

Sink Handle Episode 49 (complete)

Kelly Reynolds

Hello, everyone, and welcome to Episode 49. So today, I have a special guest for all of you. We talk a lot on the Sink Handle podcast about finances and knowing your numbers so that you can make good decisions, right? And I think it's so important to talk about that. What we leave out a lot of times because either we don't know or it's scary, is the topic of taxes, right? As soon as I say taxes, most people are gonna kind of Twitch and be a little weirded out, right. But it's so important because such a chunk of your revenue goes to taxes. As business owners, we need to start making good decisions in so many different areas. And taxes is definitely one of them. So today, on the podcast, I have invited Al Savarino to talk tax strategy. I'll welcome you to the sink handle podcast. Thanks for having me. Al is my accountant. But he also helped me with my tax strategy in a big way this year. So I wanted to bring him on, because I think so many business owners out there are so overwhelmed by taxes. And a lot of us just kind of throw our documents and a pile at our accountant and hope for the best and then write a check. And Al has a better way to go about that. So I wanted to bring him on today and give you guys an idea of the possibilities of what you can do with your business. Oh, tell us a little bit about yourself. Sure.

Al Savarino

We're CPAs surprise, right? Surprise. We're CPAs. And we have a northeast based firm, but we service the entire country, all 50 states. We have offices in New York City, Connecticut. And right here in Monmouth County, New Jersey, what you spoke about there is the common approach to dealing with your taxes on an every year basis, the very two different approaches to preparing and attacking your taxes. The common approach is to do the compliance approach, right, the compliance approach is to put all your documents together, put them in a file or send your accountant a pile of crap. And then in a big brown bag, let them spit out in a big brown bag, spit out a bunch of data. And here you go. See that is what we call compliance, the compliance approach that's reporting h in history, right. So once the documents go into the paper, brown bag, and they get to your accountant, very little you can do at that point, to change your fate. That's ancient history. There's a whole nother way to approach doing your taxes. And that's strategy. Kelly probably spends a lot of time with her, her clients that listen to this over people that have come in her path. With operational strategy. A lot of people run their businesses in such a way where they just, you know, they just winging it. There's no procedures, there's no processes, there's no systems, there's no strategy for running the business. Well, people do the same thing with their taxes. And then what happens is, they engage an accountant who's running his business the same exact way. He or she is basically just getting your documents putting it together, spitting out a number. I'll see you next year. There's no thought there's no planning, there's no strategy involved. And that's really what sets my firm apart. We have a tax consulting arm called tax synergy with tax energy. We put together custom tax strategies and solutions for you to hopefully reduce your tax bill down to 0%. Yes, it is possible. 0% federal income tax is possible with the right strategy.

Kelly Reynolds

That's awesome. Yeah, I mean, I think so many of my listeners are ex-corporate people. And now they have their own businesses. And it's so much different and overwhelming when you go from corporate where you have a W two and you just hand a piece of paper, right? And now you're in a business and you're like, oh god, I don't know any of this. Like, it's hard enough to figure out how to put everything in QuickBooks, and you think, that's an enormous accomplishment. Now I have to worry about taxes and estimated taxes and it's so overwhelming. And but this is the opportunity, right? Like you always talk about this, this opportunity that the tax code is written for disincentives. Mm hmm. And how you can make great decisions ahead of time to figure out how to run this business. But that can be so overwhelming, especially someone who's never done any of this before, or doesn't even know that these things are out there. Right, right. Right. Exactly. So I mean, having that kind of counsel. And that's what I like, you get to a point, you're like, well, am I big enough for these things? Like, I've made this much money? Like, when does it start mattering? You know? Like, when do I pay estimated taxes, like all those kind of things. And since I'm such a huge fan of knowing your numbers, and really making good decisions, I thought you coming on here to give us a little insight would be fantastic.

Al Savarino

So what you just spoke about there is key. It's like, at what point do I need to set it up? Right? And what do you think the answer to that question is?

Kelly Reynolds

Usually before you have that thought, right, from the very beginning, thinking, should I be doing this? It's usually too late. You're usually past? Exactly.

Al Savarino

It's too late. Now. It's not it's never too late to make changes. But wouldn't it be great to just set it up right from the beginning?

Kelly Reynolds

Right, and not have I mean, I know I can fix things. Yeah, that'd be great. Yeah, I mean, you know,

Al Savarino

You and Brian had to do some corrective bandaging. And it was just, you know, a huge time, a drag and stress. And it's one more thing you got to worry about. I think, also, for a lot of business owners. It's just like the anxiety of not knowing whether you're doing it right or wrong, or you're missing out, right? I get a lot of people who come to me, like with tax FOMO. And they're just like, oh, my goodness, I think I'm paying too much, but I don't know, it's real, the FOMO FOMO taxes is real,

Kelly Reynolds

Yes. All of a sudden, you get to the end of the year, and you're like, how much do I have to pay. And even now, because you profit first and you put aside money, it's still an enormous amount of money.

Al Savarino

It is because what people don't understand is that the tax code is almost is essentially a handbook on how to pay less taxes. Believe it or not, it is a book of incentives. And it's telling you to do this, don't do that. But most practitioners don't see it that way. They see it as one big book of rules that they become afraid of, essentially, Oh, we don't want to step on that landmine. So we just want to play it super safe. We just want to, you know, get out alive. Okay? That is a pathetic approach to being a CPA, I it's just, there's just a whole lot of bad practitioners going on.

Kelly Reynolds

I say, when we first met, when we first started talking, the first call we had, I was saying something about an accountant and you started naming names that I was like, Oh, God, I've heard terrible things. But like, there was a lot of that, right? A lot of people have been kind of burned by people not showing up. And that's crappy in any industry. But when you are by yourself trying to make a business that's really scary to not be able to rely on those people.

Al Savarino

Yeah, yeah, it's pretty scary. It's, um, there's an epidemic going on back to what we were talking about with, you want to set it up right from the beginning? Because there are so many opportunities that can be missed in that beginning, and why let it go past two, three years. And here's a sobering thought, as a self-employed person. People think, oh, wow, now I have all these write-offs. Now I have this opportunity to become, you know, to pay less in taxes than my fellow w two people. Or when I was a W two person, right? It's actually the opposite self employed people pay actually the most in taxes. But it's actually doing you think, yeah,

Kelly Reynolds

But that's not how it ends up working out?

Al Savarino

No, that's not how it ends up working out. Because to start self-employed, people have to pay the self employment tax, which is double the FICA and Medicare tax double. So right there, you're paying seven and a half percent more than the W two person right off the bat.

Kelly Reynolds

And especially for a lot of us, like just trying to make all of the numbers work and pay ourselves which so many people don't even pay themselves, right. They're not making enough money yet. So on top of that, to have extra taxes is a huge thing. Yeah.

Al Savarino

Yeah. Like, let's say you're a startup and you're not touching the money. You're not paying yourself. Yeah, you could end up with a tax bill that you really weren't expecting. So yeah, that is it's really key to get yourself with a good practitioner who's looking to do some strategy and planning. And it goes far beyond just setting up an S Corp. You know, that's the easy fix. Right. Just electing S Corp. Yeah, reducing that self employment tax like we spoke of, there's far more you can do.

Kelly Reynolds

Just for our listeners who are new to this game, LLC is when you are becoming a limited liability company. And then S corp is a different taxable designation, correct.

Al Savarino

So most people, when they start out their business, they start as a single member LLC, or a dual member LLC, where you know, they partner with their spouse or another partner. That's how most people get started. They and that's how you should Get Started. And then what you can do is that your LLC is your legal status. Okay? Your tax status or designation? Is what you choose to be taxed as you want to be taxed as a partnership. Do you want to be taxed as a corporation? Do you want to be taxed as an S Corp. So you do have the ability to choose an LLC is good, because you can then go from there, you can choose how you want to be taxed.

Kelly Reynolds

And it's once you get to the point where you're making money then you have to pay taxes like all of these things become. It seems silly, but it becomes a big deal. Like yeah, being an escort means a ton of different taxes. It does it does it kind of, yeah, it's

Al Savarino

Tough when you work so hard, and you're paying other people's salaries. And you know, you're making ends meet in your startup years. And then you get hit with a big tax bill at the end. It's just like soul crushing.

Kelly Reynolds

Yeah. Like we talk here a lot about that, like knowing your numbers, and that way that you're working 40 hours a week. And if you knew that you were only gonna make \$1 that week, would you go to the beach instead? Why are you doing this? Do you know that you're making no money? So then if you have to pay all these extra taxes? Guess it's a big deal, right? I mean, that's a big break kind of decision. Do I want it?

Al Savarino

Yes. And I really like that you mentioned profit. First, I think it's an outstanding book. If you can execute it, the only the only thing with profit first is in the beginning. When you're in growth mode, right? It's kind of hard to put aside that profit, because you'd need all of that money to reinvest it back into the company. But it is a good habit to put aside the profit, and then almost put it back. Yeah. Because you're gonna need it to keep growing the company.

Kelly Reynolds

Yeah. Right. And well, I mean, even just putting aside tax money is a big step for most people. You know, it is, it is tough. Even if you're not doing a full profit first book, even if you read the first three pages or whatever, and you're just putting away tax money, that would be a huge help to a lot of people. So if someone is like, Okay, well, this sounds fantastic. Where does this start? Like? How do you start someone out with your synergy program? What's the process?

Al Savarino

The best process would be to email me out at Edwards, Ingram calm? That's our firm, Scott Edwards, Ingram, CPAs, and advisors. Owl at Edwards in group Comm. Email me to tell you that, hey, you'd like to do a 30 minute consultation, basically, to see if you're a good fit for the program. Most people are but you know, some people, it's just they're just maybe they're a little early on the curve. And they're not ready yet. But yeah, that's what we would do. And if that is the case, we would move forward. It's a consultative process, a lot of time spent getting to know each other and figuring out where you want to go, and what's important to you, and how you would like to build your wealth. So that's how we would get started.

Kelly Reynolds

And I will say, I was told when I went to this process that I was talking about, which everyone was shocked by, but I think that coming there and being interested in what's going on is going to help you like owl walked me through so many things. And I had questions and I think that's a huge help. Yes, sitting there and being told what to do is less helpful. When you're trying to talk strategy. We can can, yeah, we definitely. Yeah. So you were able to like have ideas. And we talked through some things. And then we got some great ideas about what we could do and how we could structure things. So taxes. I know most people just stick their heads in the sand, but it's really important. And it's cost a chunk of your business, being at least a little interested in that is very helpful.

Al Savarino

You definitely want to bring your questions for sure. And also come ready to talk about your goals. what your intentions are. That's key.

Kelly Reynolds

Yes, I gotta tell you, for all the talk I do on this podcast about goals, when I'll ask me that question. I was like a deer in headlights like I didn't have an answer. It would have been much more helpful to have some kind of number that we could then work off of just saying I want to make lots of money isn't as helpful as you think it is. Yeah. So what are some of the mistakes that you see people making? That you kind of have to go back and fix? Oh, man,

Al Savarino

Not on our, on our so the mistakes, the mistakes are just, you know, people that have multiple businesses, putting it all into one business. So some people, they've got multiple businesses going on, and they're just like, Oh, yeah, you know what my accountant told me, let's put everything under this one big company and, you know, we'll just consolidate things. It'll be much easier that way. You're basically setting yourself up to pay way more in taxes, way more. So one of the things this will probably be music to your ears. One of the biggest mistakes is and this goes this, this piggybacks off of what I just said, there are people setting up their companies like little companies, like little mom and pop shops, like not setting up your company like a big company. Big companies do lots of different things like having multiple entities for many, many different reasons. And if you run your small business, like a mom and pop shop, you're going to get mom and pop shop results. So I always I'm a big fan of, you know, people setting up their companies like big companies. It doesn't mean you have to be. Okay. So for instance, little companies, they like to put everything under one household, like one house, one

company for everything that company does everything. Big companies have multiple divisions, multiple LLCs, and they're doing so for tax purposes. They're doing so for liability purposes. That's a big mistake that I see. Yeah. Another big mistake that I see is people just doing an S Corp. And having no discussion over how much to pay themselves and salary as a small business that's selecting an S corp. That is, that is one of the most important conversations that you should have in setting up that S corp is, okay, well, how much am I going to pay myself? Because that will dictate how much taxes you pay.

Kelly Reynolds

I because of an LLC, you're just kind of taking money as you go. But an S corp you have to kind of pick a salary and have,

Al Savarino

you have to pick a salary and how you pick that salary, the methodology behind how you pick that salary. That is a big mistake that I see. I see most people asked accountants don't know how to allocate the right salary. And you can't just

Kelly Reynolds

Say, Oh, I make \$10,000 a year. And that's it. And you're like, That's it? No, no, no, no, no, that's exactly what you don't do. Yeah, Ross is waiting for you to do these silly things. Yeah. Awesome. And a lot of this stuff like you and I are both in New Jersey. Is this federal? Is it does the State matter? Or is it mostly like the IRS that we're talking about on this stuff?

Al Savarino

Yeah. So it can apply to anyone really, it doesn't matter what state you're in? States have different tax laws. But what we do is we set out to lower the federal, and if we can lower the state at the same time, fantastic. If not, we did the best we could. States tend to not dovetail with the federal for four reasons because they need money.

Kelly Reynolds

Yeah. And as the pandemic has been going on, and everything's being moved, they don't move at the same. Like the dates don't move the same rate as the federal like, it's becoming very clear that it's very separate entities lately. Oh, it is totally. So, so part of this strategy, for me at least. And I think for a lot of the people that you work with is including real estate in the way you're growing your business and your personal wealth. Can you talk a little bit about that?

Al Savarino

Sure. So a lot of people come to me and they say, Oh, I have no write-offs. I tried everything. I'm writing off my home office, I've got an escort salary, right? doing this, and I'm doing that. And then I asked the question, do you invest in real estate? And they're like, No, well, then you haven't tried everything. He goes, real estate is the single most effective tax write off in the entire Internal Revenue Service code. It's the single most effective, there's more pages in the tax code on real estate and how it can save you taxes than any other incentive in the entire tax code. It's crucial if you want to get to the next level, like, yeah, you can start out as core picking the right salary, getting the right entity structure and all that stuff, that will save you some money in taxes. But if you want to get to the next level, and you want to have

have a shot at paying 0% federal, you have to think about investing in real estate. And that's a whole that's a whole nother conversation about real estate and how to go about it and how to make money in real estate and how to actually set yourself up to utilize the tax benefits of real estate. You can't just go Alright, I'm gonna invest the real estate now I get taxed, then there has to be a good amount of thought put into how you are set up before you can use those tax benefits.

Kelly Reynolds

Right? It's not just Hey, I bought something I don't pay taxes now. Right? Like there's, it's more complicated than that. Right? Right. Yeah, a lot more complicated. This is what I've been learning over the last month and a half about passive income and not passive income. And, you know, like all of that kind of stuff and depreciation and all these words, and I know you guys out there are probably twitching as I say these finance terms, but it's, this is the kind of stuff that's really important. And when you get to a certain level in your business, you kind of have to be a big boy or big girl and say, Okay, I'm ready for the numbers conversations. Unless you want to just say like a small cube business who doesn't ever look at their numbers and they just chuck along. Once you start making some money and wanting to say, okay, I'd like to make some really great decisions with this money. Then you need The information and you need to know what's going on. And for me, it was huge to have someone look at my business, instead of just reading another book or finding that out, like having someone say, okay, Kelly sit down, we're gonna look at all your numbers, and I'm gonna ask you 1000 questions, and we're gonna figure this out. That was so valuable, to be able to have that kind of personalized service.

Al Savarino

That's what it is. Tax synergy program is really a personalized custom conversation is what it is, we're gonna figure it out, it might take us three meetings, it might take us for a while, but we're going to figure out what your angle is. That's what it's all about. It's figuring out that angle that works with your finances. When you know the money that you have saved the money that you're saving now and where you're going, you know that it's really getting to know your client. And that's where my profession has fallen short, tremendously, is really they don't know their clients. They're just taking their documents and just plowing them into the computer and spitting out a number and I'll see you next year.

Kelly Reynolds

Yes. And like, I can do that with my own software. You know, like, you can buy the software, like when you go to these places, and they're just spitting out numbers to you. They're not helping you. They're not telling you like what you want to do, like, as far as the question to me was, what do you want to do? Like, where do you want to go? What are your goals, and then we can figure out how to get there. So that was awesome. No one asks me my goals, no one cares. They just tell me what I should be doing. And I hate that I hate being talked down to like a woman business owner. I've gotten a lot of that. So it was really nice to have someone say okay, let's go figure out your goals and let's go after him. So that was awesome. Where can these fine people find you if they want to go short

Al Savarino

You can find us at EdwardsIngram.com, you can email me at our at EdwardsIngram.com. And you can also call us at 203-891-6433 that's 203-891-6433

Kelly Reynolds

And I will put all of this in the show notes. So if you are out running right now listening to this, you do not have to try to write it down. Thank you so much for coming. On the podcast today. This stuff can be so scary to a lot of people just looking at their numbers is so scary. Usually if I start bringing in finances, people start twitching. So having just a person that we know we can go to and have some conversations about where we're gonna go kick ass on these schools is fantastic.

Thank you so much for coming today. Oh, my pleasure. Thanks for having me. Thanks for joining me this week on the sink handle podcast. I can't wait to do all of this again next week. Make sure to visit us at reynoldsobm.com for the show notes on anything we talked about today. If you love or you mostly like the show, please subscribe and rate us on iTunes so we can help more people avoid the Sink Handle.