

Mid-Year Financial Checklist for Business Owners



To help conduct your mid-year financial evaluation, here's a checklist of considerations.

Review tax estimates, payments, and future liability/refund

Double-check on your tax situation and make sure you don't have any unpleasant tax surprises. If you make estimated tax payments each quarter, confirm that you have already made your payments for the first & second quarter of the year.

If income is going to be higher than it was last year, forecast what you are going to owe when you file. Earmark cash for your taxes to avoid cash flow issues in the future from your surprise tax bill.

If income is going to be lower than it was last year, use your financial planner or tax professional to figure out how to adjust your remaining estimated payments. That will help you avoid over-paying your taxes and use cash wisely in the meantime.

- Review estimated tax payments for Q1 & Q2***
- Forecast your tax liability/refund – adjust quarterly payments & cash accounts accordingly***
- At a minimum, ensure withholding & estimated payments meet safe harbor requirements***

Cash Flow Planning

Start by doing a cash flow forecast. If you happened to make one at the start of the year, compare your actual to the original.

At the end of the day, cash is the bloodline of every business. Not understanding inflows and outflows can cause major issues when unexpected costs arise (like a big tax bill).

Be ready to take action if cash flow is tight – be ready to hustle for more sales, negotiate supplier payment terms, or figuring out if there are expenses you can cut. On the other hand, if you find you have excess cash – put it to work back in the business, in your personal finances, or pay off some debt.

- Compare cash flow forecasts to what actually happened. Are you on track?***
- Ask yourself, what actions need to be taken?***

Review Business Distributions

For businesses operating as an LLC taxed under the S-Corp category, you as the proprietor draw a salary and also take business profit distributions. These distributions, akin to dividends, are a great way to enhance your personal financial plan. If you're a sole proprietor or self-employed, you pay yourself using an "owner's draw." Commonly owners will take regular distributions, which feels like a salary.

Contemplate establishing a regular distribution schedule, perhaps quarterly. This approach enhances organization within your personal cash flow and simplifies the process of automating your plan. What have you been using distributions for? The additional profits can be used to beef up investments (like a Solo 401(k) or SEP IRA), reinvested in the business, or for personal goals.

A common mistake I've seen is taking intermittent and minor distributions for specific expenses. Not only is this difficult to track, but also might make you feel less profitable (from a behavioral perspective). Running a business can be hard! So, give yourself permission to take profit distributions if you're meeting your business and personal goals.

- Review & plan distributions/owner's draw for the year***
- Assess whether distributions being used to create independence from the business.***

Right-Size your Emergency Funds

Like I said, cash is the bloodline of any business & household. On the personal side, you'll want to keep anywhere between 3 and 12 months of expenses in the form of cash (not CD's or other illiquid investments) in a high yield savings account (like Flourish).

As a business owner (depending on the stability of your cash flow), keep enough business cash to cover 2-6 months of operating expenses. Be intentional with any excess cash – i.e. reinvest or distribute.

Lastly, remember that you need to have a line of credit as a last resort access to capital. Having a solid safety net can keep your business/household afloat during unexpected challenges or opportunities (which we all go through at some point!)

- Review your personal cash (generally is between 3 to 12 months of expenses)***
- Ensure you're using liquid, high yield savings accounts to house your cash***
- Depending on the stability of your cash flow, keep 2-6 months of operating expenses in cash***
- Be intentional with any excess cash! Reinvest or distribute***
- Review your line of credit options for a last resort on a rainy day***

Tax Planning

Tax planning is a year-round game. The goal of tax planning is to limit your lifetime tax bill! The good news is the tax code is tilted towards making sure you (as a business owner) are successful. At least more so than your regular ole W-2 employee. Consider accelerating expenses, making strategic business investments, reviewing your entity selection, and contributing to a retirement plan. Also

Here is a common mistake I see people make (even financial professionals). Financial goals are more important than tax-savings – don't chase the wrong rabbit. For example, don't max a Solo 401(k) before building an adequate emergency fund.

- Accelerating expenses or make strategic business investments***
- Increasing/initiating a retirement plan for your business – evaluate Roth vs Pre-Tax & impacts on QBI***
- Changing entity selection***

Leverage your Professionals

You want to integrate your financial advisor with your tax advisors. Giving your advisors access to one another allows them to create synergy with one another and hopefully save you time.

- Meet with financial & tax professionals***

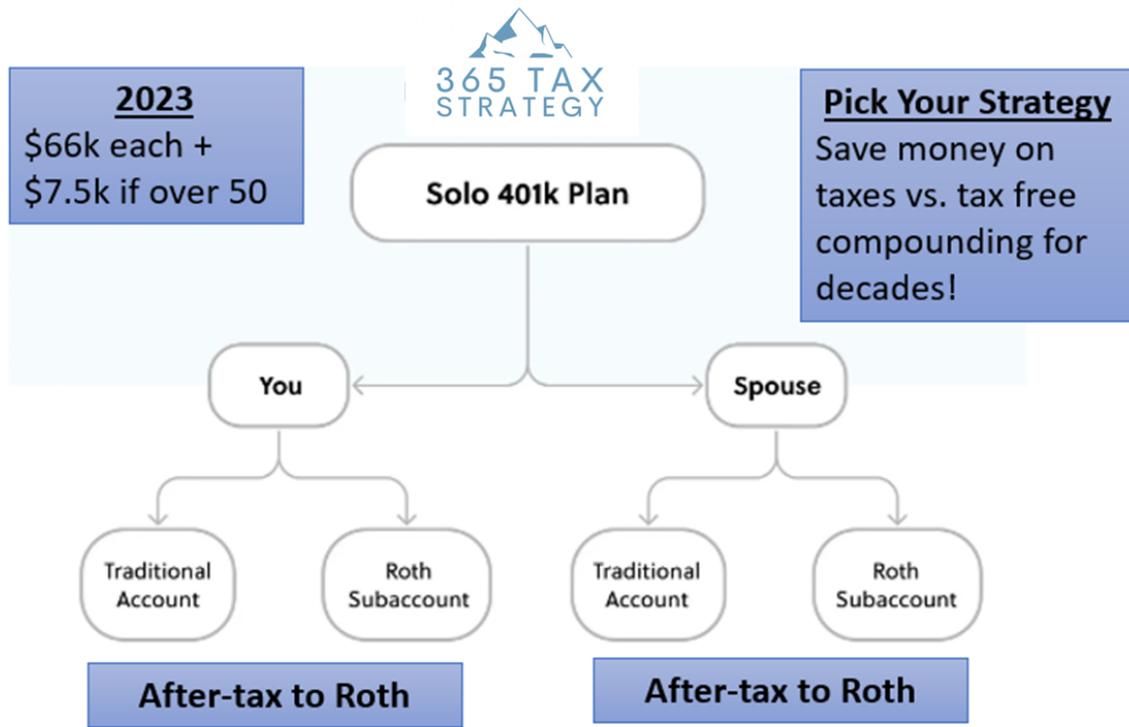
Create Intention for the Rest of the Year

Spending time in review helps us assess if we're on track. But we can't spend too much time looking in the rear view. We need to set our course for the rest of the year.

- What is the biggest thing you want to accomplish professionally between now and the end of this year?***
- What is the biggest thing you want to accomplish personally between now and the end of this year?***
- What purpose does your business play in your overall financial plan?***



Small Business Owners & 1099 Contractors/ Employees



MEGA BACK DOOR ROTH FOR SOLO 401(K)'S

example assumes:

S-Corp

\$200,000 Profit &

\$80,000 W-2 Income

* Estimates, consult with CPA

can contribute profit sharing up to 25% of W-2 Income

employer profit sharing:
\$20,000

employee after-tax:
\$23,500

can contribute up to 100% of W-2 Income

employee roth:
\$22,500

max contribution 2023:
\$66,000 (\$73,500 if age 50+)

Benefits of Roth

increase Qualified Business Income

more tax-free growth

Future Growth...
Tax-Free!

In Service Roth Conversions:
\$23,500

you convert your after-tax bucket to a Roth IRA



make your conversion ASAP!
any growth on after-tax dollars is taxed as income at the time of conversion