _____

Business tax rate? _____

If you're a sole proprietor (please say no) or an LLC (nod, yes), then you have the option to file your taxes using what is called a Schedule C. Unfortunately, many small business owners have never seen a schedule C until the first time they sit down to file their taxes or answer questions from their CPA ¹.

¹ If you were advised as an S-Corp or C-Corp, you have different filing deadlines than with a Schedule C. Please verify with your CPA what is needed.

[Check out a Schedule C form here](#) and learn what your CPA will be asking you. Write down questions you have for your CPA about what you see.

CALCULATING WHAT YOU OWE

It's important to understand how taxes are calculated. Consider the following example ²:

Sports Inc. has sales of \$265,000 and deductions of \$187,000 for net income of \$78,000 for the year.

The first \$50,000 is taxed at 15% for a total of \$7,500.

Income between \$50,000 and \$75,000 is taxed at 25% or \$6,250.

The remaining \$3,000 (\$78,000 less \$75,000) is taxed at 34% or \$1,020.

Total taxes owed for \$265k gross & \$78k net income = \$14,770

You can see you don't get taxed at the same rate for each income bracket. How your business is structured also impacts how you get taxed. Finally, what deductions or tax savings planning you've put into place also matters.

² This does not include additional assumptions or deductions. This math is for demonstrative purposes only.

CATCHING THOSE SELF-EMPLOYED BREAKS

A CPA says that being an LLC will cut your tax liabilities in half. Another says that making an S-Corp election will do the same. How do you choose?

Being an LLC does not lower your tax liability, however having an LLC and making an S-Corp election does. But an S-Corp might not be right for you. You need to weigh the extra costs of the required tax filings against the savings to determine if it's worth it.

As an LLC, you'll pay self-employment tax on 100% of your earnings. As an S-Corp, you're only taxed on your 'salary' and not on distributions, thus reducing the balance on which self-employment tax is paid.

SAMPLE S-CORP CONSIDERATIONS

If you make the election to become an LLC and file an S-corp election, you will draw a salary like an employee and the remainder will be labeled as a distribution, which is only subject to income tax, hence a tax savings (instead of 100% of your business income being taxed at income rates and payroll tax rates). However, consider the following:

- Once you start drawing a 'paycheck', you must pay payroll tax filings every quarter.
- You can incur stiff penalties if not done correctly or on a timely basis.
- You will have to pay your CPA to complete those
- You'll also have to pay an additional fee to file the S-corp return and incorporate the information appropriately into your 1040
- You'll also have to file additional paperwork and quarterly unemployment taxes

There are so many benefits and drawbacks to your corporate structure of choice. While your CPA can handle the filings for your business, this comes at an extra cost to you.

Your lawyer, along with a good certified financial planner (CFP), working with your CPA ³, will be able to provide you with strategies that help you keep more of your money in your pocket. Taxes will still be there, but the taxable income will be reduced.

UNDERSTANDING STATE VS. FEDERAL TAXES

State and federal taxes are two separate entities. Not all states charge state tax and state tax is not federally regulated but is state-level regulated. There are no-tax, flat-tax, progressive tax states. Some states offer discounts to military veterans, etc.

Like federal taxes, state taxes allow for itemized or standard deductions that are almost the same as your federal taxes. Good record-keeping will assist with much of this.



³ A dual-firm that handles both the taxes and the financial planning is ideal. The two sides work together to reduce your taxable income.

UNDERSTANDING SALES TAX

Businesses pay taxes to the state, typically monthly or quarterly. Each state has a different tax rate. In Texas, the state tax rate (at time of writing) is 8.25%, meaning a \$29.99 product that is subject to state tax is calculated as $29.99 \times 0.0825 = 2.474$ (rounded) + 29.99 = \$32.46 total charge.

There is a special tax return for sales taxes. All sales must be reported and further broken down by taxable sales, exempt sales and amount of tax due.

Each state varies by what it charges, what products or services it requires sales tax on, etc. **Due to the work required for managing and paying sales tax, we recommend you avoid selling products / services that would require such record-keeping.**

However, using our example of a candle maker, you should be sure to fully

- ☐ Understand the rates, processes and due dates for sales tax in your state
- ☐ Register for online sales tax payments, if possible
- ☐ Organize your books well (or hire a CPA) so that sales and dates aren't missed
- ☐ Input your due dates on your calendar at the beginning of each year

Most small business owners we've worked with bemoan sales tax as their greatest struggle. Typically, you must apply for a permit and complete additional forms for sales taxes.

SOFTWARE SYSTEMS AND PROCESSES

Organization is the key to taxes. Spreadsheets to aid with this have been provided for you. To keep your records up to date and verify all transactions, try to keep a manual and a software record your first year.

SOFTWARE RECOMMENDATIONS FOR BOOKKEEPING

Quickbooks Desktop is CPA-preferred and some CPA firms won't even work with Quickbooks Online (QBO). QBO has had too many bugs to list and has cost taxpayers significant money. With Quickbooks desktop, even if you are keeping your own books, you can still pay your CPA to 'remote in' to your software once a week or month to review your books, run reports, etc.

Quickbooks is great for an all-powerful software and manufacturing firms. However, many people avoid any quickbooks product and the pricing can get really high for all their plugins.

Here are some really great choices for all software and accounting needs:

- [Wave](#) (FREE)
- [Freshbooks](#) (starts from FREE - \$15/mo)
- [Dubsado](#) (starts at FREE - \$25/mo)
- [Quickbooks Online](#) (\$17-\$25/mo annual plan)
- [XERO](#) (\$9-\$30/mo)



Other software products, such as Freshbooks or Dubsado, are amazing for creatives and businesses who need simple invoicing or payment plans. Beyond that, their functionality is limited. You can expect, if you're going the DIY route, to pay around \$40/mo per service.

[Wave](#) is free and is super impressive as well.



LOWERING YOUR TAX BRACKET / TAXES OWED

While not an accountant or certified financial planner, certain strategies are more commonly known and are a great jumping off point for dialogue with your CPA or CFP. Ideally, you'll want a firm that has both sides (tax savings and financial planning).

- ☐ Traditional, Roth or SEP IRA contributions
- ☐ 401(k) contributions
- ☐ Contributions to Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs)
- ☐ Deductions
- ☐ Tax credits
- ☐ Child credits
- ☐ Charitable contributions

BASIC TAX STRATEGIES⁴

- Keep business finances separate from personal finances. This includes
 - ✓ Checking accounts
 - ✓ Savings accounts
 - ✓ Credit cards
 - ✓ Lines of credit
- Establish a home office
- Log your mileage, tolls and parking for business
- Hire your children
 - ✓ Open a checking account in their name
 - ✓ Open a savings account in their name
- Establish a retirement plan for contributions for self
- Establish higher education plan for children
- Plan travel or vacation time that can be combined with business purpose
- Meals can be deducted 50% if for company purposes (e.g., a working lunch on premises)
- Keep quality records
 - ✓ Bank statements
 - ✓ Check stubs
 - ✓ Flag all non-income deposits (i.e., loans to business or capital contributions)
 - ✓ Business expenses paid by check along with invoices, phone receipts, etc.)
 - ✓ Auto mileage log
 - ✓ All other business receipts (paid by personal cash, personal credit card, personal check)

⁴ Note: This list is not exhaustive / all inclusive and should be used as a guideline for decision-making and tracking of expenses. Always talk to your CPA re: your specific needs and personal business situation. Thanks to [Chandler & Knowles, CPAs, PLLC](#) for this information.

ORDINARY AND NECESSARY DEDUCTIONS

- Medical & dental expenses
- Taxes you paid
- Interest you paid (e.g., investment, mortgage)
- Gifts to charity
- Casualty and theft losses
- Job expenses
- Certain energy credits (e.g., energy-efficient windows)
- Investment fees
- Tax prep fees

Examples of Business Deductions

- ☐ Advertising / Marketing (e.g., t-shirts, car stickers, banners, vehicle wraps, Facebook ads)
- ☐ Vehicle expenses (mileage log necessary, unless vehicle is 100% business use)
- ☐ Commissions and fees
- ☐ Cost of goods sold
- ☐ Depreciation
- ☐ Expenses for business use of home
- ☐ Insurance
- ☐ Interest
- ☐ Legal & professional services (e.g., CPA, Lawyer)

- ☐ Office expenses
- ☐ Postage & shipping
- ☐ Rent or lease of vehicles, machinery, equipment or real estate
- ☐ Repairs and maintenance
- ☐ Supplies
- ☐ Taxes and licenses
- ☐ Travel, meal & entertainment
- ☐ Utilities
- ☐ Wages

COST-CUTTING MEASURES FOR YOUR BUDGET

These are ways we've personally cut our budget significantly over the years. Do your shopping! Ask others what they've done or [join an online forum](#). One of the things I love about [MMM](#) is his view on avoiding buying into the middle class lifestyle of \$1,000 phones & high-priced phone plans!

Do NOT think that because you can write off a portion of of your cell phone bill that you can justify the expense. Just like weight loss = calories in & calories out; business profit is about dollars in vs. dollars out.

A big recommendation, if you're in debt or have no idea how to manage a budget, is to check out Dave Ramsey's [Financial Peace University](#) workshop or his [Total Money Makeover](#) book.

AREAS OF SAVING

Republic Wireless: We kept our same phone numbers, plan, unlimited data & switched from a big name carrier. Our bill went from \$300 / month with constant 'overage charges' and spotty services in remote areas to \$45 / mo for Jeremie (4G) & \$25 / mo for Abbie (3G). Since we work from home, wifi is constantly available, saving us big money.

Resulting savings: \$2760 / year

Digit: Their motto is 'save money without thinking about it.' This could not be more true! As someone who watches the budget like a hawk, I thought there was no money to be found extra but signed up because I thought it would help save for taxes with the business. This tool only costs \$2.99/mo and siphons off pennies to fifties from your account by analyzing your spending and income. They protect from overdrafts & will even help you pay off credit cards.

Resulting savings (first year alone): over \$5000

Wifi: Turns out that the fancy (read: super expensive) lightning fast internet speeds I 'needed' to work from home weren't any faster than the cheapest plan. Drop phone & cable, get lowest internet speed for same service (x 7 devices in my home).

Resulting savings: \$960 / year for first year; subsequent years the savings have been higher

Cable (yes, & sports): Before you start vowing to never give up sports - chill out! I'm not asking you to give anything up - except crazy bills. ROKU devices run off your internet; you can get the Sling app on it for \$60 / month, including all major networks and channels and sports, including ESPN & all SEC channels, except CBS. CBS has its own app for \$5 / month for sports.

Resulting savings: \$600 / year

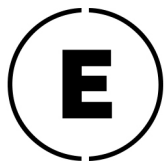
Mortgage: Did you know that there is typically only between \$100 - \$200 difference in payments on a 30 year vs 15 year house note? But the bank wants your additional \$20-50k in interest for the 30 year note. Did you also know that by choosing a bi-weekly payment option, you make an additional house payment each year, resulting in an average early payoff of 11 years (vs. 15 years). WHAT?

Resulting savings: Our **personal savings is \$106,226** in interest alone. [Do your own math](#) (& make sure to consider closing costs, etc.). If your spouse works in service area or is a military vet, there are lenders who don't charge those fees at closing or refinance. Do your research.

Vehicle choice: When you're a brand, appearance matters. You want to represent the brand well. However, looking good doesn't have to cost you a fortune at \$800+ payments / month. Mileage tracking & depreciation expenses are important tools. Be smart, get what's functional & affordable (read: NO PAYMENTS). Pay cash if you can & find what will last.

Resulting savings: Did you know that the average millionaire drives a four-year old car with 41,000 miles on it—and it's paid for? Don't buy the hype, just buy a good car.

⁵ Research according to Ramsey Solutions (2018)



© ESBA: ELITE SPORTS BUSINESS ACADEMY