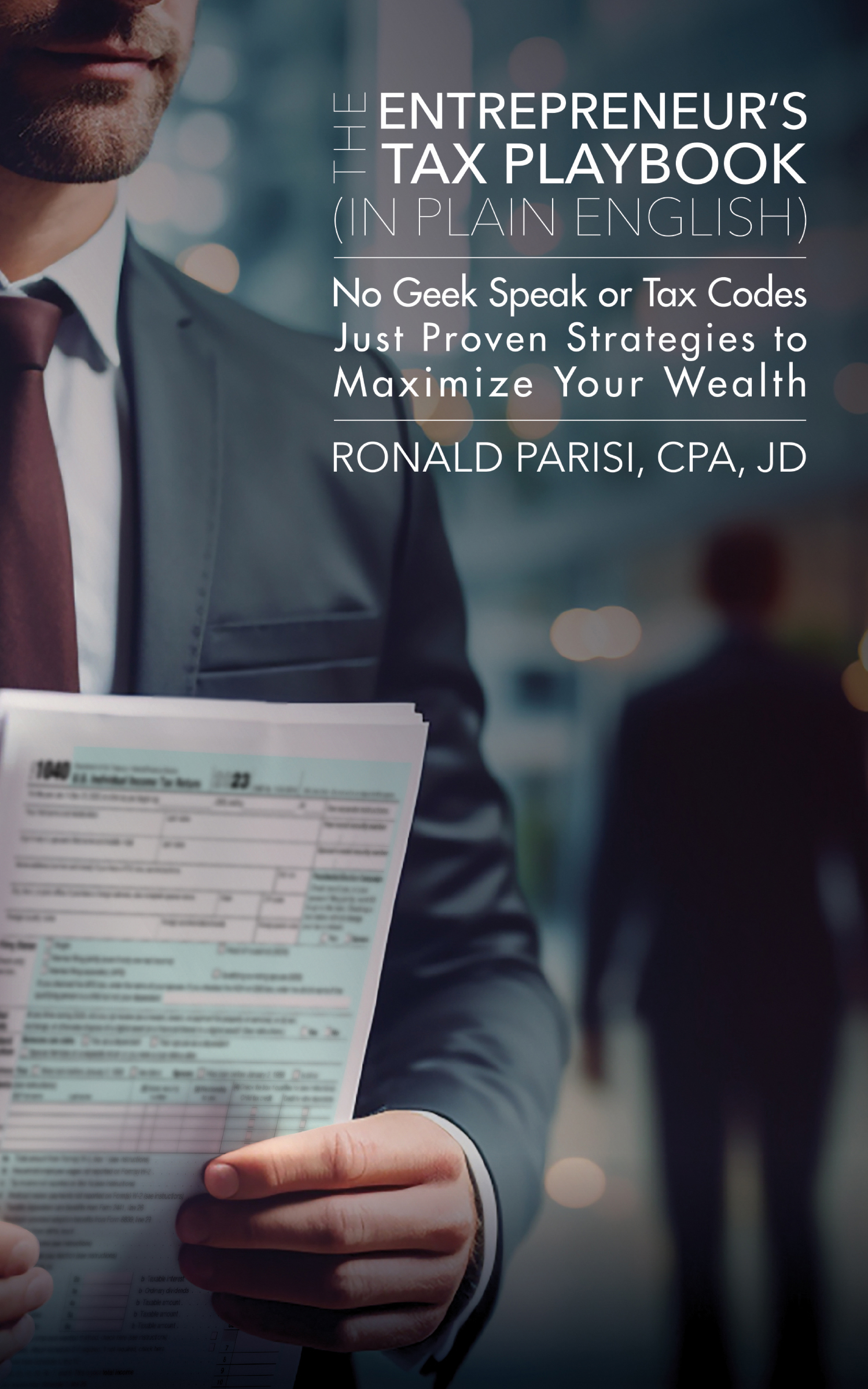
THE ENTREPRENEUR'S TAX PLAYBOOK (IN PLAIN ENGLISH)

No Geek Speak or Tax Codes Just Proven Strategies to Maximize Your Wealth

RONALD PARISI, CPA, JD



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FOREWORD

I've been in the tax game for over 20 years. Yep, two decades of diving deep into the tax maze, decoding the ever-changing tax rules, and helping clients make sense of it all. So, when I came across Ron Parisi's book, it felt like someone had just opened a window in a stuffy room. And let me tell ya, the breath of fresh air was much needed!

Now, don't get me wrong, Ron's not trying to reinvent the wheel here. In fact, what he brings to the table is grounded in common sense. But here's the twist – it's the kind of sense that's been overlooked by so many in our field for so long. Instead of going with the flow and sticking to the traditional, often confusing, ways of thinking about taxes, Ron's gone and thrown in a fresh perspective. It's like he took a step back, looked at the bigger picture, and said, "Hey, why are we making this so complicated?"

One thing I genuinely loved about the book? The realness. Ron's not just throwing tax jargon at you. He shares stories, like the one about Cindy, that show what happens when you don't plan ahead. We've all been there, right? A surprise tax bill, a last-minute scramble – it's the stuff of nightmares for entrepreneurs. But through Ron's guidance, you'll see there's a better way to do things.

Plus, his casual, straight-to-the-point approach makes you feel like you're having a coffee chat with a buddy who happens to know a ton about taxes. He's on a mission to help entrepreneurs, especially those in the tricky phase of growing their businesses. Whether you're an entrepreneur yourself or someone like me, deep in the tax world, there's a nugget (or ten) in here for you.

This isn't just another tax book. It's a friendly nudge, a reminder that sometimes, common sense and a fresh outlook can make all the difference.

Tim Cistone
Bottomline CPA
Dublin, OH

CONTENTS

INTRODUCTION

I have to begin this book with some words of admiration: I applaud your commitment to your business's financial health and to building your personal wealth. Your dedication is impressive! I mean, it's so strong that you've picked up a book on *taxes*. And very few people—even among growth-obsessed entrepreneurs like you—enjoy reading (or even thinking) about taxes.

So, kudos to you.

Next, I want to make some promises: In this book, I'll keep things concise and to-the-point. We won't be getting lost in a jungle of esoteric tax codes, and we won't be charting a dangerous path through risky tax schemes. Rather, I'll be serving as your expert guide through the business tax landscape. Along the way, I'll point out dangers and misconceptions to avoid, and I'll show you some tried-and-true routes to financial success and maximum wealth.

One thing there won't be? Shortcuts. As we'll discuss, tax planning requires dynamic long-term thinking.

This book is about navigating your taxes with the right (and, of course, always legal) strategies and—equally as important—the right mindset.

Knowing Me, Knowing You

For those of you who've picked up this book after reading *Financial Superpowers*, the first book in this series, welcome back. For those of you who are meeting me for the first time, allow me to introduce myself. I'm an entrepreneur who's also had a fast-track corporate career in finance, and I'm the CEO of CPA On Fire, a financial advisory company that specializes in working with high-performing entrepreneurs and growing businesses. I created a system called "The Entrepreneur's Business Wealth Maximizer Methodology" to help entrepreneurs and business owners like you grow their wealth.

That's because I understand where you are (or where you soon hope to be) and what you need: You're a CEO/founder with a small privately held business (or maybe two or three businesses) with annual revenue in the area of $1 million to $10 million. You're looking for VC funding, or thinking about an exit, or perhaps looking for new ways to build your wealth. With only a handful of employees, you probably don't have a CFO. Maybe you have a controller, maybe you work with a CPA firm, or maybe you have a bookkeeper. But as far as tax strategy, you're figuring a lot out on your own—a huge pain point, and the source of a lot of stress, because the more your wealth grows, the more tax "surprises" you encounter.

And it's very likely that you're going about your taxes all wrong—and putting your personal wealth at risk.

Thinking Differently about Taxes

Taxes are going to be your number one expense over the course of your lifetime. If you look back at your past tax-time behavior with this idea in mind, you may already be seeing some errors in the way you think about them.

I work frequently with entrepreneurs, and they typically fall into one of three mindset categories:

1. They're totally winging it—their tax bills are always larger than they expect, they don't know whether they're fully compliant with tax laws and regulations, and the thought of an audit is intensely terrifying. (This haphazard approach will likely lead to substantial tax liabilities.)

2. They're making a minimal effort—they're doing some planning, but only in the short term, and their focus is on taking the maximum possible deductions on this year's taxes. They're the kind of people you often see buying a big-ticket item like a Tesla on December 15, to get the bonus depreciation—not a good tactic, as we'll discuss later. (This focus on immediate returns will likely lead to a higher tax burden in the long run.)

3. They're on the right track—they have long-term tax strategies in place, they have a clear view into the future, and they're making realistic but flexible plans to build their business or businesses and grow their wealth. (This is where I want to get you.)

Let's consider an example—we'll call her Cindy. She's been working very hard on her business for three years. She held steady for the first two years, but in the third year, her company's profitability and revenues really took off. But that year, Cindy did what she'd always done with profits: She reinvested them into her business, without considering the tax implications. In late February, as usual, she gave her tax preparer all the previous year's paperwork.

In April, her tax professional let her know that she had a significant tax liability for the previous year.

Caught completely off guard, Cindy was forced to make difficult sacrifices in order to pay her tax bill, and those sacrifices affected her company's ability to grow (and had a deleterious effect on her personal wealth as well).

I see this kind of thing all the time. A lack of long-term planning has led Cindy seriously astray.

Having a multiple-year tax strategy is crucial because the business environment (and tax law) is always changing. And as I discussed in my book *Financial Superpowers*, having a clear view of your business's current performance (by tracking the right metrics) is also key. If you can't clearly see where you are in relation to where want to go, you won't know how to correct course when something unexpected shows up in your path.

Charting the Road Ahead

I wrote this book with business owners and entrepreneurs like you in mind, because your needs when it comes to taxes are unique. I hope that when you finish reading it, you will be better equipped to map out your tax journey. We'll discuss the importance of understanding progressive taxation, the pitfalls of appreciation and depreciation, how to "think like a rich person," how to identify a competent tax preparer (they are definitely not all created equal), and the right (and wrong) ways to think about tax-preparation software.

I look forward to taking these next steps with you on your path to becoming an empowered, financially savvy entrepreneur.

“I have lived by one crucial principle since I was 24 years old. I don’t blame or complain about things like the economy, the government, taxes, employees, gas prices, or any of the external things that I don’t have control over. The only thing I have control over is my response to these things.”

JACK CANFIELD

TAX POP QUIZ

Hey Entrepreneur,

This book **will NOT help you with your taxes *whatsoever***, unless, of course one of these scenarios applies to you:

1. You're feeling lost in the maze of your company's finances and tax rules. You wish you had a GPS to quickly maneuver you through the dry boring tax codes and distill everything down into what works for your personal and professional situation.

2. You have that sinking feeling that you're missing out on some stealth tax savings strategies that are already known to most of the world's most successful entrepreneurs, but for whatever reason have been kept hidden from you.

3. You hate surprise tax bills. You would rather be getting a root canal at your dentist's office than

a letter from the IRS telling you that not only do you owe them more money, but that your interest is accruing interest.

4. You've been in survival mode during tax time, pushing for the biggest deductions without feeling tax optimized. You're not sure how to change that.

5. You're a true entrepreneur, with the scars to prove it. You know your business can go much, *much* further, but you need a handle on financial and tax strategy.

6. You're tired of Googling tax questions without finding real expert advice...yet.

Still reading? Great – let's dive in!

"Like mothers, taxes are often misunderstood, but seldom forgotten."

LORD BRAMWELL

CHAPTER ONE

UNDERSTANDING THE PHASES OF YOUR BUSINESS'S LIFE

"What lies behind us, and what lies before us, are tiny matters compared to what lies within us."

—Ralph Waldo Emerson

When you own a small or growing business, taxes can start to get unpleasantly complex, right? But if you look at this situation another way, one of the *joys* of being a business owner is that you have a lot more flexibility—and many more opportunities, such as business credits and business deductions—when it comes to managing your tax liability.

A business typically has five phases of life—and note that when I say this, I mean *all* businesses, whether we're talking about a hot Silicon Valley tech startup or a small family business in rural Indiana. Each phase of life has different needs and opportunities when it comes to tax planning.

Startup → **Growth** → **Hypergrowth** → **Stability** → **Cashing Out**

It's important to match your tax strategy with the phase of life that your business is in, as well as to consider the optimal structure for your business as it grows—from an LLC (Schedule C) to an S-Corp (better for smaller, domestic businesses), and then to a C-Corp (better for larger companies, because C-Corps allow for more flexibility when it comes to ownership and profit distribution) or a partnership. Each structure has different advantages and benefits that are well suited to different stages.

- **Phase One—Startup:** For businesses in this phase, cash is generally tight. You're not making a lot of profit, so there's not a lot of taxable income.

- **Phase Two—Growth:** When your business is in this phase, you're just carefully putting one foot in front of the other. A bit of cash is coming in, but you're investing any money that you make back into the business. As in the first phase, there's not a lot of profitability and therefore not a lot of taxable income.

- **Phase Three—Hypergrowth:** The third phase begins when your business really finds its groove—when you've found your place in the market. Customers understand you, they like you, and they're buying from you. So, suddenly you have surplus cash—during this phase, revenue is increasing at an exponential rate. This is when you start looking for opportunities: Maybe you're expanding your real estate portfolio and are buying a commercial building or an event space. In this phase and the one that follows—when you have surplus cash—tax planning becomes very important. Many more strategies become available to you because you don't need to use all your cash just to keep your business alive.

- **Phase Four—Stability:** For a business in this phase, cash flow becomes predictable. You're continuing to grow, but at a steadier rate for which you can project and plan. Of all the phases, this one is perhaps the most important in terms of tax planning. Because your cash flow is relatively predictable, you can start making longer-term strategic plans.

- **Phase Five—Cashing Out:** When you reach this stage of your business, a next step is typically looking at a couple of different paths: If you want to stay involved in the business, you think about VC financing; if you don't, you start thinking about selling your company.

I'll reiterate—all businesses go through these phases, and knowing which one your business is in will help you maximize profits and your own personal wealth.

Imagine someone who's just taken over a small but profitable family plumbing business that has been operating smoothly for thirty years. They think of it as "the family business," and they run it as it has always been run and have their taxes done by the same family friend who's always done them. But if they look at this plumbing business as a company in the fourth phase of its life, new tax strategy opportunities may become apparent.

The purpose of the book is to raise awareness about the possibilities available to business owners like you. This is not a DIY tax-preparation manual—and by the way, be very wary of those! Instead, I want this book to help you think about your business in a different way, so you can approach your finances strategically and with the right mindset.

Think Like a Wealthy Person

Short-term thinking is one of the biggest mistakes I see entrepreneurs and business owners make—they act as if the primary goal of tax planning is to maximize their deductions every year. What they *should* be doing is maximizing legal tax advantages that align with their business goals (and personal wealth goals).

In other words, they should be thinking like a rich person.

Before CPA On Fire, I worked at a Big Four accounting firm and assisted some of the wealthiest people in the world with their finances—I'm talking about people with substantial wealth going back generations. Seeing what they do and how they think informs how

I work with entrepreneurs and help them bring their own wealth to another level.

Wealthy people think about the long game. The typical business owner looks only into the near future (or worse, only in the rearview mirror).

The mistake those business owners make is thinking, "I just want to minimize this year's tax bill in any way possible." But if they look just a few years out, maybe they'll see that a little pain this year could lead to larger rewards down the line. Just as an example, we're potentially talking about the difference between taking advantage of every possible bonus and depreciation this year and getting a 10 percent tax break on a new piece of equipment—and spreading out the depreciation over three years and getting a 37 percent tax break on it instead.

To make decisions like this, you need to understand the options available to you—and many traditional tax preparers are not going to help you do that. They're looking at a $100,000 business expense, and instead of saving you $37,000 dollars over three years, they're automatically going to save you $10,000 right now.

Let's consider a business owner we'll call Mike. Mike owns a specialty manufacturing company that makes parts for electric vehicles. He's in something of a niche market, but he's having a very good year. Unexpectedly, a big order comes in for which he needs a new CAD machine. The machine costs $300,000, but he doesn't have the cash on hand, so he puts 50 percent down and takes out a loan from an unconventional lender with super high interest rates for the rest. Now, with an investment that large, most business owners (and tax preparers) are going to be looking for an immediate deduction. But Mike is doing well, and this big order is proof of that. So, he needs to ask himself, "Is there a longer-term tax strategy that will have a better impact on my business and on my personal wealth?"

Think of all you've built with your company—think of the blood, sweat, and tears you've invested, the countless and priceless hours. By that measure, your company is already worth a fortune. So, it's time to think like a wealthy person and maximize your company's value by paying close attention to its biggest expense.

In the next chapter, we'll talk more about thinking like a rich person—and playing the long game when it comes to your taxes.

“Philosophy teaches a man that he can’t take it with him; taxes teach him he can’t leave it behind either.”

MIGNON MCLAUGHLIN

CHAPTER TWO

PLAYING THE LONG GAME

"Plans are nothing; planning is everything."

—Dwight D. Eisenhower

Rich people strategize their wealth building over years—generations, even. Therefore, it only makes sense: If you want to be rich, you need to do the same thing.

And planning your taxes over multiple years is part of that longer-term thinking. The overarching goal is to reduce your tax liability by planning over a span of time, rather than just taking the most advantageous deductions when you file your taxes every April.

For instance, as you're working with your tax preparer, you should be able to ask them, as you look at each deduction, "Might there be a greater tax savings or a lower liability if we make this deduction next year or the year after?”

From growth to hypergrowth to stability, you need to look for the various strategies that will be available to you at each of your business’s phases.

Now, there are lots of differences in tax codes from state to state (and things change from year to year as well), so I’m talking about a mindset more than I’m talking about particulars. Just keep in mind that the behaviors that got your business to $1 or $2 million in revenue are probably not going to take it to the next level.

Marginal Tax Rates vs. Effective Tax Rates

Many small business owners understand their marginal tax rates. This is the tax rate that’s applied to each dollar earned: For instance, if your business’s tax rate is 25 percent and you earn $10,000, your marginal tax obligation is $2,500.

But when you're doing long-term planning for taxes, you should also be considering your effective tax rate—the amount you expect to actually pay.

For instance, if a small business has a total income of $100,000 and ends up paying $20,000 in taxes, their effective tax rate is 20 percent (even though their marginal tax rate might be 25 percent). The effective tax rate is a more comprehensive view of a business's tax liability, as it takes into account the effects of various tax strategies and deductions on the amount paid in taxes.

Depreciation

We'll talk more about allowed and allowable depreciation in a later chapter, but I also wanted to bring it up here, because ignorance of this concept can really bite you in the … well, let's say it can bite you in the wallet.

Depreciation is a type of annual tax deduction that allows you to recover financial losses due to deterioration or obsolescence of property or other assets—such as machinery.

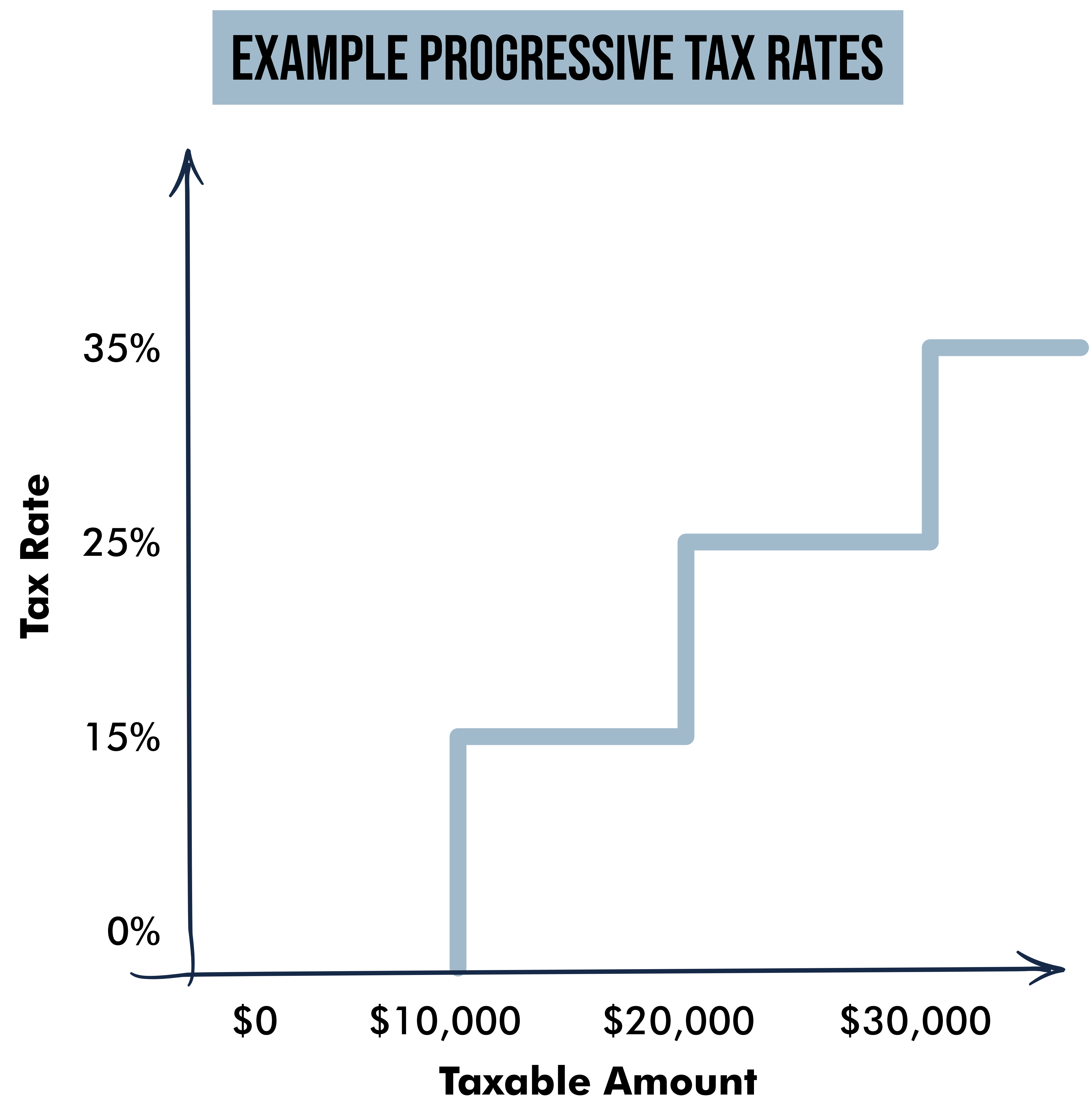
Remember Mike, the specialty manufacturer from the last chapter? He bought a CAD machine for $300,000, but after three years of wear and tear, it will be worth a lot less than that, and he can claim the difference in value on his taxes.

As a business owner, you're allowed to claim depreciation on certain assets when you file your taxes—and if you *don't* claim depreciation in a year in which you are allowed to do so, you can't claim it the following year. It's complex, and as I say, we'll come back to depreciation later. For now, just know that whether you take the deduction or not, the IRS is going to view it as having been taken. There's no turning back the clock.

Progressive Tax Rates

Another thing you need to understand when you think about playing the long game is progressive tax rates—basically, as you make more money, your tax rates increase. So as your business becomes more successful (in other words, as it enters the third phase of life, hypergrowth), you run the risk of being surprised by a hefty tax bill if you're not planning ahead.

For instance, say you habitually put aside 20 percent of your profits to cover taxes—after a year of hypergrowth, your tax liability could be closer to 35% or 40%, or even higher. It's important to always be conscious of how your business is performing and what those thresholds for higher tax rates currently are.



Plus, other taxes may start kicking in as your business becomes more successful—so without planning ahead, you could end up paying more than 50 percent of your business income in taxes. Today, in year two, your business may be at a 24 percent rate—but keep in mind that in year four, it might be in the 50 percent bracket. So, what are you doing today to make sure that you're not reporting all taxable income in year four, when you're in that higher tax bracket?

This is why you make a plan: You have to balance today's cash needs (fulfilling orders, paying employees, and so on) with your future expectations.

Do the Work Now, Pay Less Later

Saving on your taxes takes discipline. For instance, say you want to take advantage of the Augusta rule. Otherwise known as Section 280A, this IRS rule allows you to rent your home back to your business for up to fourteen days in a calendar year without being taxed on the rental income. Good deal, right? But to take advantage of this legal loophole, you need to save receipts, draw up a lease agreement, and so on.

And successful financial planning requires keeping cash on hand for expenses that might come up, whether that's having to replace a pricey piece of equipment, buying one of your competitors when it suddenly becomes available for purchase, or just paying a high tax bill after an unexpectedly good year.

As an example, let's consider an entrepreneur we'll call Pam. She recently left an executive position at a national nonprofit and founded a consultancy for nonprofits. During her first year, she was in the startup phase, and things were a bit of a struggle. In her second year, she hit her growth phase and saw some profits. That increased revenue put her tax rate at 25 percent, and her tax preparer advised her to prepay her office rent and other costs for an immediate deduction. But now, in her third year, she has landed two big new clients—which pushed her into a higher tax bracket: 35 percent. Unfortunately, this year, she doesn't have expenses to offset that higher tax bill, due to the bad advice she got from her tax preparer last year.

Or consider Dennis. In year two of his business's life, he started a solo 401k, and he was maximizing his employee and employer payroll deductions to keep his taxes down. But then one of Dennis's competitors came up for sale, and he had no way to purchase it because his money was tied up in his 401k. And then he moved into a higher tax bracket and was unable to make some necessary purchases that would have made for useful deductions.

So, Dennis saved a bit in taxes, only to lose out on increased profits later on.

To sum this chapter up, when you're doing your tax planning, always be thinking about what's over the horizon—not only what's likely, but also what might happen if you're lucky (or, and I hope this is not the case for you, unlucky). In the next chapter, we're going to talk about a key investment for businesses in the hypergrowth phase of life.

“Why does a slight tax increase cost you two hundred dollars and a substantial tax cut save you thirty cents?”

PEG BRACKEN

Be ready to tackle the world of taxes,
and come out a winner!

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