TROST

FINANCIAL CONSULTING

Helpful Strategies for your Small Business

What You'll Learn...

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Ways to Address Tax Savings Through Retirement Plans

There are several ways, as a business owner, that you may be able to reduce your taxable income. One of these strategies is through the implementation of retirement plans.

Here are a few of the options...

Simplified Employee Pension (SEP) Contributions

An SEP Individual Retirement Account (IRA) may allow business owners to provide retirement benefits for themselves while doing the same for their employees. The investment percentage must be the same for employees as for the owner, after a three-year waiting period from the start date of the plan. All contributions are tax deductible, even those made to owner accounts.

Per IRS.gov, contributions **cannot exceed the lesser of:**

25%

of salary compensation

$56k

in 2019 (up from $55,000 in 2018)

Contact us to learn more

401(k) and Employer Sponsored Plans

Traditional 401(k): A retirement plan that allows you to invest part of your income, using pre-tax contributions. This can help to increase your investments, tax-deferred, during your career. At retirement, the withdrawals will be taxed at the ordinary income tax rate.

Roth 401(k): Similar to a Traditional 401(k) except that contributions are made with after-tax dollars and are not deductible. Also, there is no required minimum distribution (RMD). The investments grow tax free and the withdrawals will not be taxed when they are received by the investor.

401(k) Options: As a business owner, you can match employee contributions. There may be a waiting period to begin contributions, and you can deduct the amount of the employer contribution. The percentage match must be the same for all employees, including the owners. The IRS incentivizes companies with less than 100 employees to create 401(k)s by offering money to offset startup costs.

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Defined Benefit Plans: These plans provide predetermined payments to employees upon retirement or termination of employment. The payments are decided by many factors including the number of years employed, earning history and age. A few requirements to take into consideration with defined benefits plans are:

- All plans must be set up with a third-party administrator (TPA) and can therefore be costly
- Depending on the age of participants, employer contributions can be quite large
- Typically, this is most efficient for owners in their late 40's to early 50's
- There is a lifetime cap for deductibility
- Employees may be carved out and do not have to be included in the plan (determined by the TPA and the owner)

Individual 401(k)

An Individual 401(k)—also known as a solo 401(k)—is a retirement plan that can maximize your savings if you're self-employed or if you're a partner in a business whose only employees are the partners and their spouses. The business owner can contribute as both an employer and employee. Employer contributions can be up to 25% of compensation, not to exceed $56,000 for the 2019 tax year. Contributions are generally deductible as a business expense and aren't required every year. When contributions are made, however, all participants must receive the same percentage.

Profitability Best Practices

Whether it be through a series of small changes or by making one large improvement, every business can improve profitability. Implementing the following strategies may have a significant impact on your bottom line. Every business has its own set of needs, so be sure to speak with your financial advisor to determine which strategies are right for you.

Here are 3 simple recommendations...

1. Reduce Unemployment Costs

When increasing the size of your company, you should consider whether or not to use outside independent contractors or hire employees. Consult your tax advisor to determine the taxable consequences of each.

As an employer, consider that you will be responsible for unemployment benefits, so don't be afraid to monitor and fight claims as necessary.

When disciplining workers, it's important to follow the process below:

- First offense - Verbal warning with documentation
- Second offense - Written warning signed by employee
- Third offense - Either a week suspension or you can use a disciplinary form
- Fourth offense - Termination

If there are issues such as theft or dishonesty, then immediate termination will stand against unemployment claims in most cases.

2. Pay Yourself First

Paying yourself first is very important. Most employers have trouble doing this due to strain on the financials of the business. Once you begin to follow this plan, it can make retirement and tax management much easier. It is important to maintain a level of income from the business so a comfortable lifestyle can be maintained for the owner and their family. Owners that are self-employed or use a sub chapter S corporate structure, can have the profit for the year be charged as income for that tax year. Also, by having the owner pay themselves a salary, it will help with qualification for social security in retirement. Social security will use the highest 30 years of social security wages and if there are not 30 years to use, they will assign a zero to each year to equal 30 years.

3. Market Through Social Media

Marketing is essential for creating relationships with potential clients and fostering those with current clients. Nowadays, social media is in the forefront so be sure to use it to its advantage. Not only can social platforms help with conversion rates, site traffic and brand loyalty, but they are amongst one of the most cost-effective mediums for reaching your consumers. With regular content, posts and engagement, social platforms can have a huge impact at little cost.

Human Resources: Outsource or In-House?

Human Resources (HR) is vital to any company, as it helps manage the culture of the workforce. There are several HR specialty areas including payroll, recruiting, benefits and compliance. While having an in-house team may mean you can meet face-to-face and deal with issues in a timely manner, it may actually be more beneficial to outsource to companies such as Workday or BambooHR to provide human resource services.

10 possible benefits of outsourcing your Human Resource services are...

1. Cost Savings

The overhead costs of an in-house HR team are typically very high, as additional office space and highly trained staff are required. Outsourcing reduces these costs and can help avoid having to financially maintain nonrevenue-generating expenses. Consider that HR costs tend to vary throughout the year depending on business needs. You can keep costs low by only activating your outsourced HR when warranted.

2. Payroll and Accounting

Maintaining an in-house payroll staff can be costly especially when compared to outsourcing. Time spent calculating compensation could be spent on other aspects of the business. As companies grow in size, the time required to complete these tasks increases and therefore, efficiency may decrease. Incorrect payroll can result in incorrect or late tax filings, something that outsourcing can help to avoid. Outsourced payroll companies have reporting programs that streamline employee communication and tracking that could otherwise be difficult. Examples of existing payroll companies are ADP and Paychex.

3. Global Talent

When HR functions are outsourced to Professional Employer Organization (PEO) companies, you can get your HR services performed by the best talent worldwide. Working with outside organizations will inevitably expand company perspectives and open the company up to an entirely different pool of specialized talent, otherwise unreachable.

4. Risk Management

Changes to employment and labor laws are frequent. Therefore, there is inherent risk in trying to remain up-to-date internally on regulations affecting your workplace. HR professionals are responsible for staying current on federal and state employment laws. Rely on them to manage risk, help comply with laws and potentially avoid costly employee lawsuits.

5. Efficiency

Efficiency in the workplace is critical for profitability. Outsourced providers have access to advanced technology that is often costly for small businesses. With the help of these programs, managers can instead dedicate their time to improving company efficiency and effectiveness, both of which can ultimately help with profitability.

Contact us to learn more

6. Employee Development

Monitoring employee performance is critical for company success, so it is imperative that employers provide the right tools for doing so. HR providers can reduce management workloads by monitoring performance, reporting findings and implementing performance plans. As a result, employers can have the confidence that employees are complying with policies and meeting goals.

7. Help with Compliance

It can be challenging for businesses to monitor changing laws, especially those that pertain to hiring, insurance claims, benefits and regulations. The complex nature of these laws makes it easy to miss certain features, therefore compliance management is increasingly important. Failure to comply with regulations can be extremely costly.

8. Reduce Employment-Related Expenses

Labor costs can be one of the largest business operating expenses. Beyond payroll and taxes, labor costs account for health insurance premiums, workers' compensation insurance, recruiting fees and legal costs. By outsourcing, you can essentially turn fixed costs into variable costs freeing up money for other aspects of the business.

9. Health Insurance Benefits

Offering competitive benefits that attract, incentivize and retain talent can be tough for small businesses. Larger corporations typically have better access to medical plans and voluntary benefit offerings (i.e. concierge services, life insurance). Consequently, PEO companies can provide small employers the ability to offer robust benefits.

10. Employee Leasing

A great way to expand your company without added administrative stress is via employee leasing wherein a PEO is the official employer. While you remain in control over the employees' responsibilities, the PEO company manages things such as wage reporting and employment taxes. This may be a preferred method rather than using independent contractors.

Contact us to learn more

SECURE Act: What You Need to Know

As of December 2019, both the House of Representatives and the Senate passed the SECURE Act, and it's been signed into law.

The SECURE Act — or the Setting Every Community Up for Retirement Enhancement — offers small business owners a number of additional tax incentives for starting a retirement plan and seeks to make it less costly to do so.

Here are a few things to know about the SECURE Act...

Long-term, part-time workers will be able to join their company's 401(k) plan.

- Up until now, if you worked less than 1,000 hours per year, you were generally ineligible to participate in your company's 401(k) plan.
- Except in the case of collectively bargained plans, the law now requires employers maintaining a 401(k) plan to offer one to any employee who worked more than 1,000 hours in one year, or 500 hours over 3 consecutive years.

Small-business owners can receive a tax credit of up to $5,000 for starting a retirement plan.

- The new law provides a start-up retirement plan credit for smaller employers of $250 per non-highly compensated employees eligible to participate in a workplace retirement plan at work (minimum credit of $500 and maximum credit of $5,000).
- This credit would apply to small employers with up to 100 employees over a 3-year period beginning after December 31, 2019 and applies to SEP, SIMPLE, 401(k), and profit sharing types of plans.
- If the retirement plan includes automatic enrollment, an additional credit of up to $500 is now available.

Next step: If you're a small-business owner and have not yet established a retirement plan for your employees, consider taking advantage of the new credit to establish a retirement plan.

Small-business owners will find it easier to join together to offer defined contribution retirement plans.

- The new law facilitates the adoption of open multiple employer plans (MEPs) by allowing completely unrelated employers to participate in an MEP and eliminates the IRS's "one bad apple" rule, which stipulates that all employers participating in an MEP may face adverse tax consequences if one employer fails to satisfy the tax qualification rules for the MEP.
- Roughly half of private-sector workers in the US still don't have access to a retirement plan through their employer. Open MEPs can help deliver low-cost, high-quality retirement plans for millions of small business workers.

Next step: If you're a small-business owner and have not yet established a retirement plan or would like to make changes to your plan that may make it easier to implement, consider taking advantage of the new law by joining a multiple employer plan, which will be available in 2021. If you're a small-business employee whose employer is currently unable to offer a plan, consider letting your employer know about this new opportunity.

We are working on retirement planning solutions specifically tailored to the new legislation, so please reach out to learn more.

Contact Us To Get Started

Every business has its own set of specific goals such as, profitability top line growth, marketing and many other business decisions. Our business has been built on working closely with business owners in an effort to maximize their profitability and to increase their revenue. We provide our clients with the knowledge to help pursue their financial goals and independence. Together we can strive to achieve success!

From left to right: *Jim Watson (Vice President), Katie Deans (Client Relations Associate), Greg Trost (President & Founder), Nicole Reisberg (Marketing Director), Michael Mora (Client Relations Associate).* [*Get to know our team!*]

Congratulations!

You've taken the first step in getting on the right financial track – educating yourself.

The next step is working with a financial advisor who knows the ins and outs of financial strategies for business owners.

Contact Us To Get Started

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“Be grounded in the past, looking to the future, and living in the present.”

- Donald G. Trost

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