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SCULLY SURPRISED MOST WITH
HER ABRUPT RESIGNATION

YOUR TAX
STRUCTURE MAY
NEED A REMODEL

Building Savvy

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James Kissling, left, and
brother John

THE KISSLING CONNECTION

*Architect James and Builder Brother
John Form an Unbeatable Team*

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PHOTO BY JASON ROBERTS

YOUR TAX STRUCTURE MAY NEED A REMODEL



Choosing the right business entity at the right time may be a good way to minimize your taxes, provide better asset protection, and offer more flexibility and security for your exit plan.



By Steven Bankler, CPA

While the decision shouldn't be taken lightly and could incur significant costs, reviewing your options should be something you do on a regular basis, similar to performing regular maintenance on a vehicle, so it continues to run smoothly. Even seemingly small changes could signify a tax structure modification is in order.

The following are some of the most common signs your business entity may need to be re-calibrated. Do any ring true for you?

You've added assets/property or employees.

Examples include adding a fleet of vehicles, purchasing your own tools and equipment instead of leasing, and hiring a handful of employees for the first time. Changes in the type or amount of assets, property, or personnel the business has could affect two crucial success factors: your liabilities and your taxes. If you're a sole proprietor, it's likely time to think bigger (in structure).

Your business may qualify for the new Qualified Business Income deduction.

Profitable builders set up as pass-through entities like partnerships, LLCs or S-Corps may be able to deduct up to 20 percent of the business income reported on the personal return of the owners. Depending on the dollar amount of these profits, additional tests of W-2 wages paid to the employees and the amount of tangible property used in the business must also be factored into this calculation.

You want to attract investors, change leadership, or add owners/shareholders.

Entrepreneurs often find that a structured entity (LLC, C-Corp, or S-Corp) has advantages for raising capital and attracting investors. If you're a sole proprietor wanting to add a partner, a change to a partnership (including LLC taxed as a partnership, or limited partnership) may be a great fit, while S-Corps can have up to 100 shareholders (who are U.S. citizens) and C-Corps can have unlimited shareholders.

You want to offer employees and owners fringe benefits.

Recruiting and retaining top talent can mean getting creative when it comes to the perks you offer. Health insurance, retirement plans, professional development, mileage reimbursement, use of company vehicles, employee meals and snacks are just the tip of the iceberg when it comes to the benefits you can offer. Keep in mind that differences in entity structures affect the tax deductions for the benefits provided to employee/owners.

Your purpose or mission has changed.

Lesser-known corporate structures like B-Corps (taxed like C-Corps but driven by public good), closely-held corporations, and nonprofit corporations can offer great advantages for owners with very niche needs. If your purpose or mission has recently changed or evolved, you may want to investigate whether the structure needs to be

refreshed, too. Builders that focus on sustainability, historical preservation, accessibility, or economic housing initiatives may fall into this category.

Other changes in local or federal tax codes are affecting the business.

While taxes are a certainty, the amount and nature of taxes are in constant motion. Recent tax code changes in areas like Section 179 for deducting property, net operating loss (NOL) treatments, accounting methods available for long-term projects, and tax cuts for corporations and pass-through entities alike mean the tax structure that's benefited you in years past may no longer be your best option.

Don't assume the tax structure you formed at the start of your business journey will remain your best option. Not only do changing tax laws affect it, but so do changes in the economy, industry trends, and your own personal and professional goals. Take time to re-evaluate the effectiveness of your business entity when these changes happen and don't be afraid to evolve with the times. ▼

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit-strategy services for closely held businesses. In addition, he also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Learn more about Steven Bankler, CPA, Ltd. at www.bankler.com.