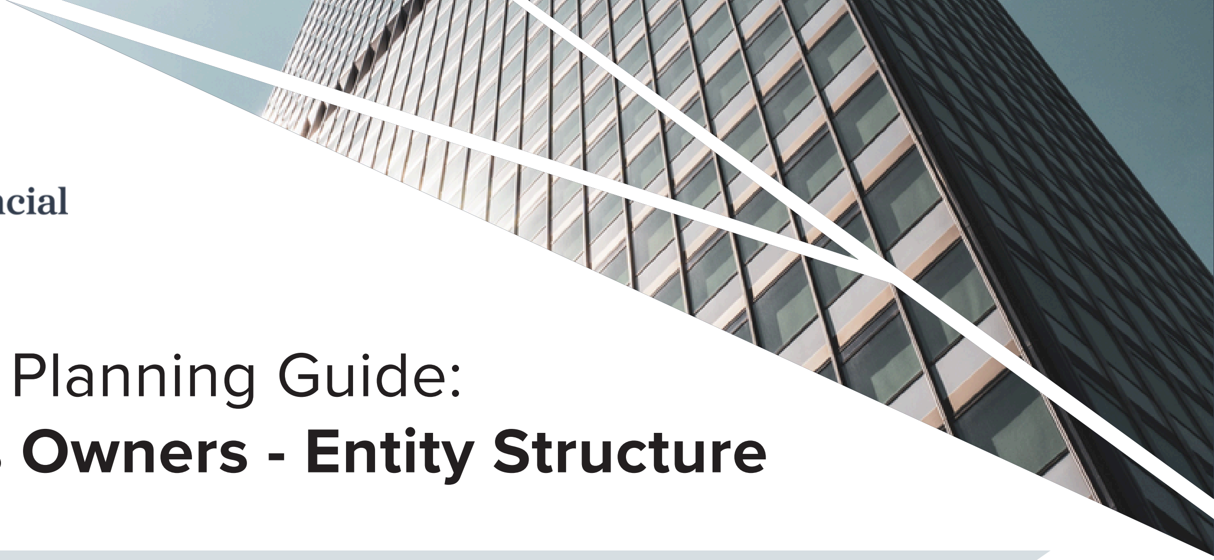
Strategic Financial



Financial Planning Guide:
Business Owners - Entity Structure

Am I losing money because of my entity structure?

WHAT SHOULD I BE THINKING ABOUT?

- When starting a company with limited income and cash flow at its inception, structuring an LLC is often the best start. But as your business grows, other options may be much better for you and the business. Is it time to make a change?
- How should I balance the need to reinvest profits vs taking distributions?
- When and how should I take distributions from the company? What are the different tax implications?
- Should I take draws or bonuses through the company given my structure?
- What are my plans for raising capital? What about going public?
- Number of owners and state registration?
- Complexity of my accounting/tax filing requirements?

When deciding which U.S. business entity structure is the most appropriate for your situation, there are several key factors to consider. The optimal entity choice depends on balancing tax efficiency, liability protection, and operational complexity

Here's an overview of the main entity types and their respective advantages and drawbacks.

Limited Liability Company (LLC)	C-Corporation	S-Corporation

LIMITED LIABILITY COMPANY (LLC)

- Taxed as a "pass-through" entity, meaning profits/losses are reported on the owners' personal tax returns, avoiding double taxation in C-corporations.
- Offers limited liability protection for owners if you are not in a professional service sector (i.e. physicians, accountants, etc. are not protected against malpractice).
- Relatively simple to set up and maintain compared to corporations (must obtain a EIN number from the federal government and then register the entity in a state).

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LIMITED LIABILITY COMPANY (LLC) (continued)

- Can be taxed as a sole proprietorship (single owner), partnership (multiple owners), or corporation (by election). Please note, single member and partnerships LLC income is subject to social security and medicare tax on all profit.
- Must establish an operating agreement to specify how the entity will function.
- Operating agreement may be able to adjust profit distributions not in accordance with equity ownership percentage. More than one class of stock can be created.
- Potential drawback: Self-employment taxes may apply to all profits for all members.

C-CORPORATION

- Considered a separate taxable entity from its owners and profit is not recorded on shareholders' personal income tax return.
- Offers robust liability protection for shareholders if you are not in a professional service sector (i.e. physicians, accountants, etc. are not protected against malpractice). You should establish a shareholder agreement and record board meeting minutes.
- Allows for raising capital through sale of stock and more than one class of stock can be created.
- Beneficial for businesses seeking to reinvest profits rather than distribute them.
- Potential drawbacks: Double taxation if profits are distributed as a dividend. Potentially more reporting requirements to support the entity structure.

S-CORPORATION

- Taxed similarly to an LLC as a "pass-through" entity, avoiding double taxation.
- Offers limited liability protection for shareholders if you are not in a professional service sector (i.e. physicians, accountants, etc. are not protected against malpractice). You should establish a shareholder agreement and record board meeting minutes.
- Allows for distributions to avoid social security and medicare tax of profits to shareholders.
- Restricts number of shareholders to no more than 100 and there can only be one class of stock.
- Potential drawback: profit must be equally distributed to all shareholders pro rata. Potentially more reporting requirements to support the entity structure than a LLC.

Have Questions?? Contact Us today to review these options and confirm which is best for you.

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AM I PAYING TOO MUCH IN TAXES?

When your business is humming you want to be sure you are looking at all the options to reduce your overall tax bill.

Are you taking advantage of a CASH BALANCE PLAN?

A cash balance plan is a type of defined benefit retirement plan that provides employees with a hypothetical account balance, similar to a 401(k) plan. As a business owner, you can use a cash balance plan in addition to a traditional 401(k) plan to significantly increase your tax-deferred retirement savings and reduce your overall tax liability.

KEY FEATURES OF CASH BALANCE PLANS

- Allows for much larger annual contributions compared to 401(k) plans (contributions greater than the maximum allowed limit for 401(k)s and profit-sharing plan) especially for older business owners.
- Contribution limits are age-weighted, so older owners can contribute substantially more.
- Each employee has a hypothetical account balance that grows annually through employer and a guaranteed interest credit rate specified in the plan document.
- Contributions are tax-deductible for the business in the year they are made.
- Employer must contribute money to all employees if they meet certain criteria.
- Assets are pooled (i.e. each employee does not have a separate account whereby they can change their individual allocation) and the employer manages the assets with the assistance of an investment advisor.
- Accounts are portable and can be rolled over to an IRA or other qualified plan upon retirement or employee termination.

CONSIDER USING CASH BALANCE PLANS WITH 401(K) PLANS

Many businesses adopt both a cash balance plan and a 401(k) profit-sharing plan to maximize retirement contributions for owners while providing meaningful benefits to employees. The cash balance plan allows owners to make very large tax-deferred contributions based on their age and income.

The 401(k) plan then provides contributions for employees to satisfy annual nondiscrimination testing requirements.

For example, a 55-year-old business owner could potentially contribute over $300,000 annually to their retirement plans by combining a cash balance plan with a 401(k) plan, while also providing reasonable contributions to employees.

ABOUT STRATEGIC FINANCIAL

Many professionals' personal and business finances are woven together. Try to manage just one, and you may get unwanted results in the other.

At Strategic Financial, we serve both individuals and their businesses, helping you navigate complex financial situations.

Your business's financial plan can dramatically impact your personal financial plan. Having one firm handle both, you will save time. You'll also have a better understanding of how the two sides of your financial life affect each other, thus avoiding unnecessary costs and potentially eliminating gaps in your financial well-being strategy for improved success.

Caring for our clients and offering a comprehensive planning service takes time, though. We don't work from computer-generated or templated plans. Instead we work closely with you to create a plan unique to your situation and goals. By the end of the process, you'll know where you want to go and how you'll get there.

Real financial security comes from expert knowledge. You provide the information, we do the work.

ANDREW LEITHE, CFP®
CEO & INVESTMENT COMMITTEE CHAIRMAN

As Chief Executive Officer of Strategic Financial, Andrew brings his over 15 years of extensive analytical, asset management, and technological expertise to the Firm's platform. He has assisted individuals from various backgrounds (business owners, sole proprietors, doctors, lawyers, fortune 500 executives, entrepreneurs and their families) pursue their personal and financial goals.

His core values of being Honest, Dependable, and Consistent shape the work he and the team do every day on behalf of Strategic Financial's clients.

Andrew was raised in Raleigh NC and now lives in New Jersey with his wife and 3 children. He spends most of his free time chasing his kids around and enjoys running, biking, tennis, travel, great food and going down the shore.