Start-Up Business

Financial Management Guide

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Hello Start-Up Business Owner,

I'm business consultant Kent Gustafson. I'm a longtime entrepreneur and also the founder of Kent Gustafson Consulting.

Congratulations on your decision to start a small business and take the necessary steps to protect your income and keep more of your paycheck. As an independent business owner there are several financial and tax strategies available to you, and by investing in this training guide you're on the fast track to maximizing your income!

I'm not an accountant, attorney or financial planner. However, I AM a small business consultant and risk management expert with nearly 25 years of experience in the small business industry. I have an extensive background in business operations management and have spent the past 14 years consulting with small businesses, working with more than 2,000 companies.

I can identify with where you're at as a new business owner because I've been there myself. I understand the excitement you feel as a new entrepreneur, the many uncertainties of growing and scaling a business, and the challenges of managing your business finances while attempting to maintain the highest level of profitability.... Trust me, I've walked in your shoes.

Since I can identify with the obstacles facing a new small business owner, I've developed this guide exclusively for you because you're serious about maximizing profitability and protecting your income. You made a wise decision in choosing this guide because it was created to be your roadmap to success.

I promise the strategies included in this guide are real, proven, and work together.

Best of all, they DO NOT require you to be an experienced “money manager” or a “financial expert”. The information you’re about to be exposed to isn’t neuro surgery, in fact, far from it. Many of these concepts are so simple you can begin implementing them into your business today.

So let’s get started!

Kent Gustafson

Strategy #1: Develop a Budget

For some of you this may seem rudimentary, but you'd be amazed by how many long-time business owners who've never actually taken this step (including some who've been moderately successful). Whether you're in the beginning stages or a seasoned veteran, I guarantee this is the place to start. While all the strategies in this guide are critical to the success of your business, think of this as your foundation. Without building a solid foundation, you simply can't build a sustainable business.

Did you know that a vast majority of businesses that fail, do so because they are simply unable to manage cash flow properly? Typically, the mismanagement of cash flow can be tied directly to any 1 of 3 key failures:

1.) Poor budgeting

2.) Neglecting to budget at all

3.) Inability to operate within a budget (just ask our federal government)

You see businesses, and governments, fail because they never seem to learn that expenses cannot continually exceed income. While this seems like a logical concept, I'm baffled by how many business owners who're unable to grasp it. They repeat the same formula over and over again, yet for some inexplicable reason they expect a different outcome.

But this DOES NOT have to be your fate. Ultimately, you can learn from the mistakes of others by developing and following a budget for your new business. Not only will this allow you to avoid the pitfalls that have destroyed so many businesses, it will also accomplish 3 key objectives in your business:

1.) Maximize your income

2.) Create a system for sufficient cash flow

3.) Teaches you to say NO to unwarranted expenses

At this point, you may be wondering where to start and that's okay.

My goal is to make it as simple as possible for you to begin the process right now. It starts with recognizing that you fall into 1 of 2 categories:

1.) Those who are new to business ownership

2.) Those who've been in business for 6 months or more

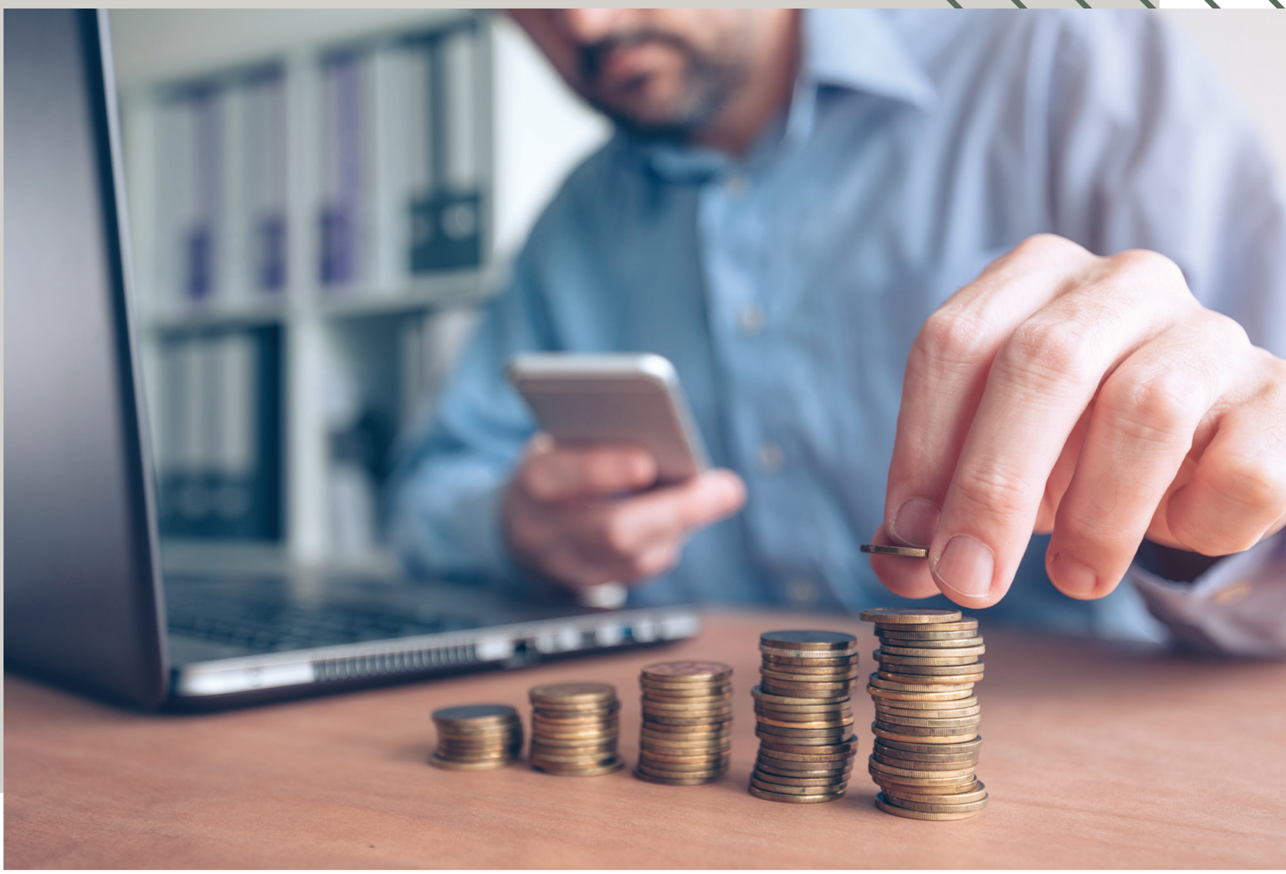
The concept of budgeting remains the same regardless of which category you're in, but the variables (income and expenses) will vary considerably because those of you just starting out don't yet have income to offset expenses, whereas those who've been in business for a while most likely do have income. Additionally, those who are experienced have income and expense history to draw from, which is valuable information when creating a budget.

It's been proven that start-up businesses without proper capitalization collapse. For this reason, I believe it's imperative that you have some working capital when you start your business (even if you have to start really small). I've launched, and been involved in, numerous businesses over the years and despite the many differences from business to business, the one constant was that they all had expenses in the beginning (some more than others). The ability to determine those expenses that are absolutely necessary, while saying NO to those that aren't, is key to your success.

Category 1: Beginners

The first step in creating a budget when you're just starting out, is to focus solely on those resources that are essential to getting your business off the ground such as a cell phone, computer, internet and basic office supplies. You may already have some of these, in which case your start-up budget should be minimal. However, if you don't have a phone or computer, you will have to make these expenses a priority since they're "essential". As a side note, these are deductible expenses so keep your receipts if purchasing (I will further address this with Strategy #4: Deductions).

Category 2: Already in Business



If you've been involved in small business for 6 months or more, I'll assume that you're now generating some income. With that said, depending on how new your business is, your income may be minimal and you'll need to budget accordingly. The key at this point in your business is to shift your focus from those expenses that are essential to getting your business off the ground, to those expenses that are vital to business growth and sustainability (e.g. marketing, education, and training).

As your business grows, you'll need to refine your budgeting practices in order to account for recurring monthly expenses such as postage, marketing, accounting, phone and internet. Furthermore, you should plan for unexpected costs (I promise they will come up, so expect the unexpected), as well as large capital expenditures that you may need to make in the future (e.g. computers, software, copier/printer). To account for unexpected costs and capital purchases, I strongly recommend that you only budget 85% of your average monthly income, regardless of how much money you're making (this will allow you to create cash reserves).

Why set aside so much of my income, you ask? It's really quite simple… The formula for building a business that is financially stable demands it. I guarantee you most businesses that have been successful have budgeted well and allocated sufficient funds for their reserve accounts. Have you ever talked to anyone who has achieved success that said, "I wish I hadn't saved so much money"? I certainly know I haven't.

The reality is, you invested in this guide because you want your new business to thrive and be successful. In fact, even though you may have entered the business due to your love of the products you represent or the services you provide, most of you will stay because you want to pursue career independence and achieve personal financial freedom for yourself and your family. Developing a balanced budget and practicing discipline in your spending will afford you the necessary foundation to achieve your dream.

Sample Business Budget

BUDGET ITEM	BUDGETED AMOUNT	ACTUAL SPENT	% OF TOTAL BUDGET
Bank Fees:			
Legal Fees:			
Accounting Fees:			
Membership Fees:			
Insurance Expense:			
Education Expense:			
Marketing Expense:			
Automobile Expense:			
Technology Expense:			
Lease/Loan Expense:			
Office Supplies Expense:			
Phone & Internet Expense:			
Reserve Accounts:			
Miscellaneous Expense:			
Budget Totals:			

Strategy #2: Expense Tracking

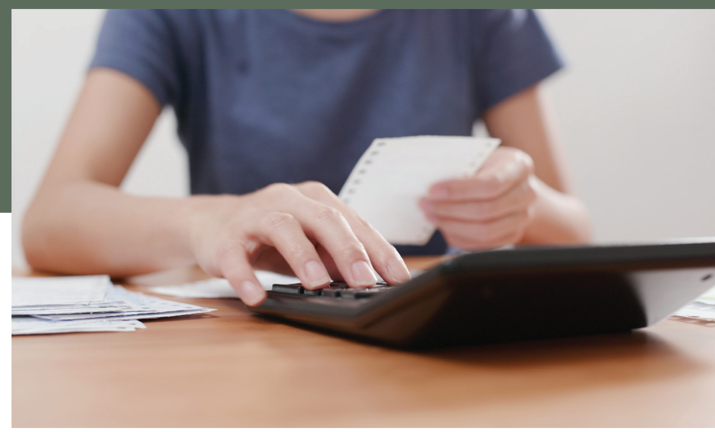
Implementing a budget is the right first step to building your successful small business, but a budget without a strategic plan to ensure it is followed is completely useless. Expense tracking may sound like a tedious process...

BUT this strategy is fundamental to sustaining a balanced budget for your business (it is also vital to the success of Strategy #3: Eliminate Leakage).

One of the most important steps in treating your business like a business, rather than a hobby, is maintaining a completely separate bank account for your business. It is critical to separate business income and expenses from your personal finances. This is significant not only to simplify the process for accounting and tax purposes, but also for risk management (I will further expand on this concept in our upcoming Risk Management Guide).

In addition to maintaining a separate business account, I also recommend having a credit card in the name of the business which is used exclusively for your business transactions. This not only demonstrates clear division between your business and personal funds, but also simplifies the reconciliation process for monthly expenses (if you're audited by the IRS, I'm confident this recommendation will serve you well).

When incurring legitimate business expenses, I suggest utilizing your business credit card whenever possible (always within the confines of your budget). Request an itemized receipt from the vendor and write any additional notations directly on the receipt. In those instances where a vendor is unable to provide an itemized receipt, write detailed notes on the receipt that clearly explain the details of the purchase as well as the expense category for your accounting records. You should approach this with the mindset that you may be audited someday, but it might not be tomorrow. Therefore, it's in



your best interest to include as much detail on the receipt as possible in order to make it easier to recount later (whether that be during an IRS audit or during your regular expense review).

Tracking expenses and preserving receipts serves 2 key functions in your small business:

1.) Provides you the means to maximize deductible expenses (Strategy #4)

2.) Presents a clear picture of how you've been spending your money and allows you the historical detail necessary to budget and plan for the future

A Clear Picture is Critical

If you're a small business veteran you may be tempted to jump ahead, but I guarantee this section will be a key factor in keeping more money in your pocket. Stay with me here because having a clear picture of how you've been spending your money and using that detail to budget and plan for the future will have a significant impact on Strategy #3.

In order to make wise financial decisions, you need to have a clear picture of how you're spending your money NOW and use that data in guiding how you spend your money in the future. NOT taking this concept to heart will result in a difficult road ahead (the failure to plan is the equivalent of planning to fail).

The only way to ensure you're operating within your budget is to closely monitor each and every expense. Even more importantly, you must use these statistics to influence future spending. In compiling this information over time, you'll be able to identify spending trends and determine your average monthly spending. Here are some real-life examples:

Example One

Many years ago I taught myself to closely track my expenses and I uncovered an interesting trend with regards to my meals and entertainment expenses. I discovered that I had twice as many client lunch meetings during the months of May, June, July and August than I did in all of the other months combined. WOW… why was that? Actually, it turned out to be quite simple… At that time in my business, I had greater schedule flexibility from May through August and that coincided nicely with the needs of my clients. Because I had learned to closely monitor expenses, the trend was identifiable and I was able to plan accordingly when preparing my budget.

Example Two

The insurance premiums for my company vehicle were due twice per year (May and November). Ironically, other vehicle maintenance expenses typically occurred during those same time frames, meaning my budget for May and November was significantly higher than most other months. The easiest way to offset this was to add up all of my vehicle expenses for the entire year and then average it out over 12 months. By doing that, I was able to allocate sufficient funds into my vehicle expense budget each month and simply spread the cost out over the course of the entire year.

Because I reviewed my financials on a regular basis, usually quarterly, the details told a story and painted a vivid picture that prepared me to make informed decisions for the future. In the beginning I was evaluating my expenditures monthly, if not weekly. By incorporating those behaviors into my business early on, I was able to develop really good habits that continue to serve me well all these years later.

Whether you're just starting your business or have been involved in small business for a while, if you're new to the expense tracking process I urge you to set aside a little time each week to review your financials. This practice will encourage you to be cost conscious and should help you avoid incurring unwarranted expenses at this critical juncture in the development of your business. I'm certain the added vigilance will pay dividends for you in the future and allow you to keep more of the money you've worked so hard to earn.

Strategy #3: Eliminate Leakage

As discussed in the previous section, expense tracking and regularly reviewing your financials is critical to operating within a budget and making wise decisions for the future. However, there is an added component that I want to stress to you: Spending history is much more than just the supporting data used in budgeting for the future.

Constant analysis of your spending practices is key to maximizing your money today!

When I first started tracking expenses and analyzing my financials consistently, I was both shocked and disgusted with myself at the same time. Here's why:

1.) While reviewing my phone and internet bill I determined that I was paying for features that I wasn't using AND didn't need. Making matters worse, I realized I'd been doing so for over a year. I immediately had those features removed from my account, saving myself almost $50 per month, but the damage was done as I'd unknowingly leaked over $600 from my business.

2.) Then I took the time to review my insurance policies. Do you know what I found? Between my 2 insurance policies, I found significant coverage overlap. So I shopped around for a new agent who'd take the time to review what they sold me and make certain it was in my best interests, and found an agent who understood my business needs and made sure that I had the right policy. Not only did I eliminate the coverage overlap, but by shopping my business around I also managed to get better rates and ultimately lowered my premiums by nearly $100 per month (about $1,200 per year).

3.) After spending less than an hour of my time and finding that my business was leaking $150 per month, I started digging in and looking more closely at every single expense. I discovered I was paying subscription fees for publications I wasn't using or benefiting from, costing me about $2,400 per year.

As a fairly new business owner earning about $35,000 annually at the time, it was a punch in the gut to find out I was unnecessarily losing $350 per month from my business. Trust me, my family could have benefited greatly from an extra $4,200. However, the money was gone and it wasn't coming back.

None of this was rocket science, nor did it require an inordinate amount of time or training to uncover. It took focus, attention to detail, diligence, and some discipline moving forward. Ultimately, it was worth it because I was able to incorporate this practice into my business AND personal finances, and both have served me quite well over the years.

The sad reality is that a majority of businesses throw money away regularly. In fact, the average small business loses nearly $2,500 per month. Read that again, $2,500 per month (that's a mortgage payment on a VERY nice house). Is this even possible? Unfortunately, the answer is YES and based on very simple math, it means countless businesses needlessly wasting $30,000 every year.

This process is called LEAKAGE and it's as serious as a heart-attack. Making matters worse is it could usually be avoided, but most businesses owners are unaware the problem exists and needs to be dealt with to avoid flushing money down the toilet.

At this point some of you may be thinking "but I don't even earn $2,500 per month" and for those of you that fall into that category you'll need to view this on a smaller scale, but I promise that leakage DOES exist in your business. Whether you're a business owner losing $2,500 per month, or one losing $250 a month, it's vital that you put an end to the leakage in your business in order to maximize income.

There are really 2 key factors to eliminating the leakage in your business, and they are not complicated:

1.) You need to be willing to admit you have leakage

2.) You need the ability, and discipline, to identify the leakage

If you're able to come to terms with #1, then #2 really shouldn't be too difficult. Because we've already recognized the importance of expense tracking and regular review of your financials, you simply need to train yourself to identify leakage during this process so that it can be eliminated, or at least minimized, allowing you to keep more money in your pocket.

While identifying and eliminating leakage is great, it's even better when you can avoid it all together. So here are some basic procedures that you can implement into your business immediately:

1.) Review your expenses on a regular basis (I recommend weekly to start) and thoroughly analyze each expenditure to determine if it's absolutely necessary, somewhat necessary, or not necessary. If you're just starting out or have been in business a short time, I recommend eliminating all expenses that are not rated as absolutely necessary (this is where discipline comes into play).

2.) Study your bank statements, phone and internet bills, insurance policies, and other itemized reports to ensure you're not paying for services you don't need, overlapping coverages, surcharges, or any other unnecessary fees.

3.) Pay your credit card bill in full at the end of every month. This will require you to monitor your credit card purchases closely to ensure that you don't incur more expense than you can afford to pay (remember D-I-S-C-I-P-L-I-N-E). Typically, credit card interest rates are anywhere from 18% to 28% and are responsible for an enormous amount of leakage in the average business. I cannot stress this one enough… carrying credit card balances from month to month can cripple your business.

4.) If you have bank loans, try paying more than the monthly payment whenever possible. While interest rates on standard business loans are usually much lower than average credit card interest rates, it's still interest and paying it off as quickly as possible is in your best interest (see what I did there?)

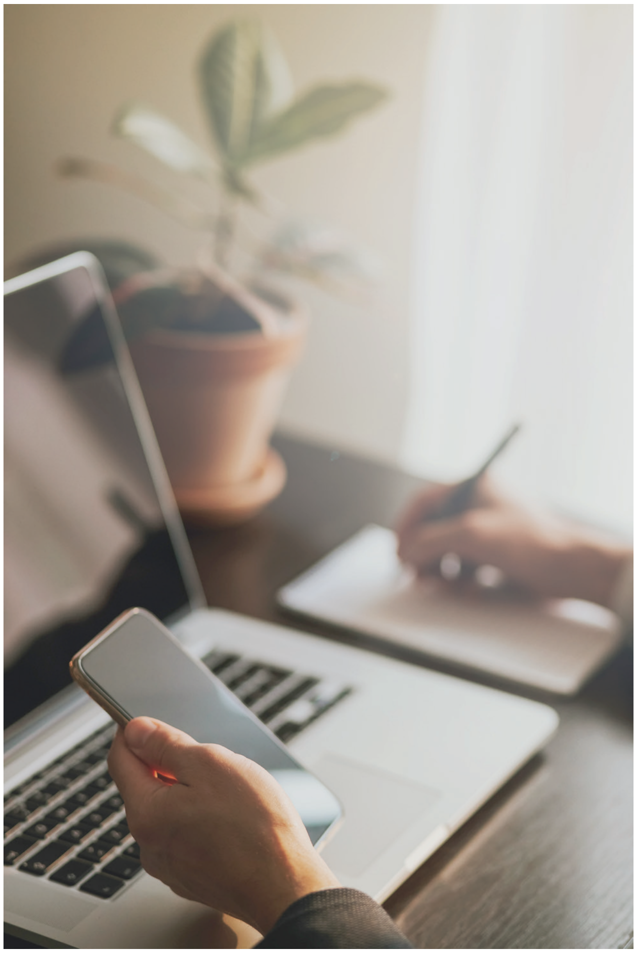
Start implementing these steps today and hang onto more of your hard earned cash!

Strategy #4: Maximize Your Deductions

The strategies that we've covered so far; developing a budget, tracking expenses, and eliminating leakage, all build off one another and are paramount to the success of your business… but even more than that, they really set the table for Strategy #4: Maximizing Your Deductions.

What is a deduction?

A deduction is any legitimate expense you incur while operating your business. These expenses, or deductions, are subtracted from your income on your tax return, which reduces your taxable income and ultimately saves you money because you pay LESS in taxes (paying LESS in taxes sounds good to you, doesn't it?).



Let me ask you a question: Did you start your business strategically, or reactively? In other words, did you plan to start a business or did you fall in love with a product and start talking to others about it (making sales along the way)? If you're in the latter group, you're no different than the vast majority of small businesses I've worked with over the years and that's okay. In most cases you end up developing a business before you realize you actually have one, which means you may be unaware of how business income and expenses actually work.

You see, the money you earn from your small business is self-employment income that you're taxed on and if you're anything like me where taxes are concerned, you want to lower your taxable income as much as humanly possible within the legal confines of our government's current tax structure. If your way of thinking at all lines up with how I see things, you're in luck! There are strategic ways you can do that and it all starts with maximizing your deductible expenses and lowering your taxable income.

If deducting your expenses and reducing your taxable income sounds good, but you still don't fully understand what I am talking about, let me ask you 3 questions:

1.) Do you use your cell phone for business?

2.) How about your computer, tablet, or printer?

3.) Do you mail out post cards or other marketing materials?

Guess what? These are all tax deductible expenses within your business, because they are necessary to the operation of your business. Tax deductible expenses are very important because they decrease your taxable income. To further develop this, here is a list of expenses I incur in my business on a regular basis:

- Paper Expense
- Toner Expense
- Utilities Expense
- Postage Expense
- Envelope Expense
- Computer Expense
- Technology Expense
- Printer/Copier Expense
- Phone/Internet Expense
- Accounting Software Expense
- Repairs & Maintenance Expense
- Food Expense (Really? Food? NO WAY!)

This is by no means an exhaustive list, but it's certainly a good start when it comes to itemizing my business expenses. If you're as skeptical as I can be at times, you may be questioning this (don't worry, I will circle back to FOOD), but I promise that all of this is perfectly legal, moral, and ethical.

You simply need to understand how to make this work to your advantage.

Here's the plain truth, once you start earning income as a self-employed individual, even if it is only a few hundred dollars per month, the IRS allows you to deduct your business operating expenses from the income you earned, which ultimately lowers your net income. Since you're incurring these expenses to operate your business anyway, why not reduce your taxable income in the process? Let me expand on this point further with some examples:

Example One: Cell Phone

I spend a lot of time consulting with clients outside my office and I simply could not run my business without my cell phone. I need to be accessible whether I'm in the office or not, including after hours. This means a majority of my cell phone bill is tax deductible (though I do have to account for a small percentage as personal use). If you're using a cell phone to operate your business, it's a legitimate business expense that you can deduct.

Example Two: Training and Education

Like most businesses, training and education is vital to the success of your business. Therefore, the expenses you incur as you attend training and education events are deductible. This includes registration fees, food and lodging, and other travel related costs such as airfare. This is significant if you were to consider an event such as a national conference which may require you to travel.

Expense:	Amount:
Airfare	$750
Hotel	$500
Event Registration	$500
Food	$250
Total Deductible Expense:	$2,000

While this is merely an example using arbitrary numbers, it clearly demonstrates that this could be a significant expense for your business, but one that is extremely important to your success. In fact for those of you who aren't yet earning a high level of income, the ability to deduct these expenses on your taxes could ultimately be the deciding factor in whether or not you attend the conference.

Example Three: Mileage

Did you know that all of the mileage you incur for business purposes is deductible? If you run your business out of a home office you can start recording mileage as soon as you back out of the driveway, provided you're driving for business purposes. Whether meeting a customer, dropping off products, or traveling for training events, you can deduct your mileage… you just need to keep a record of the miles you drive for business. In the past this practice was cumbersome and required you to keep a notebook in the car to record the starting and ending mileage. Fortunately, technology has simplified this process and there are several FREE cell phone apps, both for iPhone and Android, to track this information for you!

Example Four: Products

If you're marketing any type of product, it's necessary for you to use the products you're promoting in order to sell them effectively. How could you possibly market products, or train others on how to use them, without first-hand knowledge? The easy answer is you can't. It's simply not possible to properly represent a product if you haven't experienced it for yourself. Think of this as Research and Development that's vital to the success of your business. Now you may also use these products as a part of your lifestyle or for wellness, and as such you shouldn't deduct 100% of the expense, but perhaps 50% of your product expense is a reasonable deduction. In fact, I suggest keeping a journal documenting your use of the products over time and the effects/benefits realized in your own life. Not only will this information help you when discussing products with clients, but documenting the process is an important factor in demonstrating the Research and Development you're doing for sales and marketing purposes and qualifying it as tax deductible.

Example Five: Food

I KNOW you're wondering about this one so here's the scoop. If you meet a client to discuss business over coffee or lunch, it's a legitimate business expense and partially deductible (meals & entertainment is usually 50% deductible). In fact, if you meet with a colleague (such as an up-line or down-line if you're a Network Marketer) to discuss marketing and business growth opportunities, it may qualify as "business development", which is 100% deductible.

Example One: Business Expenses Paid After Taxes

Business Expense:	Expense Amount:
Postage	$ 250.00
Office Supplies	$ 750.00
Computer	$ 1,250.00
Marketing	$ 1,500.00
Phone & Internet	$ 1,750.00
Business Development	$ 2,500.00
Business Expense Total:	$ 8,000.00
Small Business Income:	$ 45,000.00
Less Income Taxes:	$ (11,250.00)
Income After Taxes:	$ 33,750.00
Less Business Expenses:	$ (8,000.00)
Your Net Income After Taxes & Expenses:	$ 25,750.00

Example Two: Business Expenses Paid Before Taxes

Business Expense:	Expense Amount:
Postage	$ 250.00
Office Supplies	$ 750.00
Computer	$ 1,250.00
Marketing	$ 1,500.00
Phone & Internet	$ 1,750.00
Business Development	$ 2,500.00
Business Expense Total:	$ 8,000.00
Small Business Income:	$ 45,000.00
Less Business Expenses:	$ (8,000.00)
Income After Taxes:	$ 37,000.00
Less Income Taxes:	$ (9,250.00)
Your Net Income After Taxes & Expenses:	$ 27,750.00

I won't speak for you, but I most certainly prefer the 2nd example that allows me to keep an extra $2,000 in my pocket.

Let me close this section with a few fundamental takeaways:

1.) In order to deduct your business expenses, you must keep receipts for every transaction. If it's an online transaction, print a receipt or have one emailed so you have a record of it. Make notes on each receipt with details regarding what each expense was for (e.g. office supplies, postage, or marketing).

2.) Maximizing your expenses doesn't mean "spend as much as you can because you can deduct it later". At the end of the day, any deductible expense is still an expense that will cost you money. The strategy of maximizing deductible expenses is all about reducing taxable income by deducting all qualified expenses that are necessary for the operation of your business, but always remember that an expense is still an expense.

3.) In addition to standard business deductions, if you work out of your home you qualify for a home office deduction on your taxes. Whether utilizing a den or other spare room, by designating it as an office and using it exclusively for the business operations you're able to deduct the square footage of the room on your taxes. Furthermore, you may also be able to claim a portion of some house-hold expenses such as phone or internet service, but it's extremely important to seek guidance from a qualified tax advisor in order to determine which house-hold expenses you may be able to deduct as well as the best way to categorize them for accounting purposes.

4.) I strongly encourage you to pursue a relationship with a tax advisor who has extensive experience working with small businesses so that you get the best advice possible. Once you have found an advisor that is qualified, I also recommend keeping every single receipt for any transactions that may qualify as a legitimate business expense and allow your advisor to determine whether or not it's relevant.

5.) KEEP RECEIPTS! KEEP RECEIPTS! KEEP RECEIPTS! KEEP RECEIPTS!!!!!!!!!!!!!!!!!!

Strategy #5: Advanced Concepts

As we learned in the previous section, deducting legitimate business expenses is a practice that is freely available to you as a self-employed individual, no matter the size of your company... AND it is critical to the success of your new business to start implementing these tactics immediately... BUT let's not stop there.

Question 1:

What if you could take these strategies further?

Question 2:

What if you could take a trip and deduct a portion of it?

Question 3:

What if you could take your spouse to dinner and deduct it?

Question 4:

What if you could shield some income from self-employment taxes, allowing you to keep more of your hard-earned money?

Guess what? As your business and income grow, it is entirely possible to do just that.

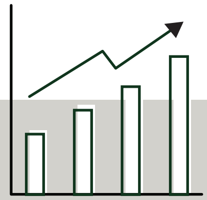
Now before we go too far down this path, let me first say this: Building a successful business usually doesn't happen overnight. Make no mistake about it, you must build a successful business in order to benefit from these advanced concepts.

Success defined can vary greatly from person to person, but I will attempt to provide some context during this section. If your start-up business is generating $3,000 to $4,000 per month (or more) consistently, then these strategies most certainly could benefit you. That said, if you're making less than $3,000 per month it doesn't mean that your business isn't successful. In fact, for those who may be stay-at-home moms or are working full-time jobs, there's great satisfaction in making $300 to $400 per month and by no means are you anything less than successful in your own right. Additionally, you may choose to focus on growing your business in the future and reach a level where these strategies may come into play.

Regardless of where you're at in your business right now, I want to share these concepts with you so that you're fully aware of the available opportunities and you can implement them when the time is right. As I detailed previously in this guide, once your business is making money consistently, month after month, it is important to form an LLC in order to protect your family and personal finances from the many risks and liabilities associated with business ownership. In order to utilize these concepts, you must be operating your business inside an LLC (or Corporation).

Why is an LLC important? In addition to providing you and your family with personal liability protection, the LLC offers greater tax flexibility. I'll detail the liability and risk management aspects in our upcoming Risk Management Guide, but for now I'd like to expand on the tax flexibility component.

When forming a single member (one owner) LLC, the IRS allows you to choose your tax structure. Initially, when income is minimal, it may make the most sense to be taxed as a sole proprietor for the sake of simplicity. However, as the income grows it may be in your best interest to file an s-election with the IRS, opting to be treated as a sub chapter s-corporation for tax purposes. In this scenario you're still an LLC, but the IRS recognizes you as an s-corporation from a tax perspective.



Why is it beneficial to be taxed as an s-corporation? This is where things become interesting because here's where you can start protecting more of your income.

As an s-corporation, you have to pay yourself a fair and reasonable salary to operate the business. This is a variable that could differ quite drastically from situation to situation, but according to current IRS tax regulations the salary you pay yourself to operate the business should be commensurate with what other businesses in your geographical market would pay someone in a similar position.

For argument's sake let's say that a fair and reasonable salary in your market is $50,000 per year, but your business actually generates $80,000 of annual net profit (after all expenses have been paid), leaving you an extra $30,000 to deal with.

You can take the additional $30,000 of income as an owner distribution, which is exempt from self-employment tax (the current SE tax rate is 15.3%), and save almost $4,600 in taxes ($30,000 x 15.3% = $4,590). I cannot speak for you, but I consider that to be a significant amount of money.

AND the best part is this: As you grow your business and see your income increase, the tax savings will continue to MULTIPLY.

I work with many business owners making $150,000 a year, and paying themselves salaries in the range of $75,000 - $90,000 annually, while issuing distributions of $60,000 - $75,000.

If you do the math, 15.3% of $60,000 is $9,180 and 15.3% of $75,000 is $11,475. Imagine saving yourself $9,000 - $10,000 in taxes every year, simply by taking advantage of the provisions in the IRS tax code...

That doesn't sound too bad, does it?

Consult your tax advisor to determine when it will be in your best interest to file the s-election, as well as how much of your income should be salary versus distribution.

While I'm sure you agree that protecting a portion of your income from selfemployment tax is a great thing, there are other tax advantages when operating your LLC as an s-corporation.

As an LLC you have the option of appointing a Board of Governors to oversee the business (this is similar to a Board of Directors in a corporation). For many of you, I'm sure your first thought may be "why have a Board, when my business is just me?" I get it, but hear me out on this one.

Did you know that a Board of Governors or Board of Directors could consist of you and your spouse? And did you know that it is both common, and practical, to conduct Board meetings over dinner at a restaurant?

Guess what? Provided that you discuss business and take "meeting minutes" during your meal, it can be a deductible business expense. Now let me be clear about one thing, I AM NOT suggesting that you go out to dinner 2-3 times a week and write it off. That would be an egregious act of abuse of the IRS tax code and you'd likely fail to survive an audit. However, going out to dinner a couple of times a year and having genuine discussion about the business can be healthy, both for your business and marriage (NOTE: I'm not a marriage counselor and this IS NOT marital advice).

Additionally, if your spouse serves with you on the Board it would be reasonable to schedule an Annual Corporate Retreat and take a trip in order to get away, recharge, and do some strategic planning for your business.

I would not recommend deducting all of the expenses of the trip (again, consult with your tax advisor about this), but you can definitely deduct a portion of the trip for strategic business planning purposes. If you choose to do this, it's critical that you treat it as a legitimate corporate retreat. This means setting aside blocks of time for business review and strategic planning, AND be sure to properly document meetings with comprehensive meeting minutes that detail the decisions that were made.

I have one more advanced concept to share with you, though this strategy is only applicable if your business has grown to the point that you require a business office outside your home. Whether you're currently in this position, or if the business has been growing to the point that you're considering moving the office out of your home, this may be a viable option.

Are you aware that if you own a rental property, whether it be commercial or residential, the income you earn from that property is not considered "earned" income? Instead, this is classified as "rental" income, which is taxed at a lower rate than your standard earned income.

Ultimately, you could form an LLC to purchase office space, move your business into that property, and have your s-corporation pay the rental LLC for leasing the space. This is a legitimate business expense for your s-corporation, and one you'll need to incur anyway if you have to rent office space (this option just happens to provide some tax advantages too).

If your business has grown to the point of needing to lease office space, why not make this work in your favor? Your rental property LLC can purchase a real estate asset and you can benefit by paying rent from your s-corporation to that rental LLC, rather than paying rent to someone else.

This strategy may not be a viable option for most of you at this point, but there are some of you who could be in a position to take advantage of it. For those of you not yet in a position to benefit from it, this gives you a goal to strive for in the future!

At the end of the day, the approaches included in this guide are meant to help you no matter what stage of the business journey you're at. It's by no means an all-inclusive model as there are a number of additional strategies that could benefit your business, but your goal should be to start implementing these concepts TODAY!

These strategies are intended to build off one another and your ability to implement them with focus, diligence and discipline could be a deciding factor in your success. Executed properly, these strategies could lead you to financial independence.

In closing, I've included a summary of the primary takeaways that you can begin implementing into your business right away.

- Develop a budget
- Implement expense tracking
- Regularly review your financials
- Identify, and eliminate, leakage from your business
- Keep all expense receipts and maximize your tax deductions
- Retain a seasoned tax advisor who has experience with small business
- Consult with your tax advisor to determine if and when your business is ready to take advantage of the advanced tax saving concepts
- Treat your business like a business, rather than a hobby, and receive all the financial and tax benefits made available to small businesses

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