

# **Streamlining Success : Navigating Tax Essentials for Early-Stage CPG Brands**

---

**Kara Janowsky**  
**Accountant & Fractional CFO**  
**Sonder Accounting**

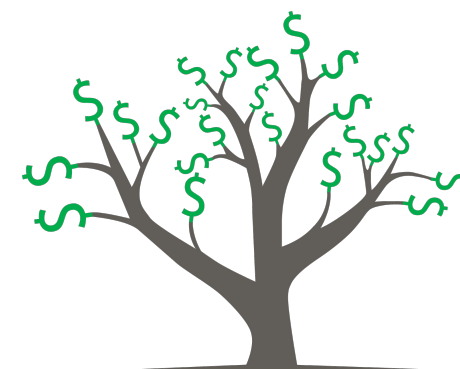
Thursday, November 7th | 12-1 pm MT  
kara@sonderaccounting.com  
(720) 647-6262



---

# Choosing the Right Business Entity

- Intersection of Accounting/Tax and Legal.
- Consider business stage, growth plans, and tax strategy.
- Entity Types We'll Cover:
  - Sole Proprietorship: Simple setup, full personal liability.
  - Partnership (Multi-Member LLC): Pass-through taxation with multiple owners.
  - S Corporation: Pass-through taxation with reduced self-employment tax.
  - C Corporation: Separate legal entity, taxed at corporate level, ideal for growth.



---

# Sole Proprietorship

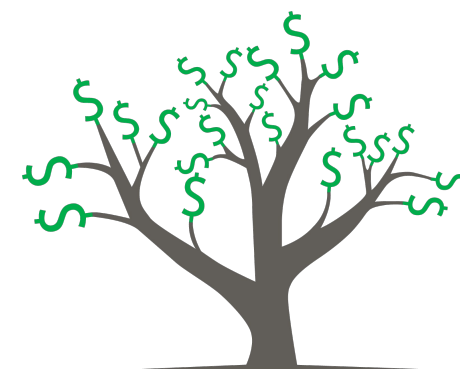
- **Tax Implications:**
  - Subject to self-employment tax; must make quarterly estimated tax payments.
  - File Schedule C inside your individual tax return.
- **Why CPG brands might choose it:** Best for very early-stage or solo founders keeping operations simple.
  - Not common for revenue-generating product businesses due to liability concerns.
  - More common for service-based businesses.
- **Liability:** Unlimited personal liability.
- **Setup:** Simple setup, no formal paperwork, no EIN.



---

# LLC (Limited Liability Company)

- **Tax Implications:**
  - Flexibility—can choose to be taxed as sole prop, partnership, or corporation.
  - Members pay self-employment tax unless taxed as an S Corp; must make quarterly estimated tax payments.
- **Why CPG brands might choose it:** Flexibility with taxes and liability protection as the business grows. Business not yet generating significant tax liability and does not have need to bring in outside shareholders.
- **Liability:** Liability protection.
- **Setup:** Basic formation documents filed with the state; EIN optional.



---

# Partnership

- **Tax Implications:**
  - Files annual income tax Form 1065.
  - Pass-through taxation—profits and losses flow to shareholders' personal tax returns via Schedule K-1.
  - Avoids double taxation; Earnings subject to Self-Employment Tax.
  - Ability to compensate partners through Guaranteed Payments.
  - Ability to distribute profits based on specific terms outside of ownership percentages.
- **Why CPG brands might choose it:**
  - Flexible structure with pass-through taxation; ideal for small businesses with multiple owners seeking liability protection without corporate formalities.
- **Setup:** Work with an attorney to draft Partnership Operating Agreement; Establish LLC & create an EIN.



---

# S Corporation

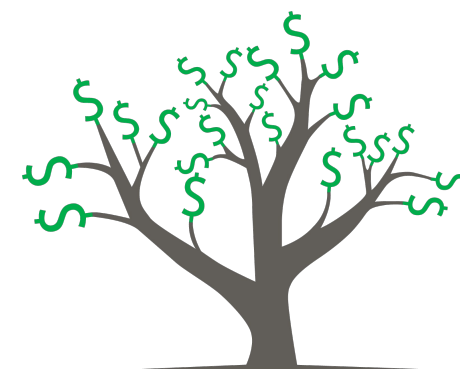
- **Tax Implications:**

- Files annual income tax Form 1120-S.
- Pass-through taxation—profits and losses flow to shareholders' personal tax returns.
- Profits Distributed according to ownership percentages.
- Avoids double taxation.
- Reduces self-employment tax liability but must pay a reasonable salary to shareholder-employees.

- **Why CPG brands might choose it:**

- Allows business owners to reduce self-employment tax while maintaining liability protection.
- Allows for shareholders to contribute capital in exchange for equity (up to 100 shareholders and only one class of stock).

- **Setup:** Establish LLC & create an EIN; File Form 2553 with IRS to elect S-corp tax treatment.



---

# C Corporation

- **Tax Implications:**
  - Separate legal entity; Files annual income tax form 1120.
  - Potential for double taxation—once at the corporate level and again on dividends to shareholders.
  - Taxed at the corporate rate (21% federal). Shareholders taxed on dividends.
  - Profits can be retained in the corporation for future reinvestment (saving shareholder tax).
- **Why CPG brands might choose it:**
  - Ideal for businesses seeking outside investment or planning to scale significantly.
- **Setup:** Work with an attorney to draft corporate bylaws and issue shares; Create an EIN; File the Articles of Incorporation with the state.



---

# CPG-Specific Income Tax Environment

- **Deductions:**

- Cost of Goods Sold
- Packaging & Shipping
- Trade Spend
- Office Expenses
- Marketing
- Utilities & Rent
- Research & Development (R&D)

- **Credits**

- R&D Credit
- Payroll-Related Credits (Pandemic-related Employee Retention Credit)





---

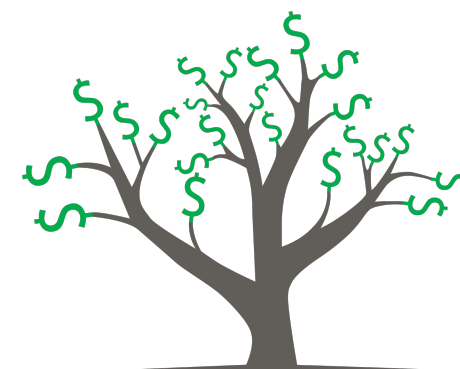
# CPG Expenses without Straight-forward Deductibility

- **Inventory:**

- Costs of purchasing or producing inventory (e.g., raw materials, packaging) may be capitalized as an asset on the balance sheet.
- Deducted as Cost of Goods Sold (COGS) when the inventory is sold.

- **Equipment:**

- Major equipment purchases (e.g., manufacturing machinery, warehouse shelving) are capitalized and depreciated over their useful life.
- Useful life is dictated by the IRS.
- Some equipment qualifies for immediate expensing or bonus depreciation under IRS Section 179.



---

# CPG Expenses without Straight-forward Deductibility

- **Prepaid Expenses:**

- Payments made in advance for future services or supplies (e.g., prepaid rent, insurance) may not be immediately deductible and are only expensed when the service period begins.
- 12-month rule = deduct if the service begins and concludes within 1 year, even if it crosses tax years.
  - Ex: Prepayment of rent for 2 year lease must be proportionally deducted during the year the payment is applicable.
  - Ex: Prepayment of insurance for 12 months from July to July is deductible in July of the year when the payment is made even though it crosses tax years.

- **Buildings and Leasehold Improvements:**

- Costs related to acquiring or improving physical spaces are typically capitalized and depreciated over time.



---

# Quarterly Payments

- **Who Must Pay:**

- Required for businesses with expected tax liability of \$1,000 or more.
- Applies to sole proprietors, partners, S-Corp shareholders, and certain C-Corps.

- **Purpose:** Helps avoid penalties and interest by paying estimated tax on business income throughout the year.

- **How Much to Pay:**

- 90% of the current year's tax liability, or.
- 100% of the previous year's tax liability (or 110% for higher-income taxpayers with adjusted gross income over \$150,000).
- Look for vouchers on Prior Year Return.



---

# Quarterly Payments

- **Due Dates:**

- Q1: April 15
- Q2: June 15
- Q3: September 15
- Q4: January 15 of the following year

- **How to Pay:**

- [IRS.gov/pay](https://www.irs.gov/pay)
- Check with your tax ID written on memo.



---

# Sales Tax

## Essentials

- License registration required if you have "nexus"
- Nexus:
  - Physical presence or sales
  - Economic presence exceeding threshold
    - Dollars sold
    - Number of sales transactions
  - Inventory in the State
  - Attending Trade Shows
  - Affiliate Relationships



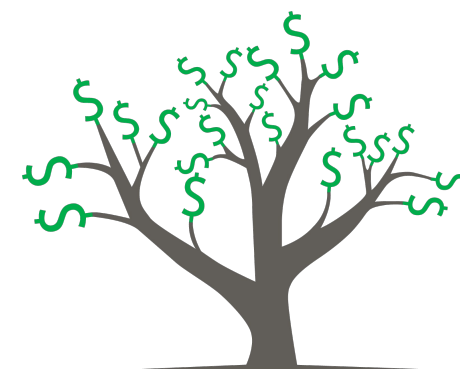
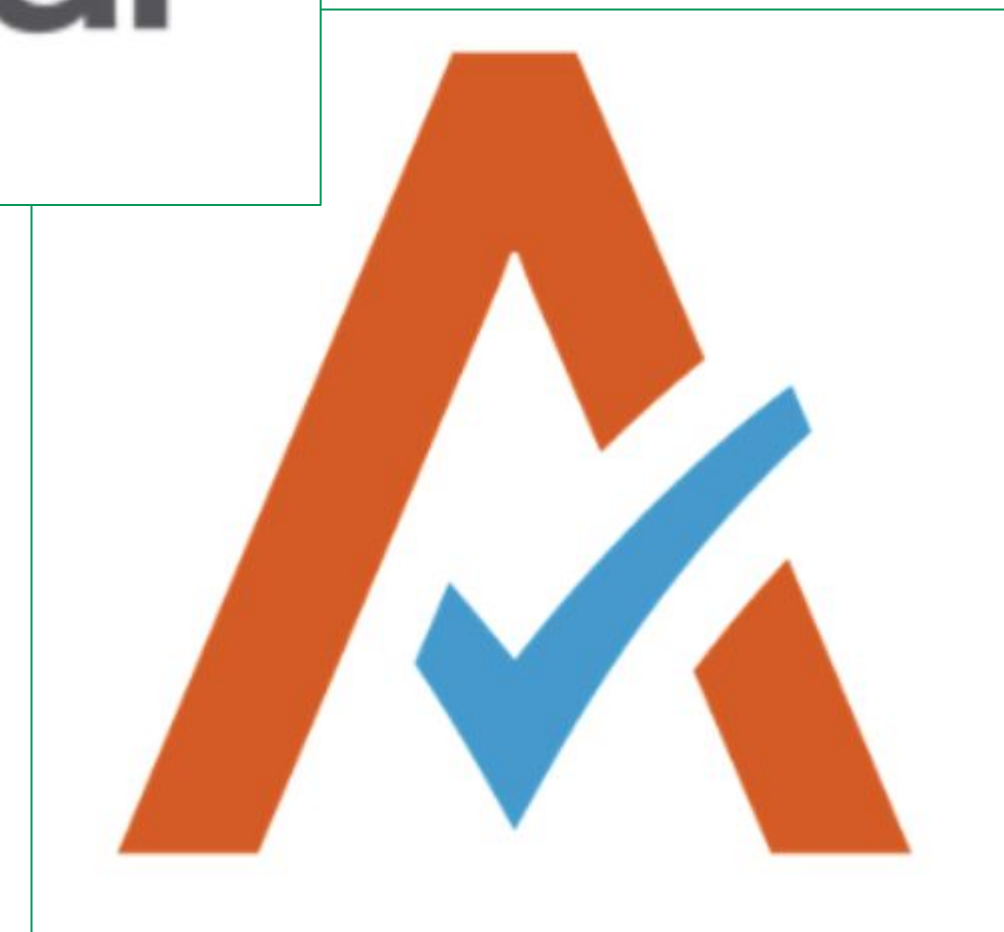
# Sales Tax Compliance

- **Track & Report:**

- Monthly track sales tax liability to ensure funds availability.
- File sales tax returns on schedule dictated by the jurisdiction - monthly, quarterly, or annually.
- Quarterly review thresholds in any state that has sales activity to confirm whether nexus threshold is met.

- **Tools:** TaxJar, Avalara

- Reduces manual effort by integrating with your sales platform.
- Ensures Accuracy.
- Auto-file option applicable for some sales models.



---

# Payroll Tax Compliance

- **Overview of Taxes:**

- Withhold payroll taxes, both federal and state.
- Contribute to Social Security, Medicare.
- Maintain Employer Registration with state, including Unemployment Insurance.
- Establish Workers Compensation Insurance.
- Company files forms 941 Quarterly and Forms 940, W2, and W3 annually.
- Employees complete form W4 to indicate their federal income tax withholding.

- **Independent Contractors vs. Employees:**

- Contractors do not have taxes withheld.
- Company files form 1099-NEC annually, instead of W2.
- Avoid misclassification penalties.



---

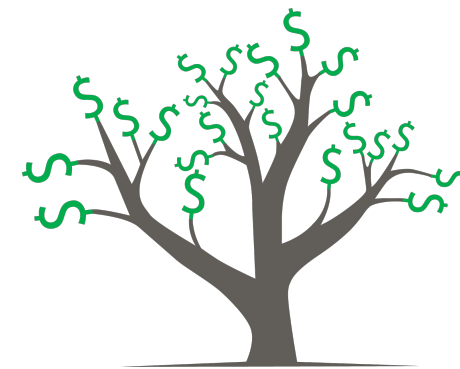
# Employee Vs Contractor

## Independent Contractor:

- **Control Over Work:** Sets own schedule and work methods.
- **Taxes Withheld:** Responsible for their own taxes.
- **Benefits and Protections:** Typically does not receive benefits or labor law protections.
- **Duration of Relationship:** Hired for specific projects or time frames.
- **Annual Tax Form:** Company files 1099-NEC (Non-Employee Compensation).

## Employee:

- **Control Over Work:** Follows company policies and schedule.
- **Taxes Withheld:** Employer withholds income, Social Security, and Medicare taxes.
- **Benefits and Protections:** Often receives benefits and is protected by labor laws.
- **Duration of Relationship:** Usually ongoing, indefinite roles.
- **Annual Tax Form:** Company files W-2.





---

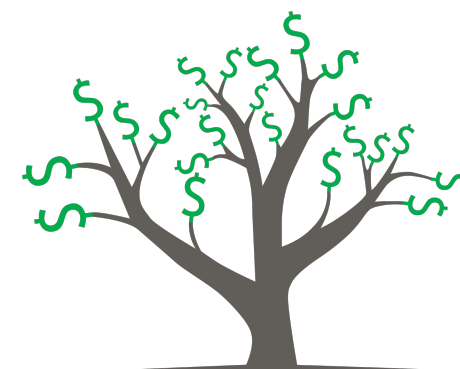
# Payroll Tools

- **Payroll Automation**

- Reduces manual effort by filing all payroll tax documents for you.
- Choose a payroll provider that also collects tax at the time of payroll.

- **Payroll Provider Examples**

- Gusto
- ADP
- Paychex
- QuickBooks



---

# Special Offer: Pre-Tax Season Strategy Call

Join me for a 45-minute Personalize Tax Strategy Call where we will focus on an area of your choosing from this list:

- **Maximize Tax Savings:** Customized year-end strategies to reduce tax liability.
- **Accounting Review:** Take a look at your accounting system to identify potential issues.
- **Sales Tax or Payroll Compliance:** Discuss sales or payroll tax obligations.
- **Tax Payment Budgeting:** Navigate the cash crunch caused by tax liabilities.
- **Similar Topic of Your Choosing**

**Normally \$150 - Discounted to \$100 for  
NC Members attending this webinar  
Limited to 3 Spots**

**Email [kara@sonderaccounting.com](mailto:kara@sonderaccounting.com)  
by 11/13 and schedule call by 12/13  
to qualify for the discount**



---

# Special Offer

## Sales Tax Compliance Analysis

**Wondering if you are collecting and paying the right sales taxes? We can review your sales, your sales tax settings, and clarify your compliance requirements.**

- Review of Current Licenses
- Calculate Approaching Thresholds
- Provide Filing & Remittance Schedule for Required Nexuses
- Analyze Nexus Requirements
- Correct Collection Issues

Normally \$750;

**Discounted to \$650 for 1 attendee of this webinar; Limited to 1 Spot**

Email [kara@sonderaccounting.com](mailto:kara@sonderaccounting.com) by 11/13 and sign by 12/16 to qualify for the discount



# Get our Template CashFlow Planner

- If you're looking at your bank every day - it's pretty likely you are missing the financial tools needed for making strong decisions.
- Use our cashflow planner tool to help you manage the day-to-day
- Completely Customizable and Functional google sheet template
- Sign up to our mailing list to receive the template planner

2024 Cashflow Summary					
	JAN	FEB	MARCH	APRIL	
Cash Balance at Beginning of Month					
Beginning Cash	\$ -	\$ -	\$ -	\$ -	\$
Cash Coming In					
Total Cash Inflows	\$ -	\$ -	\$ -	\$ -	\$
Cash Going Out					
Total Cash Outflows	\$ -	\$ -	\$ -	\$ -	\$
Net Cashflow					
	\$ -	\$ -	\$ -	\$ -	\$
Cash Balance End of Month					
Ending Cash	\$ -	\$ -	\$ -	\$ -	\$

<https://www.sonderaccounting.com/cashflow-planner>



---

# Questions & Final Thoughts



---

# Reach out for Additional Support & Resources



Kara Janowsky  
kara@sonderaccounting.com  
(720) 547-6262

