

Business Formation

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Ahhhh... what a cute picture. These are not business owners. They might be business sellers. Sarcastically, business ownership does not mean you own a business; it means a business owns you, but that can be a good thing!

Pursuing a passion and making it into a business is a great way of life, but certain foundational steps need to be in place for long-term success. Liability, self-employment taxes, retirement savings and solo 401k plans, accountable plans, exit strategies, business valuations, etc. are all considerations that many small business owners neglect. LLC? C-Corp? S Corp Formation? Perhaps a Limited Partnership? We can help.

LLC Formation

The power of advertising, the ease and the hype have created this fervor surrounding the limited liability company. Do you know what LLC really stands for? That's right.. Lawyer's Likely Choice. We like to poke fun at attorneys- creating an LLC is an easy way to get your small business off the ground. While there are significant benefits there are many things to consider. Husband and wife? Exit plans? Death and divorce clauses with non-family partners? Self-employment taxes? Business valuation? Rentals? There are several things to consider when drafting an ironclad Operating Agreement. Read our KB article here-[Quick myth buster](#)- LLCs do NOT automatically protect you from all lawsuits- limited liability does not mean tort liability. Huge misconception! Do you really think the world would go 'round if your errors and omissions could be wiped clean through an LLC? Nope. Turn the tables for a moment. What if you were on the receiving end of a car accident and the bozo waives some formation documents and says, "You can't sue me. This is a business car!" We doubt our justice system and our demands for equity would allow that. Please read our KB articles on the ins and outs of LLCs and S Corps at-



LLC Formation Fees

The Watson CPA Group can do all the filings with the Secretary of State (for any state), and our fee is **\$425** plus the state filing fees. We can file your paperwork in all 50 states plus the District of Columbia. Some states are fast, some still require paper submissions (such as Pennsylvania). Some are slow for no reason, like California. You might also have to file an Initial Report. States such as Nevada and California have an Initial Report Filing requirement and our fee to prepare this filing is \$100 plus the state filing fee.

We'll also obtain your Employer Identification Number (EIN) from the IRS, create an Operating Agreement (for single member LLCs only) and draft an [Accountable Plan](#) for expense reimbursements (including the corporate resolution should one be needed). Three documents (Articles of Organization or Certificate of Formation, EIN and Operating Agreement) are required by most banks for a business checking account. The Patriotic Act, Bank Security Act and Homeland Security want to clamp down on illegitimate business accounts and financial holdings. This fee also includes your S Corp election should you need it. Please click on the button below to get going! Yes, LegalZoom might appear cheaper. But after you add on all the bells and whistles, our fee is very reasonable. And, you get excellent business consultation by using the Watson CPA Group. Way too often people run out and do the LegalZoom thing, and then need to us to unravel a bad decision and put things back together. That gets expensive really quickly. So, forming a business is not the kind of thing to be stingy on- get solid answers and solid advice from a trusted business consultation and tax preparation firm. We've unraveled enough LegalZoom filings to choke a small horse. Do you know what it takes to choke a small horse? A lot.

On the other hand, we see some business owners spending \$1,500 for an attorney to create an LLC. Unnecessary! Sure, the attorney needs to eat but let's be smart with our money. We create business entities all the time. Having said, we are the first to punt on a complicated situation. A trust owning an LLC? A multi-member LLC which requires a robust Operating Agreement? An LLC that deals with alcohol, tobacco, firearms or marijuana? There are a handful of situations where we recommend using an experienced attorney but creating an LLC for your new Amazon reseller business is not one of them.

Don't forget that the Watson CPA Group also consults with you on how to account for your business transactions, what tax savings strategies to deploy (forget cars, [cars usually stink as tax havens](#)), what tax deferral plans to implement such as self employed 401k plans or profit sharing plans, and basic business operations. Small business consultation is what we do, and we do it well by catering to your unique needs. You are not special, but you are unique.

S Corp Formation

As mentioned elsewhere, an S corporation does not exist as an entity. Some other underlying entity must exist, such as an LLC, partnership or corporation, that then chooses to be taxed as an S Corp. People say "I have an S Corp" all the time... and there is nothing wrong with that, but technically you have some other recognized entity being taxed as an S corporation.

Unless you are guaranteed to make a bunch of money, we do not immediately file Form 2553 (S Corp election) to perfect the S Corp formation. Since we can always do a late S Corp election back to the inception of the entity, we commonly do a wait and see. There is no sense lighting all the fires that go along with an S corporation unless you are experiencing net profits. If you lose money your first year or two, an S Corp does nothing except add to your tax preparation bill. Another error we often see is business owners adding their spouse; there are cases where this makes sense and in community property states it doesn't matter, but if you add your spouse you instantly become a partnership requiring a partnership tax return (Form 1065). Again, an unnecessary addition to your tax preparation fee.

But there are exceptions! S Corp tax returns (Form 1120S) and partnership tax returns (Form 1065) enjoy a substantially lower audit rate (**0.4% versus 2-3%, 2017 data**). That might be worth something to you. And... While the days of simply adding your female spouse in the hope of being labeled a minority owned business are few and far between (governments now want certifications), there are times where adding your spouse makes a bunch of sense. Here is some reading material-

Operating Agreements

Are you considering going into business with a partner other than your wife? Wait! You need to consider some things. What happens if your partner dies? Are you now in business with your partner's widow... you know, the crazy one that you could never

stand in the first place? Or his kids? You need to strongly consider an [Operating Agreement](#) that details death and divorce clauses, corporate waste, and first rights of refusal. You must have language that allows the remaining partners or members to buy back the interest but how will the business be valued? What is the dispute process?

Please keep in mind that with an S Corp formation, you are still operating under the auspice of the underlying entity's rules. In most cases this is an LLC. So, your S Corp might truly be an LLC taxed as an S corporation such that an Operating Agreement (as opposed to By Laws) is the governing and controlling document.

We can work with your attorney to draft this correctly. Here is our KB article on things to consider with Operating Agreements-

LLC Liability Protection (Fallacy)

Can I be sued if I own an LLC? Yes. And you can easily lose on a personal level. And while consultation with an experienced attorney is strongly recommended for your unique situation, as business owners ourselves we feel the excitement of the LLC has overshadowed the reality of our litigious society. In other words, if your careless acts, errors or omissions injure someone even though it was under the auspice of your LLC, good chances you will be personally named in the lawsuit and held liable as the owner of the LLC. Remember that injury is not limited to just bodily injury; it could also mean financial injury.



Officers and directors of corporations are routinely held liable for the actions of the corporation. This is called piercing the corporate veil. Can you say Enron? Piercing the corporate veil typically is most effective with smaller privately held business entities (close corporations) in which the corporation has a small number of shareholders, limited assets, and separating the corporation from its shareholders would promote fraud or an inequitable result. Sounds like about 99% of the LLCs and small corporations out there.

So, what do you do? Securing a decent umbrella policy, both at the personal and commercial level, is our strong recommendation for liability arising from your acts, errors and omissions. Speak to your insurance agent, but typical umbrella policies are \$300-\$500 per year. We've expanded this [LLC fallacy in our KB articles](#).

S Corp Election, Lower Self Employment Taxes

Reducing your self-employment taxes is the main reason business owners want to be taxed as an S Corp. There are some issues such as payroll, corporate tax return requirements and passive incomes. But if you have over \$30,000 in net profits after expenses, you might want to give it some serious consideration. Please read our book titled **Taxpayer's Comprehensive Guide to LLCs and S Corps** and our S Corp formation questionnaire-Basically you will save 8% to 10% of your net income in taxes, and perhaps 9% to 12% if paying for health insurance through the business. This is based on \$100,000 in net business income. If your income is higher, the percentage will drop... but the savings is still huge.

Business Consultation

How does business formation work? When should you do it? When should you delay it? Let's chat!

Name (required)

Business Name

Phone Number (slightly required so we can stalk you)

State

Submit

Our fee is \$150 for 40 minutes (such a deal for you!). If we decide to press forward with an engagement, we will **credit the \$150 towards future services**. If you don't need convincing and already want our services such as business tax return preparation or S Corporation subscription package, and you simply have some housekeeping questions, we answer those at no charge. Charging a consult fee to tell you how great we are is not cool.

Consultations are scheduled on weekdays during the work day. Yes, we can accommodate other days and after-hours, but those are reluctantly agreed to after some eye-rolling and complaining. We will answer your questions to determine three things-

- Do you need our help?
- Can the Watson CPA Group and its **support staff** help you?
- Can we work together as a collaborative partnership?

From there we can determine the best plan which might be a simple "keep on keeping on"; otherwise we will construct a malleable plan together and provide a quote for those services.

Shockingly we actually return all consultation requests via email and phone call. No black holes here!

Benefits of Business Formation

Many advantages are available to you when you form an LLC, partnership, corporation or S-Corp. Section 105 Health Reimbursement Arrangements (HRA), retirement contributions and Section 127 Education Assistance are some of the big ones. Avoiding self-employment taxes through an S corporation. Pulling tax-free money out through an Accountable Plan for your home office. All good stuff.



S Corp Package

The Watson CPA Group specializes in S corporations which have a small number of shareholders, and are often just a one-person show. Did you know that 95% of all S Corps have only one shareholder, and 99% of all S Corps have three or fewer shareholders?

Because small business is a core competency for us, we have created an S corp package that includes the following (No, the S doesn't stand for stormtrooper)-

	A la Carte*	Aspen	Vail	Breck
S Corp Reasonable Salary Calculation (sample report)	\$400	Yes	Yes	Yes
Section 199A QBID Tax Optimization (more info)	\$300	Yes	Yes	Yes
S Corp Payroll Filings and Deposits	\$1,200	Yes	Yes	
Annual Processing (W2s and other filings)	inc.	Yes	Yes	
S Corporation Tax Prep (Form 1120S)	\$800 to \$1,200	Yes	Yes	Yes
Individual Tax Prep (Form 1040), One Owner	\$500 to \$700	Yes		Yes
Estimated Tax Payments (done thru payroll or directly by us)	\$300	Yes	Yes	Yes
2019 Tax Planning, Mock Tax Returns (Tax Questionnaire)	\$300 to \$500	Yes	Yes	Yes
Unlimited Consultation and Periodic Business Reviews (PBR)	\$1,200	Yes	Yes	Yes
First Research Industry Reports (sample report)	\$150	Yes	Yes	Yes
Small Business Tax Deductions Optimization	inc.	Yes	Yes	Yes
IRS Audit Defense	NA	Yes		Yes
	Annual Fee	\$2,940	\$2,700	\$2,640
	Monthly Fee	\$245	\$225	\$220

Note: A la Carte fee ranges are approximates. 90% of our clients fit into these fee ranges, but there are outliers. We have a handful of clients with over 30 rentals; their individual tax return is north of \$2,500. We also are assuming one state; if your business spans the galaxy (keeping with our stormtrooper motif) then additional fees will be discussed with you and implemented. Typically each state is around \$250 since it affects both your business and individual tax returns (frankly, state apportionment is a pain in the butt, but it is our pain).

Couple of other things to keep in mind- we make very little profits on payroll processing... we offer it as a convenience to our clients. One throat to choke with a single call can be reassuring but if you want to run your payroll, go for it! Everyone thinks payroll is a piece of cake; write a check and done. Nope... we see a lot of mistakes being made by clients especially the handling of health insurance and HSA contributions since there are special rules.

You can prepare your own individual tax return (Vail package) as well... but the benefit of the Watson CPA Group preparing both tax returns is that we slide things around depending on income limitations, phaseouts, alternative minimum tax (AMT), Section 199A deduction optimization, etc. Having our arms around both can yield some good tax savings!

Some more things to consider- when a partial year remains, our usual annual fee is pro-rated to not charge you for services you didn't use (like payroll and consultation). However, a large chunk of our annual fee is tax preparation which is typically a fixed amount of \$1,300 (both corporate and personal). Whether we onboard you in January, July or December, we have to prepare a full year tax return. This increases the monthly fee for the remaining months of 2019 but the monthly fee will later decrease in January of 2020 to reflect the amounts above. Yeah, we make it sound like 2020 is just around the corner.



No BS

We are not salespeople. We are not putting lipstick on a pig, and trying to convince you to love it, even if Tom Ford's Wild Ginger looks amazing. Our job remains being professionally detached, giving you information and letting you decide.

We see far too many crazy schemes and half-baked ideas from attorneys and wealth managers. In some cases, they are good ideas. In most cases, all the entities, layering and mixed ownership is only the **illusion of precision**. Just because you can complicate the crap out of your life doesn't mean you must.

Section 199A Deduction Optimization

Section 199A is a derivative of the recent Tax Cuts & Jobs Act of 2017. In a nutshell, business owners including rental property owners will enjoy a 20% deduction based on the qualified business income. There are limitations based on income, W-2 wages and depreciation. As a result, there is some optimization that is necessary for a small business owner to get the most from the Section 199A deduction. On one hand we want to reduce W-2 salaries to shareholders to minimize self-employment taxes. On the other hand, we want to increase W-2 salaries so they do not limit the amount of Section 199A that is deducted. Read our full Section 199A Qualified Business Income article by clicking on the button below-

[Pass Thru Tax Reform](#)

Our Business Expertise



As mentioned elsewhere we primarily focus on small business owners and their unique consultation and tax preparation needs. With 16 full-time consultation professionals including Certified Public Accountants and Certified Financial Planners on [our team](#), the Watson CPA Group consults on corporate structures, S corp elections (even late S corp elections back to January), tax strategies, business coaching, industry analysis, executive benefits, retirement planning including individual 401k plans, exit strategies, business valuations, income tax modeling and tax representation.

We also work with business law attorneys in California, Texas and Colorado for business owners who have additional needs such as buying or selling a business including employee stock ownership plans and partner buy-ins. We also coordinate with Polycomp and RPS to create age-based profit sharing plans and cash balance (defined benefit) plans. We can run point on whatever your business needs so the communication is effective and efficient.

The button below links to our Periodic Business Review (PBR) Agenda. We use this throughout the year as a checklist for our business clients. We can also use it for any type of business consultation. Here are some other buttons that you might be

interested in as well.

[Periodic Business Review \(PBR\)](#)

[Sample Biz Services Proposal](#)

[S Corp Questionnaire](#)

[Reasonable S Corp Salary](#)

[Business Tax Deductions](#)

[Auto Purchase Questionnaire](#)

Click the button below to schedule a 40 minute consultation. Our fee is \$150, but we credit that back to you if you decide to engage us for future services. Low risk, high- reward.

[Business Consultation](#)

How does all this work? Let's chat and figured it out together!

Value Proposition

The Watson CPA Group are business consultants, not just number crunchers. Anyone can balance a checkbook. Anyone can print a paycheck. Anyone can put the right number in the right blanks. But we take a consultative approach to your small business. You can always find someone to do it for less- of course. However consider the solid business services and consultation support which you will get with the Watson CPA Group that other accounting firms might not provide. Read more about our [Value Proposition](#) here.

Talk to us today to not just get started, but to get started on the right track!