

Ditch The Tax Dread:

How to Steer Clear of a \$50,000 tax “oops”

What you'll learn:

- Ninja tricks to **kick paperwork overwhelm** to the curb and get everything organized fast
- **Secrets to feeling smart and empowered** while working with your CPA
- Which questions to ask your CPA (and how to ask them) **so they want to help you** save money
- 3 things to look for in a CPA and bookkeeper (**so you'll actually enjoy working with them!**)
- How to **manage your cash** so you're not financially blindsided by a \$50k tax “oops”
- How to **gracefully navigate all the moving parts** of filing your taxes
- Practical tips & tricks to **get it all done early**, so you can focus on the future

This training workshop offered as a courtesy to current and past clients. Give you some practical tools and approaches to save money, get organized, and manage cash flow.

This is a content rich training. Pick the parts that you need right now, and pass on the rest. Use it as a resource when the time comes.

What I will show you a few ways that a tax oops can happen, and steps you can take to reduce the likelihood of that happening to you.

This foundational level training is for business owners who:

- are new to business
- have been in business for while
- have done their own bookkeeping or tax return
- are using a tax preparer that they don't like
- are using a tax preparer that they do like (or even love)
- are not numbers people/hate math

Nothing in here is specific to any particular industry. However, this presentation is geared to those who have a service business as a coach or consultant. It's meant to be an overview to some sound financial foundations to have an improved experience with getting your taxes done.

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Disclaimer: I'm not offering tax advice. I'm not doing your tax return or providing any tax planning. You will not save \$50K in taxes if you follow the steps I'll go over shortly.

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Strategy #1 – Plan For The Paperwork

In ideal world, all entrepreneurs would be super organized, have all receipts filed each month, use a bookkeeper to record all their transactions and get financial statements by the 15th of each month. (if you're setting goals for next year or even next quarter, this should be one of them).

This is the real world.

Receipts, emails, mileage logs. Home office expenses, travel expenses, stuff with the kids. The paperwork and information will overtake your space (desk, kitchen table, your purse). Looking at it creates stress and overwhelm. And that colors all your other decisions about money and your business. Usual cycle is get overwhelm, worry about how to tackle this giant source of overwhelm, ignore the giant source of overwhelm in favor of the fire of the day. Giant source of overwhelm eventually becomes the fire of the day. And it's a biggie. And all your worrying about it hasn't found a solution to deal with it. It's a nasty cycle.

Let's assume you're in this place. Receipts, statements, invoices all scattered throughout your home, office, car, mind. You're not organized, and you're certainly not ready for tax time.

Get your business info organized:

Step 1 - Gather Information:

- Set the stage for success. Do these steps in the right order to **be efficient with your time**. We're not multi-tasking. We're focused on one task at a time. Taking a page out of "The Life Changing Magic Of Tidying Up" by Marie Kondo. For each step, commit to only doing that step. Commit to not getting side tracked by a shiny object or a forgotten to-do. Make a note of anything you remember, write it down, and keep going with this process.
- **Tools:** get a shoebox or file folder to hold your business receipts. Possibly get another 2-3 to corral other things that come your way. Business receipts, home office receipts, other tax receipts.
- **Find every paper receipt** related to your business. Look in the kitchen, the office, your purse, briefcase, tablet case, notebooks, journals, desk, car, kids' rooms. (1 hour)
- **Do not look for anything else.** Do not sort anything else. Tunnel vision, only looking for paper related to taxes. **Time-saving strategy:** Ever notice how it's easier to unload the dishwasher when you take out all the cups, all the plasticware, all the lids, all the spatulas. When you unload each group, you only see one group at a time. Use less mental energy (not sorting, just finding) and less physical energy (only one trip to store the cups).
- **Find every electronic receipt.** Create a subfolder called "Tax Receipts." Do a wordsearch in your email inbox for "receipt" "invoice" "bill" or "statement" File all these emails into "Tax Receipts" folder you just setup.

Step 2 – Make It Manageable

- If you're using QB:
 - Setup a Shoeboxed account. Send all your paper receipts to them to scan in. Be aware of monthly limits for documents you send. \$10 - \$30 per month. You'll get an electronic image of the receipts. You can export everything into excel. Data summarizing is done for you! This gets a handle on the paperwork.
- If you're not using QB, just using excel:
 - Setup a Shoeboxed account: Get their exec package, \$100/month. Send all your paper receipts to them to scan in. You'll get an electronic image of the receipts. You can export everything into excel. Data summarizing is done for you! You can use this excel sheet as your starting point for creating financial statements to give to your CPA. Once you're caught up, downgrade your subscription to the right level for you.
- Notes on Shoeboxed:
 - Don't send your bank or credit card statements as your account numbers are listed in full. Keep your info confidential.
- Keep all receipts. Having a record of your expense (like a credit card statement) is not enough. If it comes to an audit, the IRS needs to see what you purchased to make sure it's a valid business expense. So they need the receipt. Keep them filed electronically with Shoeboxed.

Quick side bar/soap box about your checking accounts!

Your business checking accounts should be used only for business expenses.

Your business credit card accounts should only be used for business expenses.

Why this matters: During an audit, the IRS has more questions for you if you mix your business spending between the 2 accounts. The IRS looks for deductions (and income).

For your reference, tax deductible items include:

- Valid business expenses - consultants, contractors, office expenses, business meals, business travel
- Interest on business loans and credit cards
- Home office expenses - utilities, rent/mortgage, etc.
- For C and S-Corporations - Salary that you pay yourself

Items that are not tax deductible include:

- Personal expenses (groceries, household supplies, vacations)
- Interest on personal credit cards
- For sole proprietors & LLCs being taxed as sole-props - Salary (or Owner's Draw) that you pay yourself.

Mixing business & personal spending in the same account muddies the waters. You can't tell how much cash or profit your business actually has.

Business Building Strategy: Looking to grow your business revenue? Looking to expand your team (and pay for them)? Set the stage for success. Separate your spending into separate accounts.

Step 3 – Make It Useful (Creating Financial Statements)

- Best bet - Get your info into Quickbooks. Use a bookkeeper (who knows what a debit and a credit is) who's familiar with your industry. Avoid bookkeepers in the family if you can. If they're doing it for free, their paying clients usually come first.
- Decent bet - Create financial statements in Excel. Outsource your data consolidating efforts - relative, teenager, VA, intern. Have them combine or cross reference the receipts from Shoeboxed with the electronic receipts and bank statements. Be sure to protect your account numbers. Make sure it's somebody you trust. You may have to download statements from the bank yourself, then provide the statements for somebody else to make sense of.
- Bad bet - give a pile of \$%&# to your tax preparer on April 14 (or any date). A pile of \$%&# tells you, the world, and your tax preparer that you don't care about having a financially healthy business. No judgment here. But if you're trying to make money, grow your money, you must pay attention to this step.

Important Info For Tax Time

Not an exhaustive list or a guaranteed tax deduction. But here's a place to start. To make tax time easier, pull together this information as soon as possible.

Business:

- Business expenses - covered above
- Business mileage - picking up office supplies, driving to a client meeting, conference, airport, post office. Start with your list of receipts (they're all dated) and track the mileage from home office to destination and back. Take pic of car odometer on Jan 1 each year so you have beginning and ending mileage.
- Home office deduction - rent/mortgage, utility bills (phone/internet, cellphone & data plans, electric, gas, oil), home repairs, landscaping, snow removal, housekeeper. A portion of these expenses may be deductible. Borrow a teenager to enter everything into Excel for an hour.
- Tax installments paid to IRS or state for income taxes

Personal:

- Note any

Strategy #2 – Plan For The Tax Process

Tax time can be intimidating. There's all the paperwork to organize & summarize. And then there's the meeting. With the CPA. With the tax expert. Who's great at finding deductions. But not so great at making you comfortable with the whole process.

Many tax folks are super smart. The minutia and forms and technical details have you running for cover? They love it. And they can easily forget that you don't love it. That you're in fact terrified of all that. They may not pick up on - or could just ignore - the fact that you're uncomfortable. Because you're an excellent coach or consultant, but you feel in the dark about this ambiguous thing called taxes. It's usually your biggest single business expense. And you don't understand it.

What's a business owner to do?

Step 1 – Get a 15 Month Head Start

Preventing a sizable tax "oops" begins 15 months before you file your tax return. The process can be broken into three steps – paying taxes, saving taxes, and finalizing taxes.

Paying Taxes

- Begins Jan 2015 - set aside tax dollars into a separate checking account that is only used for taxes
- Quarterly installments to IRS/DOR April, June, Sept, Jan
- **Beware:** If you don't set aside the tax dollars as you generate revenue each month, you will have a very difficult time finding it when your tax return is due!

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Saving Taxes/Preventing Tax "Oops"

- Talk with your CPA 2-3x before tax time
- Tax planning with your CPA in Q4
- Year end meeting in Q4
- **This step is crucial** to preventing a nasty tax surprise that could wipe out your savings. Talk with your CPA often to be sure you understand your tax liability. This information will then color your business decisions about sales, spending and so on. It's a lot easier to come up with cash when you know how much and you have time to create it.

Finalizing Taxes

- Give CPA your books in Q1 2016
- CPA does your tax return – agreed upon timeline & pricing April 15, 2016
- This final step is what most entrepreneurs *think* their tax process entails. If you skip the first two steps (paying taxes and meeting with your CPA to save taxes), you increase your likelihood of a nasty tax surprise that you can't afford.

Step 2 – Work With Your CPA

Get to know your CPA

- They want to help you!
- Detail questions – perfectionist or accuracy?
- Accuracy sometimes trumps materiality
- Feel free to enforce materiality
- CPAs are technical & detail oriented
- Your money is simply a number to them

A few notes on communicating with CPAs. Many are perfectionists. Like to dot the Is. Cross the Ts. It can be maddening for everybody else.

- They may ask questions that might seem silly or overkill. Some tax forms have Y or N questions which the IRS uses to help flag returns for audit. Ask if their question has to do with reducing the risk of audit, or just making sure that you're not missing out on deductions.
- If we assume a 30% tax rate (yours will likely be different), consider how each request for information will impact your tax balance. Finding a deduction of \$1,000 could save you \$300 in taxes. Finding a deduction of \$500 could save you \$150. Based on the timeline, quality of information that's available, you may decide to pass on chasing smaller deductions (think of auto excise tax of \$100 that's deductible on Schedule A) and focus instead on making sure your largest deductions are airtight - mortgage expense, business expenses, etc.
- Don't forget to ask your CPA how much money you could save by finding certain deductions. Use your time and their time wisely.

Communication Misfire:

(an actual email from a CPA to my client's husband):

Hi Bob,

I need to speak with Sue before I complete your returns regarding her expenses for her business. They are **uncomfortably high** for the small amount of income she made and **will surely trigger an audit**. I want to make that clear before I proceed.

Have a good day,

Erica

Talk about throwing a grenade over the fence and running!

How to respond to this misfire

- Deep breath (or 20). Get calm.
- Pick up phone when calm.
- Ask:
 - What number is “too high”
 - What would an audit mean for us? Time? Fees?
 - What should we do differently going forward?
- Remind CPA that you’d prefer a phone call for this type of news. (you’ll talk about your preferred communication strategy in your Q4 meeting)
- Remind yourself that she’s working 60+ hours a week, she’s tired, and possibly not communicating at her best. A little compassion goes a long way.

Communicate Regularly

- Be a good client - give them what they need
 - Good information
 - Timely responses
- Ask questions – big expenses, loans, hiring, firing
- Plan ahead – talk before you cut the check
- CPAs see dozens to hundreds of businesses each year. They are experts! Use them!

Find a great CPA (that will have your back):

Referral from business owners

Google “non judgmental CPA in (your town)”

- How have they told a client that they unexpectedly owed \$10,000?
 - Look for insight about their comfort with this question.
 - Look for how they say they treat their clients when their clients might go into panic or flight mode.
- How do they deal with clients that are embarrassed about their financial results? Debt, business losses, bad business decisions?
 - Are they sensitive to how much emotion money brings up for people (shame, doubt, fear)?
 - Are they willing to help navigate their clients through a tough time?
 - Do they provide any type of education or expertise to prevent this from happening next year?

Ask them:

- Are they familiar with your industry, your personal situation, where you live & do business? They need the technical chops to do the work.
- How proactive are they with identifying problems & solutions (and following up so you save money)

Step 3 – Feeling Smart With Your CPA

The 4th quarter is tax planning time. (**Money saving tip - this is where you PREVENT the \$10k tax surprise**).

So it's time to setup a meeting w/ CPA. Give yourself some time to mentally prepare for the meeting. That's what this section is all about.

When you know what to ask (and why they need to know), you'll enter the meeting with confidence.

Think about and summarize the answers to these questions before the meeting. It will ground you, and you won't be surprised when they ask you questions about these things. Your goal is to leave the meeting with your questions answered (and be able to answer their questions as much as possible).

Things to ponder prior:

- Any changes that happened personally - moved, married, divorced, baby, adoption, change in health, purchased real estate, changed jobs, sold stocks. Don't forget to include your spouse's activities in this process.
- Any changes that happened for your business - big change in income or losses from last year, business partner, new business, big loans taken or paid off, hiring people, using contractors, using out of state (or international) contractors or employees, changing entity types
- What makes you anxious about the tax process - getting an audit, making an unexpected large tax payment, not having the money, etc.
- Have current financials or a good estimate of your profit & loss statement for the year
- Have an estimate of revenue and expenses through the end of the year.
- Big business growth planned? Let them know the revenue and profit projections for the next year. They can use it to tell when to spend the money (in the current year or next year).
- Any notices that you've received from IRS or state agencies

Agenda for the meeting (they can add their own, but you should include these as a start)

- **Your biggest concerns** about taxes. List your fears here. Example: How to safeguard against and audit, how to be prepared for an audit, where to find the cash for an unexpected payment.
 - Let them know up-front what your concerns are and that you'd like their help. This gives them a chance to not only help you with taxes (which they would do anyway), but helps you feel more comfortable and in control with the process.
- **What's changed** - personal & business
 - During the meeting, fill them in on the biggest changes to income, household members, where you live, where you work and assets you purchased or sold. They'll then ask more questions to see how it could impact your taxes.
 - Be sure to ask what additional info you need to provide so you can pull it together as soon as possible.

- **What's on the horizon?**
 - If you're considering converting your LLC from being taxed as a sole-prop to an S-corp, it needs to be done by 3/15 the following year.
 - Talk about hiring, firing, expansion, contraction of different areas of your business
 - What improvements or changes do they recommend you have in place as of 1/1 next year, so you don't have to backtrack later in the year (it will make next year's tax return much easier, and you'll feel more in control of the whole process because you're informed about the pitfalls of doing things the wrong way).
 - If they do a tax projection for you, ask what needs to change in the coming year. If you consistently get big refunds, you're likely paying in too much thru estimated payments or wage withholding (for you or your spouse).

- **How can we make it painless or even enjoyable?**
 - Communication strategy - what's the best way for you to provide information and answer questions? What's the best way for them to ask questions? Phone, email, secure online storage portal?
 - Identify preferences so that you can speed up the question answering. They like email, you like phone.
 - It's helpful ask for a deadline in communications (please let me know you got this by 5 PM today, or can you let me know when I can expect that information by?)
 - Let them know when is a good time and bad time to call. Ex: Don't call after 10 PM. Don't call during 8-5 because I'm at work.
 - The state of the information - do they recommend you get certain things organized more quickly (so it's easier for them to help you faster?)

- **Timing**
 - Form 1099 (due by 1/31)
 - Tax returns - when do they need your personal and business info by
 - Tax returns - when can you expect them to be done (assuming you're responsive)
 - Any known travel dates where you can't sign a return or quickly respond to their questions?
 - Any circumstances in which they'll automatically extend your return? If so, when can you expect to get the return to be done?

- **Any tax planning opportunities before December 31?**
 - Based on your current and next year income projections, there may be tax saving ideas that should be implemented by 12/31. You'll never know if you don't ask.

- **Questions about the engagement letter**
 - Tax preparation is complex. Not only is a lot of your money at stake, the CPAs professional reputation is on the line when they work with you. If they don't follow the rules, take bogus deductions, etc, they could ultimately lose their licence to practice.

There's a lot of grey area in tax, and certain positions may need to be taken. The engagement letter spells out what they will and won't do for you. They will prepare your tax return, they will charge you \$___, they will rely on your information, they are NOT responsible for identifying fraud, etc. Engagement letters are long and tedious and also mandated by the liability insurance companies.

- Ask for the highlight reel of the engagement letter. Ask follow up questions to be sure you understand what's at stake.

Strategy #3 – Plan For The Payments

Cash is king. And unexpectedly parting with it? It hurts. Especially for taxes. There's no ROI. No, if I work with this coach for a year for \$20k, I'm going to make \$100k. Nope, paying taxes feels like money down the drain.

Cash Flow Nightmare?

Many new and experienced business owners unknowingly fall into the tax payment traps. Any one of these can leave you in a cash flow pickle.

- Not paying estimated taxes (usually this happens with big growth in taxable income from year to year, or business converts from a tax loss to a taxable income)
- Assuming there's little to no profit, so there little to no tax will be owed
- Not setting aside money for taxes each month

Step 1 – Know Your Cash Outflows

Cash is needed for ALL these items:

- Business expenses
- Salary
- Debt paydown
- Profit distribution
- Taxes

If all your cash is going only to some of these uses, a cash flow crunch is imminent. **Check out the examples in excel** to see how you could get in (and get out of) a cash flow nightmare.

Step 2 – Know Your Revenue Target

Cash is needed to cover not just business expenses, but taxes, debt paydown, your salary. **Use the excel template (tab 3)** to calculate how much cash is actually needed.

Use this number to revise your revenue target and get more cash before you need it.

Step 3 – Fixing Cash Flow

When you find out you need to pay \$10,000 or \$50,000 in extra taxes – and you don't have the money – it's easy to freak out.

Take a deep breath. Maybe 10

Remind yourself - you're in control here. Tax dollars are not owed until 4/15 for your personal return.

Talk with your CPA about how much you can expect to owe. Based on tax underpayments, you may have to pay a penalty or interest. Remind yourself that this is not the end of the world (and remind your CPA of that as well).

This is good news. Because you're finding out about it in a way that gives you a chance to control the outcome.

Come up with a cash flow plan that will give you the cash you need by 4/15. Launch a new product earlier than you thought. Change the pricing of an offer. Tweak it so that you have several new offers based on work you've already done.

Write down how this happened - how your business made money, how your business spent money, what worked, what didn't work, what you'll do differently.

Decide how you'll handle money and taxes differently next year. Could be getting a bookkeeper, using QB, regularly planning your cash flow so you're in control. Paying in your estimated tax payments earlier. Setting up the separate tax savings account. Paying yourself and paying down your debt in a way that still takes care of you.

Wrap up:

- What actions will you take?
- What's a 5 minute action you can take to move yourself forward along this process?
- What will you commit to doing differently next year?

About Wendy:

Wendy Sabin, CPA helps coaches and consultants increase profits and create positive cash flow so they can pay themselves more. As a profit advisor and CFO-for-hire, she has helped dozens of business owners nail their pricing and cash flow, helping them turn around negative profits and increase their take home pay. She combines her non-judgmental approach to money with her big business finance chops. Wendy shows her clients how to pay themselves while they strategically grow their business to 6- or multiple 6-figures. She lives with her family on Boston's beautiful North Shore.

