

## MAINTAINING YOUR LLC STATUS: ESSENTIAL STRATEGIES TO SAFEGUARD YOUR BUSINESS STRUCTURE

Many new business owners are given the advice to start out by establishing an LLC (Limited Liability Company). This can be a sound decision, but there is more to it than simply submitting the paperwork to your state and checking that task off your list!

First of all, let's review what an LLC is...



An LLC is a legal agreement between you and your state...remember when you had to register with your Secretary of State? And guess what, the IRS doesn't know about this agreement... and they don't care.

As far as the IRS is concerned, an LLC is a “pass-through entity” meaning that the income from your business passes through to your personal 1040 tax return. The IRS does not “see” LLCs. For tax purposes, when your business earns money, YOU are taxed on it.

To further make this point, the IRS refers to LLCs as disregarded entities- meaning they are not regarded as their own entity for tax purposes. In essence, the IRS does not see or recognize an LLC unless you specifically ask it to by electing to be taxed as a corporation.

An LLC is set up primarily to protect your business assets from any personal liability and vice-versa. If you were to ever get in legal trouble with your business, your personal assets (home, cars, IRAs, 401ks, etc) are protected from the business. Likewise, any debt secured in your business' name stays with the LLC and creditors cannot come after personal assets. These things are true **\*IF\*** you maintain the “corporate veil”. Meaning that, you establish and maintain separate bank accounts, there is no co-mingling of assets (money-mixing with personal) and that you uphold ALL your state's requirements for being an LLC.

You and your business are the same for tax purposes (unless you have a multi-member LLC or elect to be taxed as a S/C Corp).

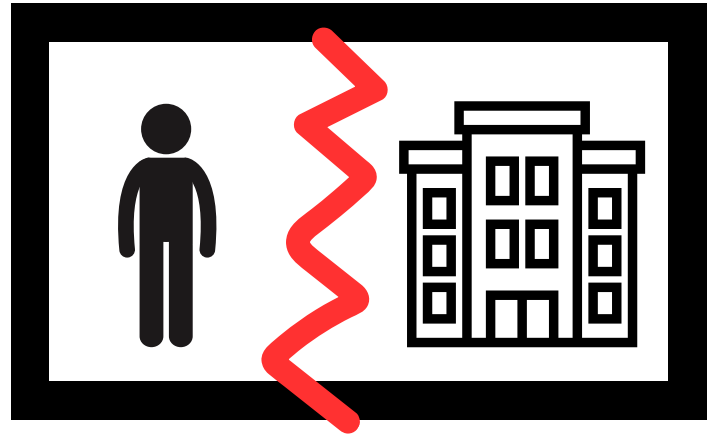
*Side note: If you create a Multi-Member LLC (meaning there is more than one owner) then you are considered a partnership. Partnerships have a separate tax return, tax deadline and other legal considerations. Please discuss your entity selection with your legal team to determine what is the most appropriate for your business needs.*



## MAINTAINING YOUR LLC (CONTINUED)

Let's go over some other issues you need to consider regarding maintaining your LLC:

- In addition to paying your Secretary of State and filing the Certificate of Formation, typical requirements to establish an LLC are to have an Operating Agreement which sets out how the LLC will be run, how profits are distributed, and other members' rights and responsibilities.
- Many states require a registered agent as well. This person agrees to accept legal papers on the LLC's behalf.
- Most states have business filing requirements to maintain your LLC. Most states have annual reports, but some states require monthly or quarterly reports, and some are every 2 years...do you know when and how to complete these reports?
- There is a fee in some states to keep your LLC each year (\$800/year in CA for example) while some states have no fees, or adjust the fees based on revenue. Be sure you know how to pay this and when it is due.
- Some states require you to submit Annual Member Meeting Minutes...or to maintain them in the case they are ever needed. Does your state have this requirement?
- Do you need a business license for your city or county? Many states require this in addition to registration at the state level.
- In addition to your Secretary of State, here is a good resource to check your state guidelines: <https://www.nolo.com/legal-encyclopedia/form-llc-in-your-state-31019.html>.



Here are few tips to help you keep up with all of your responsibilities into the New Year:

- Look into your state requirements and set up a plan for ensuring you are compliant.
- Mark your calendar each year (month/quarter) going forward with the date of your state filing requirement. Penalties can be assessed if you are late with submitting your documents and can be steep!
- **Keep your business expenses separate from your personal expenses.** Bank accounts and credit cards should always be in the business name. If you are charging personal expenses to a business account or credit card, you are not maintaining your business as a separate entity and you are jeopardizing the legal benefits of having an LLC.

Set time aside on your calendar each month to address your business finances. Whether this is checking in with your bookkeeper or simply tackling that pile of receipts you have, it is good practice to stay organized and will save you stress at tax time.

While we are advocates of establishing an LLC, here is the hard truth: If you are not able and willing to comply with all the requirements of having an LLC in your state, then why have it? You will be paying or penalized for not complying, and there is NO benefit...

## FROM GAILO'S DESK

### Receipt Management: Best Practices

You may have heard us reminding you to “keep those receipts”, but haven’t worked out an efficient storage system other than a manila envelope! Maintaining receipts as records of your business expenses is very important in the event of an audit by the IRS. With just a few strokes of a pen or clicks on your phone, you will be able to rest easy knowing that you are prepared! See below for our recommendations and best practices:



1. You’ve just had a great networking session with a local group and enjoyed a great cup of coffee at a local spot. What now? Take out your pen and jot down a few details right on that paper receipt about the event and who you met with to document that this was, indeed, a business expense.
2. Take out your phone and snap a picture of that receipt and save it to a folder you have labeled Receipts. Take it to the next level and make subfolders for the year and month for easy access in the future. (example: 2024 Meals, Office Supplies, Advertising, etc)
3. What if it’s a receipt for an online purchase? Save the receipt as a .pdf file to a folder on your computer with similar notations to a physical receipt as explained above.

**Here is a short video we made to demonstrate receipt management best practices**



Maintaining these receipts digitally is the most effective way to keep things organized. There are many free options available depending on your preferences and some low cost options if you want more ability to document details for future reference. Scan the QR code below for a quick video demonstration of how Erin and Gailo do this in their own businesses.

***We now offer Financial Counseling Sessions as an add-on service! If you are interested, please email: [gailo@sapphirebookkeepingsolutions.com](mailto:gailo@sapphirebookkeepingsolutions.com)***

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## Are Meals still deductible?

*The biggest change regarding meal expenses happened in 2018 with the Tax Cuts and Jobs Act. This eliminated the deductibility of entertainment expenses for businesses. However, meals are still deductible if certain criteria are met.*

Under the IRS regulations, food and beverage costs are generally deductible as a business expense if:

- the expense is not lavish or extravagant under the circumstances
- the taxpayer, or an employee of the taxpayer, is present when the items are consumed, and
- the food or beverages are provided to a business associate (customer, employee, vendor or consultant). (IRS Reg. 1.274-12(a)).

Meals you eat by yourself are not deductible, unless traveling...

**When are meals deductible while traveling?** According to the IRS: Generally, non-entertainment-related meal expenses are deductible if your business trip is overnight or long enough that you need to stop for substantial sleep or rest to properly perform your duties. (This must be outside the entire city/general area where your main place of business or work is located).

**How much is deductible?** Meal expenses are 50% deductible and the reasoning is that you would have to eat if you were home, or not with a client, so only half of the expense is a tax deduction.

***Please be aware that meal expenses are one of the top 2 audited expenses....***

***Be sure to keep receipts with your "alibi". Along with the date and cost of the meal:***

***Who did you meet? What did you discuss/What was the business purpose? Where were you?***

***See pg 3 for tips on how to keep your receipts in order.***