

Business Structure & Tax Strategy Guide for Budget App

IMPORTANT DISCLAIMER

I am not a lawyer, accountant, or tax professional. This guide provides general information for educational purposes. You MUST consult with:

- A licensed CPA or tax professional
- A business attorney
- Your state's business registration office

Tax laws vary by state and change frequently. Professional advice is essential.

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Business Structure Comparison

Sole Proprietorship (Default - DO NOT RECOMMEND)






Structure:

- You and business are same legal entity
- No formation required
- Report on Schedule C of personal tax return

Pros:

-  Simple, no paperwork
-  Low cost (\$0 to start)
-  Complete control

Cons:

-  **NO liability protection** (personal assets at risk)
-  Self-employment tax on ALL income (15.3%)
-  No tax optimization options
-  Hard to sell business
-  Looks unprofessional

Tax Rate: 15.3% SE tax + income tax (22-37%) = **37-52% total**






Verdict:  **DO NOT USE** for a SaaS business

LLC (Limited Liability Company) - GOOD OPTION




Structure:

- Separate legal entity
- "Pass-through" taxation (default)
- Flexible management structure

Pros:

-  **Personal liability protection**
-  Simple to form and maintain
-  Flexible taxation (can elect S-Corp)
-  Easy profit distribution
-  Less paperwork than corporation

Cons:

-  Self-employment tax on ALL profit (if not S-Corp)
-  State-specific rules vary
-  Annual fees (\$50-800/year depending on state)

Tax Rate (LLC without S-Corp election):

- 15.3% SE tax + income tax = **37-52% total**

Tax Rate (LLC with S-Corp election):

- Only SE tax on salary portion
- Dividends not subject to SE tax
- Effective rate: **25-35% total** (BIG SAVINGS)






Verdict:  **RECOMMENDED** (with S-Corp election when profitable)

S-Corporation - BEST FOR TAX SAVINGS







Structure:

- Corporation that elects "S" status
- Pass-through taxation
- Must pay reasonable salary
- Remaining profit = distributions (no SE tax)

Pros:

-  **HUGE tax savings** on self-employment tax
-  Liability protection
-  Professional image
-  Easier to sell/transfer
-  More retirement plan options

Cons:

-  More paperwork and compliance
-  Must run payroll (costs \$50-150/month)
-  Must pay "reasonable salary"
-  Stricter operating requirements
-  Limited to 100 shareholders (not an issue for you)
-  All shareholders must be US citizens/residents

Tax Rate:

- Salary: 15.3% SE tax + income tax
- Distributions: Income tax ONLY (no 15.3% SE tax)
- Effective rate: **25-35% total**





Verdict:  **BEST FOR TAX SAVINGS** once making \$60K+ profit

C-Corporation - NOT RECOMMENDED





Structure:

- Traditional corporation
- Double taxation (corporate + personal)
- Complex structure

Pros:

-  Unlimited shareholders
-  Can retain earnings
-  Stock options for employees
-  VC-friendly structure

Cons:

-  **Double taxation** (21% corporate + income tax on dividends)
-  Complex and expensive
-  Overkill for small SaaS
-  Much more paperwork

Tax Rate: 21% + 15-37% on dividends = **36-58% total**

Verdict:  **NOT RECOMMENDED** until raising VC money or IPO plans

LLC vs S-Corp: Decision Matrix

Factor	LLC (Default)	LLC + S-Corp	Pure S-Corp
Formation Cost	\$100-800	\$100-800 + \$100	\$100-800
Annual Cost	\$50-800	\$50-800 + payroll	\$50-800 + payroll
Payroll Required	No	Yes	Yes
Complexity	Low	Medium	Medium
Tax Savings	None	High	High
Flexibility	High	Medium	Medium
Best For	<\$40K profit	\$40K-500K profit	\$40K-500K profit

Recommended Structure

Phase 1: Starting Out (<\$40K profit/year)

Structure: LLC (single-member, default taxation)

Why:

- Simple and cheap
- Liability protection
- Tax savings not worth complexity yet
- Easy to upgrade later

Cost: \$100-800 (formation) + \$50-800/year (annual fees)

Phase 2: Growing (\$40K-\$500K profit/year)

Structure: LLC with S-Corp election

Why:

- Significant tax savings (\$6K-\$30K/year)
- Still relatively simple
- Payroll costs justified by savings
- Best balance of simplicity and savings

Cost:

- Formation: \$100-800 (if not already LLC)
- S-Corp election: \$0 (IRS Form 2553)
- Payroll service: \$600-1,800/year
- **Tax savings: \$6,000-\$30,000/year**

Net Benefit: \$4,200-\$28,200/year after costs

Phase 3: Scaling (\$500K+ profit/year)

Structure: C-Corp (if raising VC) or stay S-Corp

Why:

- If bootstrapping: S-Corp still best
- If raising VC: Must convert to C-Corp
- C-Corp needed for stock options, preferred shares

Cost: Depends on complexity

LLC Setup Guide

Step 1: Choose Your State

Options:

Home State (RECOMMENDED for most)

- Where you live and operate
- Simplest compliance
- No double filing

Delaware (for large companies)

- Business-friendly laws
- Strong legal precedents
- Good if raising VC
- Requires registered agent (\$100-300/year)
- Must file in home state too (double fees)

Wyoming (low cost alternative)

- Low fees (~\$100/year)
- Privacy protection
- Good for small businesses
- Must still file in operating state

Recommendation: Start in your home state. Delaware only if raising serious VC.

Step 2: Name Your LLC

Naming Rules:

- Must end with "LLC" or "Limited Liability Company"
- Must be unique in your state
- Cannot use restricted words (Bank, Insurance, etc.)

Check Availability:

- State business registry website
- Google "[Your State] LLC name search"

Reserve Name (optional):

- \$10-50 fee
- Holds name for 60-120 days

Examples:

- "BudgetApp Technologies LLC"
- "SmartBudget Software LLC"
- "FinanceFlow LLC"

Pro Tip: Also check:

- Domain availability (.com)
 - Social media handles (@budgetapp)
 - Trademark conflicts (USPTO.gov)
-

Step 3: File Articles of Organization

What: Official document creating your LLC

Where: Your state's Secretary of State office

Cost: \$50-500 depending on state

- California: \$70
- New York: \$200
- Delaware: \$90
- Texas: \$300
- Florida: \$125

Information Needed:

- LLC name
- Business address (can use home address)
- Registered agent (you or service)
- Member names
- Purpose of business
- Management structure

How to File:

- Online (fastest, most states)
- Mail (slower, cheaper in some states)
- In person (usually unnecessary)

Processing Time: 1-2 weeks (expedited: 1-3 days for extra fee)

Step 4: Get an EIN (Employer Identification Number)

What: Like a social security number for your business

Cost: FREE

Where: IRS.gov

How: Apply online at <https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online>

Processing Time: Instant (online)

When You Need It:

- Opening business bank account
 - Filing taxes
 - Hiring employees
 - Electing S-Corp status
-

Step 5: Create Operating Agreement

What: Internal document outlining ownership and operations

Required: Not in all states, but HIGHLY recommended

Includes:

- Ownership percentages
- Profit/loss allocation
- Management structure
- Voting rights
- Buy-sell provisions
- Dissolution procedures

Cost:

- DIY template: \$0-50
- Lawyer: \$500-2,000

Template Sources:

- LegalZoom
- Rocket Lawyer
- Nolo

Pro Tip: Even single-member LLCs should have this for liability protection

Step 6: Open Business Bank Account

Why:

- Keeps personal and business finances separate
- Required for liability protection
- Professional appearance
- Easier bookkeeping

What You Need:

- EIN letter
- Articles of Organization
- Operating Agreement
- Driver's license

Recommended Banks:

- **Mercury** - Best for startups, free, excellent UX
- **Novo** - Free business checking, integrations
- **Chase Business** - Good if you want physical branches
- **Bank of America** - Nationwide presence
- **Local Credit Union** - Often better fees

Typical Fees:

- Business checking: \$0-25/month
 - Avoid: Wells Fargo, US Bank (high fees)
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Step 7: Register for State Taxes (if applicable)

Sales Tax: If selling to residents of your state

- California: Board of Equalization
- Texas: Comptroller
- Florida: Department of Revenue
- etc.

State Income Tax: Most states (exceptions: WA, TX, FL, NV, WY, SD, AK, TN, NH)

Employer Taxes: If hiring employees

- State unemployment insurance
 - Workers compensation
 - Disability insurance (some states)
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Step 8: Obtain Business Licenses

General Business License:

- City/county license (if required)
- Cost: \$25-400
- Check: City clerk's office

Professional Licenses:

- Usually not needed for software
- Check state requirements

Home Business Permit:

- If operating from home
 - Check local zoning laws
 - Cost: \$0-150
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S-Corp Setup Guide

Option 1: Start as S-Corp

Steps:

1. Form corporation (not LLC) in your state
2. File Form 2553 with IRS within 75 days
3. Set up payroll
4. File corporate tax return (Form 1120-S)

Cost: Same as LLC + payroll costs

Option 2: Convert LLC to S-Corp (RECOMMENDED)

Why Better:

- Start simple with LLC
- Elect S-Corp when profitable
- Easier to revoke if needed

Steps:

1. Ensure LLC is eligible:

- Domestic US entity
- Only one class of stock
- <100 shareholders
- Shareholders are individuals, US citizens/residents
- Not a financial institution or insurance company

2. File Form 2553 with IRS:

- Deadline: March 15 for current year, or within 2 months 15 days of formation
- Late election possible with explanation letter
- All members must sign

3. Notify state (if applicable):

- Some states require separate S-Corp election
- Check your state's requirements

4. Set up payroll:

- Choose payroll service (Gusto, ADP, Paychex)
- Determine reasonable salary
- File quarterly payroll taxes (Form 941)
- Provide W-2 to yourself

5. Update accounting:

- Separate salary vs distributions
- Track shareholder basis
- Keep corporate minutes

Form 2553: S-Corp Election

Download: <https://www.irs.gov/pub/irs-pdf/f2553.pdf>

Key Information Needed:

- EIN
- LLC formation date
- Tax year (calendar or fiscal)
- All member signatures
- Consent statements

Deadline:

- For existing business: March 15 (or 2.5 months after start of tax year)
- For new business: Within 2 months 15 days of formation
- Late election: Possible with reasonable cause letter

Processing Time: 60 days (check status after 60 days if no response)

Tax Benefits Breakdown

Self-Employment Tax Savings (BIGGEST BENEFIT)

How It Works:

Sole Prop/LLC (no S-Corp):

Profit: \$100,000
Self-Employment Tax (15.3%): \$15,300
Income Tax (24%): \$24,000
Total Tax: \$39,300 (39.3%)

S-Corp:

Profit: \$100,000
Salary: \$60,000 (reasonable)
Distribution: \$40,000

Salary:

- Payroll Tax (15.3%): \$9,180
- Income Tax (24%): \$14,400
- Subtotal: \$23,580

Distribution:

- Payroll Tax: \$0 (KEY SAVINGS!)
- Income Tax (24%): \$9,600
- Subtotal: \$9,600

Total Tax: \$33,180 (33.2%)

SAVINGS: \$6,120/year (15.6% less)

The Math:

- You AVOID 15.3% self-employment tax on \$40,000
- Savings: $\$40,000 \times 15.3\% = \$6,120/\text{year}$

What is "Reasonable Salary"?

IRS Rule: Must pay yourself fair market wage for your role

Guidelines:

- 40-50% of profit is common
- Cannot pay \$0 salary
- Cannot pay \$10K salary on \$200K profit

Resources:

- Bureau of Labor Statistics (bls.gov)
- PayScale.com
- Salary.com
- GuideStar for nonprofit comparables

Job Titles to Research:

- Software Developer: \$70K-150K
- Product Manager: \$80K-160K
- CEO/Founder (small tech): \$60K-120K

Safe Harbor (not official IRS rule, but common):

- Minimum: \$40,000-60,000 for tech founder
- Better: 40-50% of net profit
- Conservative: Match industry average for your role

Red Flags (IRS audit risk):

- \$20K salary on \$200K profit (too low)
- \$150K salary on \$160K profit (defeats purpose)
- \$0 salary (illegal)

Other Tax Deductions

Business Expenses (Both LLC and S-Corp):

Category	Annual Deduction
GCP Hosting	\$2,400
Domain & SSL	\$100
Software Subscriptions	\$1,200
- Figma	
- GitHub	
- Analytics	
Marketing	\$20,000
- Google Ads	
- Content	
- Tools	
Equipment	\$2,000
- Laptop	
- Monitor	
- Desk	
Home Office (if eligible)	\$3,000-6,000
- Internet	
- Utilities portion	
- Depreciation	
Education	\$1,000
- Courses	
- Books	
- Conferences	
Professional Services	\$2,000
- Accountant	
- Lawyer	
Travel (business)	\$3,000
- Conferences	
- Client meetings	
TOTAL	\$34,700-37,700

Tax Savings: $\$34,700 \times 30\% = \$10,410$

Home Office Deduction

Eligibility:

- Exclusive use for business
- Regular use
- Principal place of business

Methods:

Simplified Method (easier):

- \$5 per square foot
- Max 300 sq ft
- Max deduction: \$1,500

Actual Expense Method (more savings):

Office: 150 sq ft

Home: 1,500 sq ft

Percentage: 10%

Deductible:

- Rent/Mortgage Interest: $\$20,000 \times 10\% = \$2,000$

- Utilities: $\$2,400 \times 10\% = \240

- Internet: $\$1,200 \times 10\% = \120

- Repairs: $\$1,000 \times 10\% = \100

- Insurance: $\$1,200 \times 10\% = \120

- Depreciation: $\$250,000 \times 2.5\% \times 10\% = \625

TOTAL: \$3,205/year

Tax Savings: $\$3,205 \times 30\% = \962

Retirement Contributions

Solo 401(k) (Best for S-Corp):

As employer and employee, you can contribute:

- Employee: \$23,000 (2024 limit, \$30,500 if 50+)
- Employer: Up to 25% of salary
- Max total: \$69,000 (2024)

Example:

Salary: \$60,000

Employee contribution: \$23,000

Employer contribution: \$15,000 (25% of \$60K)

Total: \$38,000

Tax Savings: $\$38,000 \times 30\% = \$11,400$

SEP IRA (Alternative):

- Simpler than Solo 401(k)
 - Up to 25% of salary
 - Max: \$69,000 (2024)
 - No employee contribution option
-

Health Insurance Deductions

S-Corp Owner:

- Premiums deductible as business expense
- Show on W-2 (not taxable)
- Deduct on personal 1040
- Cannot deduct from corporate income

Example:

Health Insurance: \$8,400/year
Tax Savings: $\$8,400 \times 30\% = \$2,520$

Qualified Business Income (QBI) Deduction

Section 199A:

- 20% deduction on qualified business income
- Available for pass-through entities (S-Corp, LLC)
- Phase-out at high incomes (\$182K single, \$364K married)

Example:

S-Corp Distribution: \$40,000
QBI Deduction: $\$40,000 \times 20\% = \$8,000$
Tax Savings: $\$8,000 \times 24\% = \$1,920$

Note: Complex calculation, consult CPA

Total Tax Savings Example

Scenario: \$150K Profit, S-Corp Election

Income:

Total Profit: \$150,000

Reasonable Salary: \$70,000 (47%)

Distributions: \$80,000

Tax Comparison:

Sole Prop/LLC (No S-Corp):

Self-Employment Tax: \$21,469 (15.3% of \$140,300)

Income Tax: \$26,727 (24% effective)

Total Tax: \$48,196

S-Corp:

Salary Portion (\$70,000):

- Payroll Tax: \$10,710

- Income Tax: \$13,440

- Subtotal: \$24,150

Distribution Portion (\$80,000):

- Payroll Tax: \$0

- Income Tax: \$15,360

- QBI Deduction: -\$3,840

- Subtotal: \$11,520

Total Tax: \$35,670

Annual Savings: \$12,526

Additional Deductions:

Business expenses: $\$35,000 \times 30\% = \$10,500$

Solo 401(k): $\$38,000 \times 30\% = \$11,400$

Health insurance: $\$8,400 \times 30\% = \$2,520$

Home office: $\$3,200 \times 30\% = \960

Additional Savings: \$25,380

Total Annual Tax Savings: \$37,906

Effective Tax Rate:

- Sole Prop: 32.1%
 - S-Corp with deductions: 16.8%
 - **You keep an extra \$37,906**
-

Step-by-Step Formation

Complete Checklist

Pre-Formation (1-2 weeks):

- ☐ Choose business name
- ☐ Check name availability
- ☐ Reserve domain
- ☐ Check trademark conflicts
- ☐ Decide on state
- ☐ Research state requirements

Formation (1-2 weeks):

- ☐ File Articles of Organization (\$50-500)
- ☐ Get EIN from IRS (instant, free)
- ☐ Create Operating Agreement (\$0-2,000)
- ☐ Open business bank account
- ☐ Get business credit card (optional)

Post-Formation (1-2 weeks):

- ☐ Register for state taxes
- ☐ Get business licenses
- ☐ Set up accounting software (QuickBooks, Wave)
- ☐ Choose payroll provider (if S-Corp)
- ☐ File Form 2553 (if S-Corp election)

Ongoing:

- ☐ Annual state fees
 - ☐ Quarterly estimated taxes
 - ☐ Quarterly payroll taxes (if S-Corp)
 - ☐ Annual tax return
 - ☐ Annual meeting minutes
-

Ongoing Compliance

LLC Compliance

Annual/Biennial Report:

- Due: Varies by state (often anniversary of formation)
- Cost: \$0-800
- Consequence if late: Dissolution, fines

Annual Fees:

- California: \$800 minimum franchise tax
- Delaware: \$300
- Texas: \$0
- Florida: \$138.75

Required Records:

- Operating Agreement
 - Member meeting minutes (recommended)
 - Financial statements
 - Tax returns
-

S-Corp Compliance

Quarterly (if payroll):

- ☐ File Form 941 (quarterly payroll taxes)
- ☐ Pay employee/employer taxes
- ☐ File state payroll taxes

Annually:

- ☐ File Form 1120-S (S-Corp tax return) by March 15
- ☐ Provide Schedule K-1 to shareholders
- ☐ Issue W-2 to yourself (by January 31)
- ☐ File state tax return
- ☐ Hold annual shareholder meeting (document in minutes)
- ☐ Update corporate records

Costs:

- Payroll service: \$50-150/month (\$600-1,800/year)
 - Tax preparation: \$500-2,000/year
 - Bookkeeping: \$100-500/month (optional)
-

Tax Strategies

Strategy 1: Income Shifting

Hire Family Members:

- Shift income to lower tax brackets
- Children under 18: No FICA tax
- Spouse: Standard deduction (\$13,850)

Example:

Pay spouse: \$25,000 salary for admin work
Their tax: ~\$2,500 (10% bracket)
Your savings: ~\$7,500 (30% bracket)
Net savings: \$5,000

Requirements:

- Must be legitimate work
 - Reasonable pay for work done
 - Proper documentation
-

Strategy 2: Lease Equipment to Company

How it works:

- You personally own equipment (laptop, etc.)
- Lease to your S-Corp
- Company deducts lease payments
- You report rental income (lower tax)

Example:

Laptop cost: \$2,000
Lease to company: \$100/month
Annual: \$1,200
Tax savings: ~\$360

Caution: Must be legitimate arm's-length transaction

Strategy 3: Tax-Deferred Retirement

Max out retirement contributions:

Solo 401(k): \$69,000
Tax savings: \$20,700 (30% bracket)
Plus: Tax-deferred growth

Roth Conversion Strategy:

- Take distributions in low-income years
 - Convert to Roth IRA
 - Pay tax now at lower rate
 - Tax-free growth forever
-

Strategy 4: Timing Income/Expenses

End of Year Strategies:

- Defer income to next year (if expecting lower rate)
- Accelerate expenses (prepay services, buy equipment)
- Max out retirement contributions
- Pay Q4 estimated taxes

Example:

Prepay 2025 subscriptions in December 2024
Deduction: \$5,000
Tax savings: \$1,500

Strategy 5: Pass-Through Deduction (QBI)

Maximize Section 199A deduction:

- Keep taxable income under phase-out (\$182K)
- Max retirement contributions
- Deduct health insurance
- Claim all business deductions

Savings: Up to 20% deduction on business income

Real-World Examples

Example 1: Solo Founder, First Year

Situation:

- Just launched app
- \$25,000 revenue
- \$10,000 expenses
- \$15,000 profit

Recommendation: Stay Sole Prop or form LLC

Why:

- Profit too low for S-Corp savings
- Payroll costs > tax savings
- Keep it simple

Taxes:

Self-employment tax: \$2,295

Income tax: \$1,650

Total: \$3,945 (26%)

Example 2: Growing App, Year 2

Situation:

- \$120,000 revenue
- \$30,000 expenses
- \$90,000 profit

Recommendation: Form LLC, elect S-Corp

Why:

- Significant tax savings (~\$8K/year)
- Worth the complexity
- Professional appearance

Setup:

Salary: \$50,000
Distribution: \$40,000
Tax savings: ~\$8,000/year
After payroll costs: ~\$6,500 net savings

Example 3: Established SaaS, Year 3

Situation:

- \$500,000 revenue
- \$150,000 expenses
- \$350,000 profit

Recommendation: S-Corp with aggressive planning

Why:

- Massive tax savings (~\$40K/year)
- Hire CPA and tax attorney
- Max out all strategies

Setup:

Salary: \$120,000 (reasonable for CEO)
Distribution: \$230,000
Solo 401(k): \$69,000
Total tax savings: ~\$50,000/year

Recommended Service Providers

Formation Services

DIY (Cheapest):

- State website directly
- Cost: \$50-500 (state fees only)
- Time: A few hours
- Best for: Comfortable with paperwork

Online Services:

- **Northwest Registered Agent** - \$39 + state fees (best value)
- **Incfile** - \$0 + state fees (upsells)
- **ZenBusiness** - \$49 + state fees (good support)
- **LegalZoom** - \$79 + state fees (most known)

Attorney:

- Local business attorney
- Cost: \$500-2,000
- Best for: Complex situations, multiple partners

Payroll Services (for S-Corp)

Gusto (RECOMMENDED):

- \$40/month + \$6/person
- Easy to use
- Auto-files taxes
- Excellent UX
- Contractor payments included

ADP:

- \$59/month + \$4/person
- More features
- Good for growth

Paychex:

- Similar to ADP
- Good customer service

QuickBooks Payroll:

- \$45/month + \$4/person
 - Integrates with QuickBooks
-

Accounting Software

Wave (FREE):

- Free accounting & invoicing
- Good for starting out
- Limited features

QuickBooks Online (\$30-180/month):

- Industry standard
- Full-featured
- Most accountants use it
- Self-employed: \$15/month
- Simple Start: \$30/month

FreshBooks (\$17-55/month):

- Good for invoicing
- Easy to use
- Time tracking

Xero (\$13-70/month):

- Similar to QuickBooks
- Better for international

Tax Professionals

When to Hire:

- S-Corp election
- \$50K+ profit
- Complex situation
- First year in business

Cost:

- CPA: \$200-500/hour
- Tax prep: \$500-2,000/year
- Monthly bookkeeping: \$100-500/month

Finding One:

- Ask other founders
 - Search "CPA for startups [your city]"
 - Look for tech/SaaS experience
 - Ensure they understand S-Corps
-

Common Mistakes to Avoid

✗ Mistake 1: Forming Too Early

Problem: Spending money before validating idea **Solution:** Wait until first revenue or serious traction

✗ Mistake 2: Choosing Wrong State

Problem: Forming in Delaware when not needed **Solution:** Start in home state unless raising VC

✗ Mistake 3: No Operating Agreement

Problem: Disputes, pierced corporate veil **Solution:** Always create one, even single-member

✗ Mistake 4: Mixing Personal/Business Finances

Problem: Loses liability protection, messy taxes **Solution:** Separate bank accounts, credit cards

✗ Mistake 5: S-Corp Too Early

Problem: Payroll costs > tax savings **Solution:** Wait until \$40K+ profit

✗ Mistake 6: Unreasonable Salary

Problem: IRS audit, reclassification of distributions **Solution:** Pay 40-50% of profit as salary

✗ Mistake 7: Missing Deadlines

Problem: Penalties, late fees, dissolution **Solution:** Calendar reminders, use compliance service

✗ Mistake 8: No Documentation

Problem: Audit issues, pierced corporate veil **Solution:** Keep meeting minutes, contracts, receipts

✗ Mistake 9: DIY Complex Taxes

Problem: Mistakes cost more than CPA **Solution:** Hire professional once profitable

✗ Mistake 10: Not Planning for Taxes

Problem: Huge tax bill, no cash to pay **Solution:** Pay quarterly estimated taxes, save 30-35% of profit

Action Plan

Phase 1: Pre-Launch (Do NOW)

- ☐ Read this guide thoroughly
- ☐ Decide: LLC or S-Corp (probably LLC first)
- ☐ Choose state (probably your home state)
- ☐ Check name availability
- ☐ Reserve domain
- ☐ Budget for formation (\$500-1,000)

Phase 2: Formation (When Ready to Launch)

- ☐ File Articles of Organization
- ☐ Get EIN
- ☐ Create Operating Agreement
- ☐ Open business bank account
- ☐ Get business credit card
- ☐ Set up accounting software

Phase 3: Early Revenue (\$0-40K profit)

- ☐ Stay as LLC (default tax treatment)
- ☐ Track all expenses meticulously
- ☐ Pay quarterly estimated taxes
- ☐ Consider hiring bookkeeper

Phase 4: Growing (\$40K+ profit)

- ☐ Elect S-Corp status (Form 2553)
- ☐ Set up payroll service
- ☐ Hire CPA
- ☐ Implement tax strategies
- ☐ Max out retirement contributions

Phase 5: Scaling (\$150K+ profit)

- ☐ Hire tax attorney
- ☐ Aggressive tax planning
- ☐ Consider entity restructuring
- ☐ Set up holding company (advanced)

Summary: Your Optimal Path

Year 1: Start Simple

Structure: Single-member LLC (or wait)
Cost: \$500
Why: Liability protection, stay flexible
Tax Rate: ~30-35% (same as sole prop)

Year 2: If Profitable (\$40K+)

Structure: LLC with S-Corp election
Cost: \$1,500-2,500/year (payroll + CPA)
Why: Tax savings > costs
Tax Savings: \$6,000-15,000/year
Tax Rate: ~25-30%

Year 3+: Optimize (\$100K+)

Structure: S-Corp with aggressive planning
Cost: \$3,000-5,000/year
Why: Maximize all strategies
Tax Savings: \$20,000-50,000/year
Tax Rate: ~20-25%

Final Recommendations

1. **Start as LLC** in your home state
2. **Elect S-Corp** when making \$40K+ profit
3. **Hire a CPA** when electing S-Corp
4. **Pay yourself reasonable salary** (40-50% of profit)
5. **Max out Solo 401(k)** contributions
6. **Keep detailed records** of everything
7. **Pay estimated taxes** quarterly
8. **Don't try to outsmart IRS** - legitimate strategies only

Expected Tax Savings:

- \$40K profit: \$6,000/year savings
- \$100K profit: \$15,000/year savings
- \$200K profit: \$30,000/year savings

The key: S-Corp election when profitable + maxing retirement contributions + proper deductions =
Keep 15-20% more of your profit

Resources

Official Government Sites

- IRS: <https://www.irs.gov>
- SBA: <https://www.sba.gov>
- Secretary of State offices (search "[State] Secretary of State")

Educational

- Nolo: <https://www.nolo.com>
- LegalZoom Learning Center: <https://www.legalzoom.com/knowledge>
- IRS Small Business: <https://www.irs.gov/businesses/small-businesses-self-employed>

Tools

- Gusto (payroll): <https://gusto.com>
- QuickBooks: <https://quickbooks.intuit.com>
- Wave (free): <https://www.waveapps.com>

Finding Professionals

- CPA Directory: <https://www.aicpa.org>
 - Bar Association: Search "[State] Bar Association"
 - SCORE (free mentoring): <https://www.score.org>
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Remember: This guide is educational only. ALWAYS consult with licensed professionals (CPA, attorney) before making business and tax decisions. Laws change frequently and vary by state and circumstance.

Good luck with your budget app! 🚀