

Business Planning & Financial Wellness Strategies

The Types of Business Entities

- **Sole Proprietorship**

- Owned and operated by a single individual
- Owner is personally responsible for all debts and liabilities
- Pass-Through Taxation (Entity)
 - Profits and losses are reported by the Sole Proprietor on their individual tax return
- Non-registered, unincorporated

- **Partnership**

- Owned and operated by two or more individuals who share the profits, losses, and responsibilities
 - Liabilities are unlimited amongst all **general** partners
 - **Limited** partners have limited risk, but usually limited decision-making abilities
- Profits and Losses:
 - Partnerships distribute profits and losses among the partners according to the agreed-upon terms outlined in the **Partnership Agreement**
- Pass-Through Taxation:
 - Profits and losses of the partnership are "passed through" to the partners, who report them on their individual tax returns
 - *The partnership itself does **not** pay income tax*

- **Limited Liability Company (LLC)**

- Owned by one or more members (can be individuals, corporations, or other entities)
- Members are **not** personally liable for the debts, obligations, and legal liabilities of the LLC
 - Personal assets are separated & protected from business-related claims
- LLC's are a **Pass-Through Entity**

- **Corporation**
 - A legal entity that is separate and distinct from its owners (shareholders)
 - There are different types of Corporations:
 - **C Corporation**
 - Allowed unlimited number of shareholders
 - Offers **limited liability** protection
 - Double Taxation: the corporation pays taxes on its profits, and shareholders pay taxes on dividends received on their own personal tax returns
 - Allowed to issue different classes of stock to shareholders
 - Allows for flexibility in ownership structure and attracting investors
 - **S Corporation**
 - Pass-through entity
 - Corporation does not separately report its profit/losses
 - Limited to 100 shareholders
 - Offers **limited liability** protection
 - Shareholders must be U.S. citizens or residents, certain trusts, estates, or eligible tax-exempt organizations
 - Allows only for a **single class** of stock
 - **Limited Liability Partnership (LLP)**
 - Personal liabilities are **separated** from the liabilities of the LLP
 - Used by professional service firms (law firms, accounting firms, consulting firms, etc.)
 - LLP's shield individual partners from the debts/misconduct of other partners
 - Each partner is only responsible for their own actions
 - Pass-through entity
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Being Tax-Efficient

- ***The Biggest Yield for Your Effort: Tax Savings***
 - Less taxes = More money towards investments
 - Maximize your business deductions
 - Home office, mileage, marketing, etc.
 - **S-Corp Election**
 - Instead of being taxed on 100% of net income, you can pay yourself a reasonable salary and take the rest as distributions, which are not subject to self-employment tax
 - The salary is subject to payroll taxes (12.4% for Social Security + 2.9% for Medicare), but the distributions are not
 - Salary paid must be “reasonable”
 - *"Distributions and other payments by an S corporation to a corporate officer must be treated as wages to the extent the amounts are reasonable compensation for services rendered to the corporation." - IRS*
 - **Formations:** <https://get.formationscorp.com/real-money-pros>
 - Contributions to qualified retirement accounts
 - If you're an owner/operator:
 - Traditional/Roth IRA
 - SEP IRA
 - Solo 401(k)
 - If you have employees:
 - 401(k)
 - SIMPLE IRAs
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Retirement Planning

If you're an owner/operator:

- **Traditional IRA (Pre-Tax)**
 - Contribution Limit 2025:
 - \$7,000 (\$8,000 if over age 50)
- **Roth IRA (Post-Tax)**
 - Contribution Limit 2025:
 - \$7,000 (\$8,000 if over age 50)
- **Solo/Individual 401(k)**
 - Traditional and Roth options
 - Total Contribution Limit 2025:
 - Up to \$70,000
 - \$77,500 for those age 50-59 and 64+
 - \$81,250 for those age 60-63
 - Contribution Limit as *Employee*:
 - Up to \$23,500
 - \$31,000 for those age 50-59 and 64+
 - \$34,750 for those age 60-63
 - Contribution Limit as *Employer*:
 - Up to 25% of compensation (after Social Security & Medicare taxes)
 - Compensation Limit for Contributions = \$350,000 (2025)
- **Health Savings Account (HSA)**
 - \$4,300 for individuals; \$8,550 for families

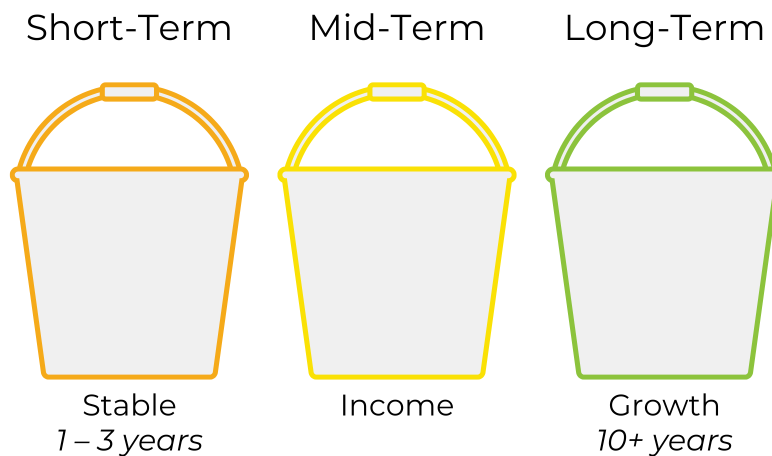
If you have employees:

- **SEP IRA**
 - Max Contribution (2025):
 - Up to 25% of net income, with a maximum of \$70,000
 - Some SEP IRA plans allow individual contributions up to the IRA limit (\$7,000 or \$8,000 if over age 50)
- **401(k)**

- 2025 401(k) Contribution Limits:
 - Employee salary deferral: Up to \$23,500
 - Total contributions (employee + employer): Up to \$70,000
- Catch-Up Contributions (if plan allows):
 - Ages 50-59 & 64+: Additional \$7,500, for a total of \$31,000
 - Ages 60-63: Additional \$11,250, for a total of \$34,750
- **SIMPLE IRA**
 - Employee Contribution Limits (2025):
 - Up to \$16,500 (\$20,000 if age 50+)
 - Employer Contribution Options
 - Matching Contribution:
 - Dollar-for-dollar match up to 3% of compensation
 - Can be reduced to 1% in any two out of five years
 - Nonelective Contribution:
 - Employers contribute 2% of compensation for all eligible employees, even those who do not contribute

Long-Term Investing

- Implement a long-term strategy that is based on your timeline and goals
 - Those two things will determine how you invest
- The Bucket Strategy:



- **Short-Term Bucket:**
 - Cash-equivalents – funds that are liquid
 - Money need in the near term, 1-3 years
 - Conservative goal of 0% return, though better can be achieved
- **Mid-Term Bucket**
 - Income generating assets – rentals, dividend-paying stocks, etc.
 - Money accumulated here will help replace short-term bucket funds
 - Goal of 5% yield
- **Long-Term Bucket**
 - Assets for growth – keeping up with inflation
 - Invest in the stock market
 - Goal of 10% return

Protection Your Business & Personal Future

Business Protection

- Proper entity structure
- Errors & Omissions (E&O) Insurance
- General Liability Insurance

Personal Protection

- Life Insurance
 - Term Life – Affordable and covers you for 10-30 years (our general recommendation)
 - Permanent Life Insurance – Best applied in certain financial situations
 - Amount depends on current lifestyle, debts, and other family needs
- Estate Planning
 - **Will & Trust** – Ensures assets go to the right people
 - **Power of Attorney (POA)** – Grants someone authority over finances if you become incapacitated
 - **Beneficiary Designations** – Make sure retirement accounts, life insurance, and investment accounts have updated beneficiaries
 - **Business Succession Plan** – If you own a brokerage or team, set up a buy-sell agreement or plan to transition the business
 - Review these items every few years and whenever major life events occur