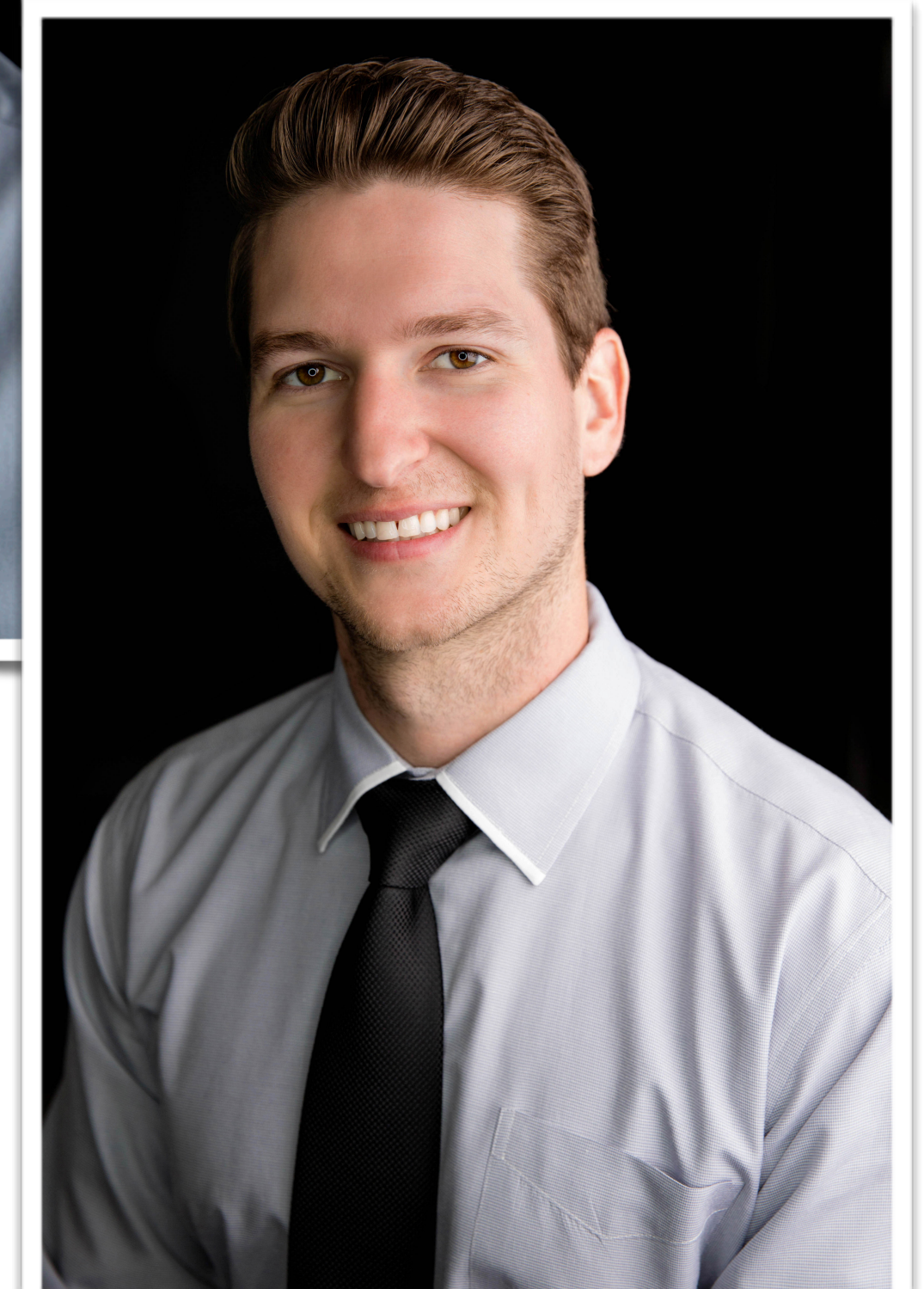


# Structuring Your Business to Maximize Tax Benefits

PRESENTED BY BRIAN WILEY & JEREMIAH BATES

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# THE TYPES OF BUSINESS ENTITIES

*Common types of business structures.*

- **Sole Proprietorship**
- **Partnership**
- **Limited Liability Company (*LLC*)**
- **Corporation (*S-Corp, C-Corp*)**

# TYPES OF BUSINESS ENTITIES

## *Sole Proprietorship*

- Owned and operated by a ***single individual***
- Owner is personally responsible for ***all debts and liabilities***
- ***Pass-Through*** Taxation (Entity)
- ***Profits/Losses*** are reported by the Sole Proprietor on individual tax return
- **Non-registered, unincorporated**





# TYPES OF BUSINESS ENTITIES

## *Partnership*

- Owned/Operated by *two or more* individuals who share the profits, losses, & responsibilities
  - Liabilities are *unlimited* amongst all general partners
    - ▶ Limited partners have limited risk, but usually limited decision-making abilities
- Profits and Losses:
  - Partnerships distribute *profits & losses* among the partners according to the agreed-upon terms outlined in the Partnership Agreement
- Pass-Through Taxation:
  - Profits and losses reported on owners' individual tax returns
    - ▶ The partnership itself does *not* pay income tax





# TYPES OF BUSINESS ENTITIES

## *Limited Liability Company (LLC)*

- Owned by *one or more* members
- Members are *not* personally liable for the debts, obligations, and legal liabilities of the LLC
  - Personal assets are separated & protected
- LLC's are a *Pass-Through* Entity
- Generally taxed the same as Partnerships



# TYPES OF BUSINESS ENTITIES

## *Corporation*

- **A legal entity that is *separate & distinct* from its owners (*shareholders*)**
  - **There are different types of Corporations:**
    - ▶ **S - Corporation**
    - ▶ **C - Corporation**



# TYPES OF BUSINESS ENTITIES

## *C-Corporation*

- **C-Corporation:**
  - Allowed *unlimited number* of shareholders
  - Offers *limited liability* protection
  - **Double Taxation:** the corporation pays taxes on its profits, and shareholders pay taxes on dividends received on personal tax returns
  - Allowed to issue different *classes of stock* to shareholders
  - Allows for *flexibility* in ownership structure and attracting investors



# TYPES OF BUSINESS ENTITIES

## *S-Corporation*

- **S-Corporation:**
  - ***Pass-through*** entity
  - Corporation does **not** separately report its ***profit/losses***
  - Limited to **100** shareholders
  - Offers ***limited liability*** protection
  - Shareholders **must** be U.S. citizens or residents, certain trusts, estates, or eligible tax-exempt organizations
  - Allows only for a ***single class*** of stock



# **BUSINESS STRUCTURE & SAVING FOR RETIREMENT**

*What type of account is right for you?*

# BUSINESS STRUCTURE & SAVING FOR RETIREMENT

- **If you're an owner/operator:**

- Traditional/Roth IRA
- SEP IRA
- Solo 401(k)

- **If you have employees:**

- Limited on the types of retirement vehicles you can use
- **401(k)**
  - ▶ Matching contributions
  - ▶ Pension
- **SIMPLE IRAs**



A stylized, dark grey illustration of a wallet with a dashed line indicating its opening. Inside the wallet, several banknotes and coins are visible. One banknote prominently features a large dollar sign (\$). The background is a solid dark grey, and a bright yellow horizontal bar is at the top.

# PERSONAL & BUSINESS FINANCES

*Why you need to make the separation.*

# SEPARATING PERSONAL & BUSINESS FINANCES

*Reasons why...*



- **Personal Liability Protection**

- Establishes a clear line between you and your business for legal protection
- Prevents personal assets from being at risk

# SEPARATING PERSONAL & BUSINESS FINANCES

*Reasons why...*



- **Tax Implications**

- Accurately calculate tax liability, maximize tax benefits by tracking deductible expenses, and be prepared for business audits





# SETTING BUSINESS GOALS

*How far do I want to go?*

# SETTING BUSINESS GOALS

*Things to consider:*

- **Business Structure**

- Will you be working with partners? Will you have employees?

- **Personal Goals**

- Is this my primary income source or is it supplemental?

- **Growth Goals**

- What is the end goal of my business?



A background image showing a hand holding a US dollar bill, with the bill's details like the number '100' and the word 'ONE' visible. The image is in a muted, blue-grey color scheme.

# HOW DO I PAY MYSELF?

*It's not like being a W2 employee...*



# HOW TO PAY YOURSELF

*You get to choose!*

## **1. Salary**

- setting an amount to be paid on a regular basis

## **2. Owner's Draw**

- paying out based on available business funds

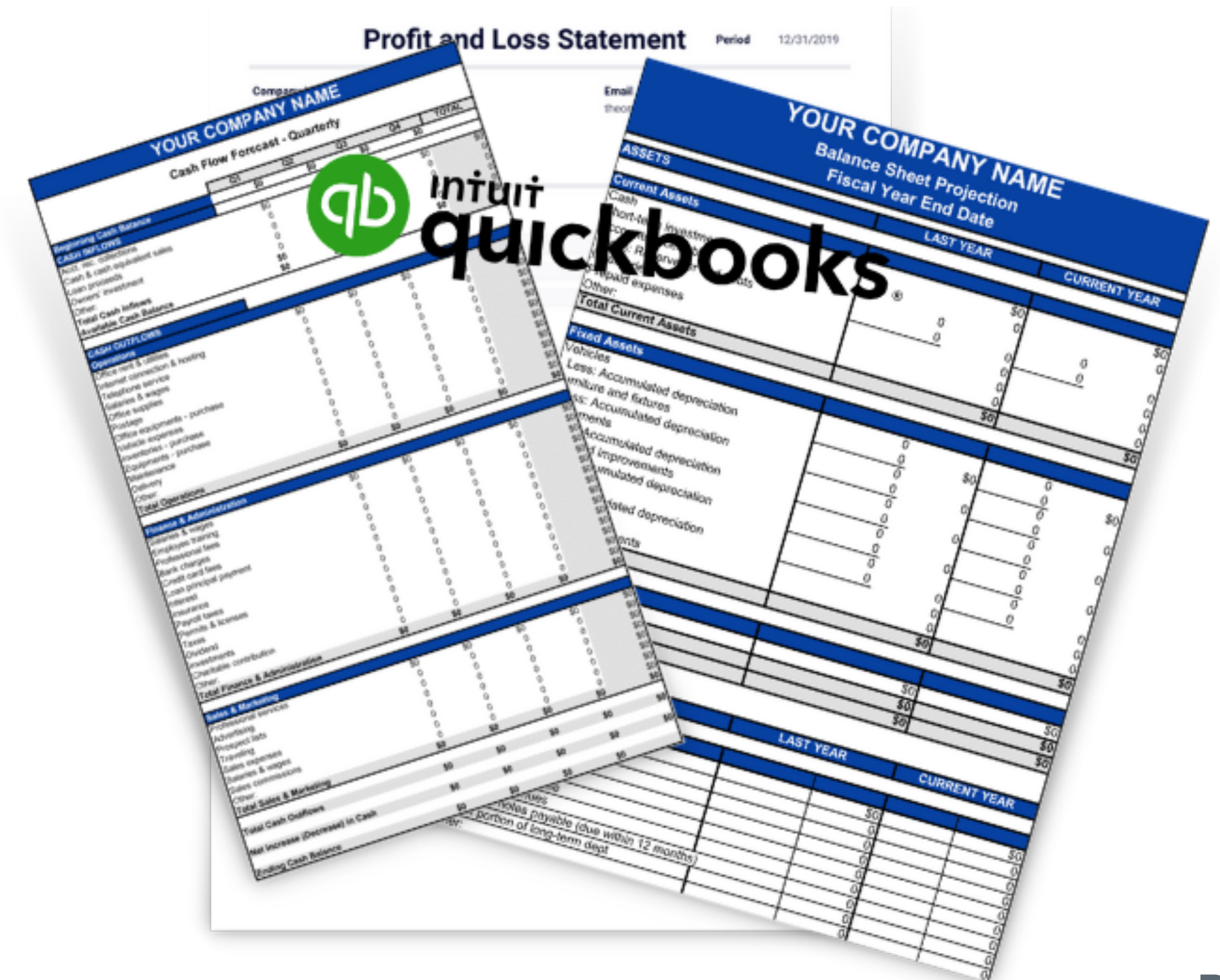
# ORGANIZING BUSINESS FINANCES

*Track, track, track!*

# ORGANIZING BUSINESS FINANCES

*Staying on track.*

- **Accounting and Reporting**
  - Inflows / Outflows
  - Are you doing it yourself?
    - *Consider hiring an accountant?*



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# WHEN TO PLAN YOUR EXIT STRATEGY

*Developing a Sellable Business*



# EXIT STRATEGY

- **Developing a Sellable Business**

- Don't put your name on the front door
- What buyers will want:
  - ▶ Client book
  - ▶ Reputation
  - ▶ Profitability
- The business needs to be able to operate **without** the owner

- **Negotiation & Who to Bring Along**

- Attorney
- CPA
- Financial Advisor

# TYPES OF SALES, PAYMENTS, EARN OUTS, ETC.

*Differences in Taxation*

1. **Asset Sales:** Physical assets and things of value, such as a client list
  - **Client lists are typical sold as a *zero-basis*, long term capital gain**
  - **Physical assets are subject to depreciation recapture & typically sold for replacement value with the tax treatment as *long-term capital gains***
    - ▶ **Taxes may subject the seller to ordinary income rates on the proceeds.**

# TYPES OF SALES, PAYMENTS, EARN OUTS, ETC.

*Differences in Taxation*

2. **Stock Sale:** Dissolution or continuance of the LLC, S-Corp, or C-Corp will have great impact on taxation and liability
  - **Liabilities will follow the owner**
  - **The purchaser will not (*likely*) be able to expense the portion allocated to a stock sale, but the seller may be able to calculate long term cap gains**

# TYPES OF SALES, PAYMENTS, EARN OUTS, ETC.

*Differences in Taxation*

- 3. **“Blue Sky”**: Typically related to the marketing (branding) power of the entity
  - **Taxed as *ordinary income***
- **Most business sales will result in a *component ratio of the three items* listed above**
  - **The ratio will apply throughout the sale period (payments) and be carried to both parties' tax returns**
  - **Tax and legal advice are critical to be sure the ratio fits the deal for each party**



# 2024 CHANGES & PREDICTIONS

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## CONTACT:

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## Ask the Experts

Got Questions? We got answers!

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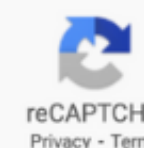
City, State

Question

Can we answer your question during our live show?

- ☐ Yes.
- ☐ Yes, but please also send me a message.
- ☐ No, I prefer a private response.

☐ I'm not a robot



Submit