TRANSCRIPT

On Your Terms

Episode 205:
7 SURPRISING WAYS TO PAY LESS TAXES

Sam Vander Wielen:
Hey, hey, and welcome back to On Your Terms. I'm your host, Sam Vander Wielen. If you're new here, welcome. And if you've been here many times before, thank you so much for coming back and listening.

So today we're talking about some surprising ways, seven surprising ways actually to pay less in taxes. I also want to chat with you quickly about just the basic structure of like how taxes work when you have a business, and you're an individual and, or if you're just an individual, we'll talk about the whole thing. I'm going to break it down in the simplest terms. I'm going to talk about how taxes work, why it's actually not a bad thing if you haven't made any money yet. Trust me, there is an upside, I swear.

So we're going to talk all about that and then I'm going to go into my seven ways for you to save a little bit money on taxes. So some of them you might have to learn now and apply for next year. Some of them you might be able to go back and capture if you're about to do your taxes before April 15th.

Now, if you're like me and you have an S Corp, then you were required to file taxes a few days ago, on my mom's birthday, March 15th. So we're already done. But also, if you're an S Corp, you're not doing this stuff yourself. You are definitely working with the CPA, so I'm not worried about it. And I wanted to have this out in time for those of you who might be doing your taxes yourself or you're working with a CPA around your business taxes for the first time. So that is that. I'm excited to chat with you about taxes today.

I am also very excited to tell you that starting in on April 8th, which is coming up, I've got a brand new four-episode series coming for you. So you guys loved the series that I did back in January so much, the Kickstart Your Business Series. Now, I've got a series for you that I think you're really going to like because I was originally going to just bring you an episode based on how my last launch went. So I did a launch in February. That was a really, really big launch. It was the biggest launch I've ever had. It was super successful. I experimented with a ton of new stuff. So many things went really well. So many things I learned from. And I was like, okay, I'm going to do like one episode to break it down.

And then I opened it up on Instagram and people started asking me really good questions about like, how did you strategize for this? How'd you plan? Like, how'd you take care of yourself during it? How we look at the results of the launch and help that to influence how we do the next one. Like all of the things that we've learned from it. And even like what I see working right now in the online business space in terms of webinars, ads, social media strategy, eat my email list strategy. Oh, we tried so many cool things this time.

So I'm going to do a four episode series about it, but it's going to be focused on you. It's going to be focused on helping you. So I am going to tell you what I did in terms of preparing for my launch. So the strategy that I, like how I even came up with this strategy, what I did to come up with it, what the thinking behind it, how I did the kind of like the tease, what we call the tease content for this launch, the invite content and then the sales period. I'm even going to bring in some people from my team. Hopefully my mindset coach, Jen, I'm going to try to bully her into this and ask her, she'll come on, and talk to me for a little bit about maybe even my mindset behind it. And so -- because I think my mindset this time around was totally different and frankly better than I've probably ever been in the past in terms of just my attitude going into it.

So I really want to break this down for you so that you're going to be able to take this four-part series and apply it to your own launch or promotion, and run it more successfully. So we had over 3000 people sign up for my webinar. We had hundreds of people purchase the Ultimate Bundle®. It was almost a $300,000 promo. It was big. And itwill end up being more than that because the way that I look at promotions is that you always have way more people who don't buy than who do buy. And so they're on my email list. And I nurture the heck out of them and then they might purchase in the future. So it's an investment too in my business in the long run. So that's that.

That's going to start on April 8th. I'm so excited. It's going to run every single Monday from April 8th until the end of the month. so I can't wait.

Okay. The only other thing I have to do before we get started and talk about taxes is to give a little shout out to my listener, Vincent, who said he loves the pod. He came to my live webinar too. I really, really appreciate you, Vincent. And thank you for letting me know that you love On Your Terms. If you love On Your Terms, let me know, send me a DM, reply to my email because I love giving listeners shout outs.

So I thought that this would be a very good topic to talk about today about how do we lessen our taxes. Because in general, I find that people have a little bit of a misunderstanding about taxes. I think some people are worried that they're going to owe taxes, and like they don't have the money to pay them or like they owe taxes, but you're not even making money. Like I hear that all the time. Like, I don't want to register my business because I don't want to owe money for taxes when I'm not even profitable yet. And I'm like, wait, that's an oxymoron. If you're not profitable, you're not paying any taxes yet.

So, let's review the basics really quick. Okay? So, if you are being taxed as an individual, which is what happens when you have a single member LLC and you have not elected to be taxed as an S Corp, so you're just a regular old LLC. It's the default. It's how you start out. You would definitely know if you were being taxed as an S Corp, you have to sign up for payroll and it's a whole big pain in the tush. So if you're a regular old LLC or you're a sole proprietor or you have not registered at all, then you pay taxes on the profit that your business makes, right, on the profit.

So what is the profit? And we'll break that down. That is when you take the amount of overall money. So that's gross revenue. That's what we call it. So you just take in gross revenue, the whole overarching picture of every single dollar you've made, and you subtract what we call qualified business expenses. Basically, those are business expenses that are legit and are not things that you're just calling business expenses that aren't, but things that are actually qualifying as business expenses, and that equals your profit. So your gross revenue minus qualified business expenses equals your profit.

So if you've made a $100,000 and you had $75,000 worth of expenses, you have $25,000 worth of profit. The $25,000 worth of profit is what we're taxed on. Right? So if you don't have any legitimate profit yet, right, like you're spending more because you're getting things started. Like you're investing in yourself, you're investing in the business, getting some tools and things, then we're not paying taxes yet, right? That's considered a loss when you're spending more than you're making, as long as you're actually like spending legitimate business expenses, right? That's called a loss. And those losses can carry forward for a few years and you can reduce your taxable income in the future. So that's why I always tell people, it's not always a bad thing to register your business before you're profitable, right.

Now, what about once you are up and running, you have a business and you do have profit, whether it's $5, $5,000, $500,000, can you pay less in taxes? All right, here are my seven best ways to pay less in taxes without going to jail. The first way you can pay less in taxes is by getting organized. You can use an expense software, something like QuickBooks, right? That's what I use, but there are many different softwares available. You can use something like QuickBooks to accurately track and capture your expenses, because one of the ways that people pay more than they should in taxes is by not adequately capturing the expenses that they actually have. I'm always surprised to learn some of the things that people don't know are business expenses.

For example, people don't know about like the home office deduction, for example. So if you have an area of your home that is solely dedicated to running your business, right, we can capture that, but it's not just the amount of square foot relative to the square footage of the house. So like if your office is a hundred square feet and your house is a thousand square feet. It's 10%. Yeah, I think that's right. 10 percent of that, right. So that's 10%. You can then go and capture 10 percent of your utilities, right? Like 10 percent of heat and air conditioning, electric, WiFi, all this kind of stuff.

So there are many different ways to capture expenses, but people not only know what they are, but they also don't track and capture them because you don't use a software and you're trying to do this back in the napkin math at the end of the year. Inevitably, you're going to forget something, right. You think you can keep track of all this stuff? You cannot. Especially the more you're growing your business, it's really important to use some kind of software that you like.

The thing that I really liked about, like -- so I'm always honest with you that I have not touched my own accounting software in years, right? I gave that up many, many years ago. When I started though, like the first two years, I did do it myself and I hated every second of it. So I'm right there with you. But when I did do it myself, the reason I signed up for QuickBooks at the time, was because I liked the fact that I could, like, how do you say it? Like, it learns. It's like learning software.

So, for example, when my website fees would come in or something like this, it would suggest like categorizations for me. Like, oh, is this a website fee? And then let's say I had a website fee that was recurring, it was every month. After I flagged it once as this is a website fee, then moving forward it automatically categorize that fee and I didn't have to do it myself every single month. So really every month after the first several months, after I was done categorizing all of my stuff myself and like confirming their assumed categorizations, then moving forward, every month, I was only doing like single charges.

Like if that month, let's say I paid my insurance bill and I only pay that once a year, right, I would do that. But it got easier and easier the further I went along. And that also made it really easy when I did hand it over to a bookkeeper because they knew what the system was and what these charges were coming from. Or like when my copywriter would charge me, I'd pay my copywriter, I could label that as like copywriting services or contractor services. And then my future bookkeeper knew this is what this is from. Right.

So it makes everybody's job easier both now and later. But that is a great way to start off because if you're accurately tracking and capturing everything, you're going to reduce that amount of taxable income. Because remember, we talked about gross revenue minus the business expenses equals profit. That's what you're taxed on. Right? So we need to be able to bring that amount down as legitimately and accurately as we can. But sometimes you're not being fair to yourself because you're not capturing things, because you're not using anything to organize.

I'll include my QuickBook links down below. It's an affiliate link. I think we get a little something, or they always claim that we do, but I don't think we ever do. But I'll include that for you down below in case you want to check it out. I'm sure they offer you some sort of discount, but again, feel free to use what software you like.

The second way you can pay less in taxes in your business is to actually use some of your business's money, the revenue that you do create, to reinvest in your business or yourself as the business owner, which should count as business expenses depending on how you do it. And of course, these things have to be qualified as business expenses. So going to the spa, for example, would be one that, although I wish, and if I was president for the day, I would certainly make all of your spa visits business deductions, because I know self-care is important, but that does not count, right? That does not count.

But we could reinvest in ourselves in terms of our education, right, upping. Like if you go to take a course on some things. Let's say you want to learn to be a better copywriter in your own business because you're writing social media captions all the time. You're writing your emails and things. You could take a course about copywriting. First of all, highly recommend because that's actually going to help you invest in yourself in your business in the future. And it's going to have huge dividends and returns. But the payment that you make towards that course actually counts as a business expense.

So I really like doing this in my own business. And I did this, especially in the first several years where I reinvested in myself and in the business and myself as the owner in order to lay the groundwork for some investment in the future, right? I knew that this stuff was going to come back around, but I also knew I wanted to reduce my taxable income at the time. So it was kind of a double benefit and something I highly recommend.

Now, the third way to pay less in taxes is actually a really good example of reinvesting in your business in a way. But my third example is to hire contractors or when it's the right time, employees when it makes sense for you and when you really need like a hole to fill in your business. Right? So not only does this free you up to do more of what you really need to be focused on in your own business, but it will also be a huge business expense to write off, right, whether you have contractors or full-time employees.

There's a big difference, by the way. There's a huge difference legally. It costs a lot more to get employees. But as my HR friend, Kira, always says, it's not a choice of whether we want somebody to be a contractor or an employee. The position itself dictates. That' s what dictates whether or not this is going to be a contractor or an employee role, and then you actually have to treat the person like a contractor or employee. I thought I would just sneak that little legal tip in there for you.

But in general, if you can -- I mean, I started out by hiring lots of contractors. I think a VA was my first hire, probably a copywriter, then a tech VA, an assistant. And as my team grew, it not only, again, another double whammy tip, it not only helped me as a business owner to not be doing everything myself, and it freed me up to focus on the bigger picture things in the business and grow it, but it also brought down my business expenses, which means you pay, or sorry, it adds to my business expenses, which brings down my profit, which means I pay less in taxes.

When you start to build out a little bit of a team to, depending on whether you have contractors and employees, it also even gives you additional opportunities beyond just what you're actually paying the contractors or employees to invest in their education, for example, host events for the team, and those things can then be additional write offs. So, for example, if I had somebody come in and teach my team, we had someone come in and talk about like what your personality traits are and communication styles and working styles and how you need to collaborate with others and stuff like that, that was something I paid the expert to come in and do with the team. And that gets to be an additional business expense.

The fourth way to pay less in taxes is to become an S Corp to pay less in self-employment taxes. Now, this is only a tip, if and when, it makes sense for you. So typically speaking, businesses will become an S Corp, which when I say that a lot of people think that being an S Corp is like a type of business. Like they always say, like, I don't have an LLC. I have an S Corp. And it's like, no, no, you have an LLC. You file taxes as an S Corp.

So when you're an LLC, by default, you actually file taxes as a sole proprietor. Very confusing. I know because people like me teach you why you even want to become an LLC is to be able to be different than a sole proprietor and separate yourself from the business. Yes, that's true. But in the eyes of the IRS, at least, which does not matter for your legal purposes. In the eyes of the IRS, they tax your LLC as a sole proprietor. It's what's called pass through taxation. Meaning that the money that you make in your business, the profit, passes on to your individual tax return, you pay taxes on it. Period. Right?

So that's what kind of the default LLC taxation status is. Same goes for sole proprietors. When you have an LLC though, and it becomes successful, you have profit, you have too much profit, a bit too much profit sitting over that you're paying a lot of taxes on that profit, it then starts to make sense to become an S Corp. You always only become an S Corp in the hands of a trustworthy CPA. So you should always work with the CPA to do this.

I would never recommend doing it yourself. I'm a lawyer. I didn't do mine. I've done it twice now because I've moved, and I've never done it myself. I would never do it myself, not only for my sanity's sake, but for legal purposes, I don't want to mess it up. There are a lot of steps and it's very complicated. And you have to get yourself set up on payroll and there's a whole thing. So if you work with a really good CPA, they're going to offer you like soup to nuts, like helping you out getting everything set up. My accountant even had like a payroll company in mind. She had a payroll person that she worked with and she got me set up and it was just like, and then they could communicate. It was really, really helpful.

So even for me, it was super confusing. I would never recommend you do it yourself. The reason I'm bringing it up though, is because I want you to have the conversation with your CPA if and when you're ready. So there's never any harm in having the conversation early to say, hey, will you let me know when it makes sense for me to become an S Corp? There's the cost and like the annoyance of getting this stuff set up, which is typically what we're considering as to why, ike, should you become an S Corp yet? You also can't become an S Corp at any time of the year. There are certain windows when you can become one.

So the other reason why I always encourage you to have the conversation early is like, I hate the idea of, in June, you're saying something to your CPA and then them saying, oh, if you just had said something two months ago, I could have done it for you, but now it's too late. So it's better to have the conversation early and then you know when you're going to make the switch.

The like long story short about why you pay less than taxes when you become an S Corp is this. When you have an S Corp, you only pay self-employment taxes on the amount that you pay yourself in salary, or if you have employees then in their salary as well. Whereas when you are an LLC, who's just being taxed as an individual, you're paying self-employment taxes on the whole of the business. So all of the businesses profits, not just what you pay yourself. Right. Also, what you pay yourself when you're a normal LLC, like if you're making draws and you're just cutting yourself checks, that does not count as a business expense versus when you're an S Corp, then you have to go on payroll.

And so I for example, set a salary for myself, I get a twice monthly paycheck. When I get that paycheck, the amount I'm paying myself is actually a business expense for my business. I also have a full-time employee. So like her salary is also a business expense for the business. So in a way I ended up paying less taxes once I became an S Corp, both because my salary got to count towards it, but also I'm only paying self-employment taxes on what I'm paying me and Lindsay, but I'm not paying self-employment taxes on the whole of the business's profit.

That would be an insane amount for me these days. It got to the point, I guess maybe my second or third year of business where it was saving me. I think like the first year I did it, it saved me $25,000 in taxes. And then after that just skyrocketed even more. So you'll know when it's worth it. It's just why you need to have the conversation with your CPA.

The fifth way you can pay less in taxes is by investing in your retirement. So I think a lot of solo entrepreneurs don't know that you can invest in your own retirement. You can start saving and that can be a tax deduction for you. So you definitely want to talk to your CPA, your financial advisor, whoever you work with on your finances to ask them what the options are that are available to you based on what kind of business you have, where you live, what your marital status is. Like there are all different kinds of things.

But I know that when I started out and it was just me, and I didn't have any other employees, I had a SEP IRA. So S-E-P I-R-A for an individual. And I set that up through Betterment. I love Betterment. I still use Betterment. I had to transition to a 401k because they offer a 401k as part of my employee benefit package. So we, and then when you have a 401k, you have to offer all employees for the 401k has to be equal. And I do like matching and that has to be equal and all that kind of stuff.

So I still use Betterment even for my 401k and I use them for my high interest savings account. I actually have been very happy with Betterment. I can drop a link below. I think that they give you some sort of discount off of managing your money or something like this. So I'll drop that below, but it's an online, it's like a virtual thing. I've not had any issues with it. I can access my money whenever I want, but that's how I started with them. I started with the SEP IRA. I set aside money. It was great because when I went to go do my taxes too, If I had too much profit, then I was able to take a draw and put even more in my sub IRA and max it out. So that was really nice. And then that counts as a business expense.

Once I became a 401k, now I contribute, I do the max for that. I do the company matches. So like, it's so weird because I'm the owner of the company, but I'm also an employee of the company. So I get like, I pay the taxes, but I also save the money as an expense. It makes my head spin if I start thinking about it too long. But generally speaking, my company matches the employees' 401k. So I contribute to it. Then my company matches it and I contribute to my employees and do the same. So, and then all of that counts as a business expense, which reduces my taxable income. So definitely chat with your CPA and financial advisor about what options are available to you. But I just wanted to make it known that you can invest in your retirement as a solo entrepreneur. Pretty cool, right?

The sixth way to pay less in taxes is through the qualified business income deduction. Otherwise known as the 199A Deduction. So you could ask your CPA about this, but the qualified business income deduction allows eligible self-employed people like us and small business owners to deduct up to 20 percent of our qualified business income on our taxes. So there are income limits, right?

So you want to chat with your CPA. Like once you hit a certain threshold for yourself individually or married filing jointly, you don't get to use like the whole thing, but they can prorate down to a certain percentage. It's like this whole crazy calculation. The big reason I wanted to bring it up was so that you could bring it up in conversation with your CPA to see if you qualify for the Qualified Business Income Deduction.

Okay, last but not least, the seventh way to pay less in taxes is to work with a CPA. I know it's tempting to do your taxes yourself or use some kind of automated software. But I think once you have your own business, it's really helpful to establish a relationship with the CPA that you know, like, and trust because they're going to ask you questions and dig into things a little bit more to see really where they can maximize your dollar for you. So I highly recommend it. I have a blog post below over like some of my best tips on finding a CPA and finding somebody that you really like and working with them. So I'll make sure I link to that down in the show notes.

But I think if there's anything that you could learn today, I hope it's that there are no secret like tricks. I mean other than things that are probably illegal or way over my pay grade, I don't know anything about Swiss bank accounts or anything like that, nor do I have the money to do it. And I just like, frankly, don't care. I just don't want to do anything like that. So I think that there's maybe like this desire to find some secret out there of like paying less in taxes or getting away with stuff.

But really, it's just about kind of being organized to be honest and investing in yourself in the right way. Like knowing what all of the opportunities are. When we talked about hiring or like reinvesting in yourself, right, to up your education or improve some skill, something like that that's just maximizing the opportunities that are available to you, that's the best way to "pay less" in taxes. I can tell you there is no magical solution. There is no way to get out of paying taxes. It's just part of life. And at least here in America, that's for sure. So it just is, right.

And the way that I always think about it and this is just me, so like you can disagree, but I just, I think about this something that I -- I'm like, look, my business was really well, right. I'm paying people super fairly. I have more than enough. I'm paying myself and I pay taxes. I keep the world going round. I think there's a little bit of just people get very frustrated about it and spend like a, to me, in my humble opinion, waste a lot of time and energy on being frustrated about a system that has existed way beyond us, and that is going to continue to exist way beyond us, and that is outside of our control.

So at least to me, I'm like, you know what, I've got limited time and energy and I'm not going to waste it on this. So that's my little like soapbox theory on taxes. That's why, to me, it's more about like, I want to make sure I'm capturing everything properly. I want to make sure I'm investing in things for my future, like my retirement, but also in my skills, because those are going to pay dividends. I want to stash. I stash money away in investment accounts. Like all of that kind of stuff. I want to invest in myself. I'm not going to sit here and waste my time and energy over, like, how can I knock off a couple of bucks?

So that's just my, that's my spiel. Let me know if this episode was helpful. If you're also here to learn more about taxes, I do have a business expenses episode for you. We've talked a lot today about what counts as a business expense so I will link to that episode in the show notes. And I had an interview with my CPA friend, Keila from Little Fish Accounting. And I will link to that down below for you as well, all about small business taxes, quarterlies, all that fun stuff.

So thank you so much for listening. If you liked this episode, please do me a favor, go ahead, follow the show, leave a quick rating or review, send it to a friend. It means the world to us and it helps to get this show into the hands of more small business owners, which we really appreciate. So thank you so much for listening and I'll see you next Monday.

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