

BEST PRACTICES WEBINAR

THE TAX GAME - STRATEGIES EVERY BUSINESS OWNER NEEDS



THIS WEBCAST

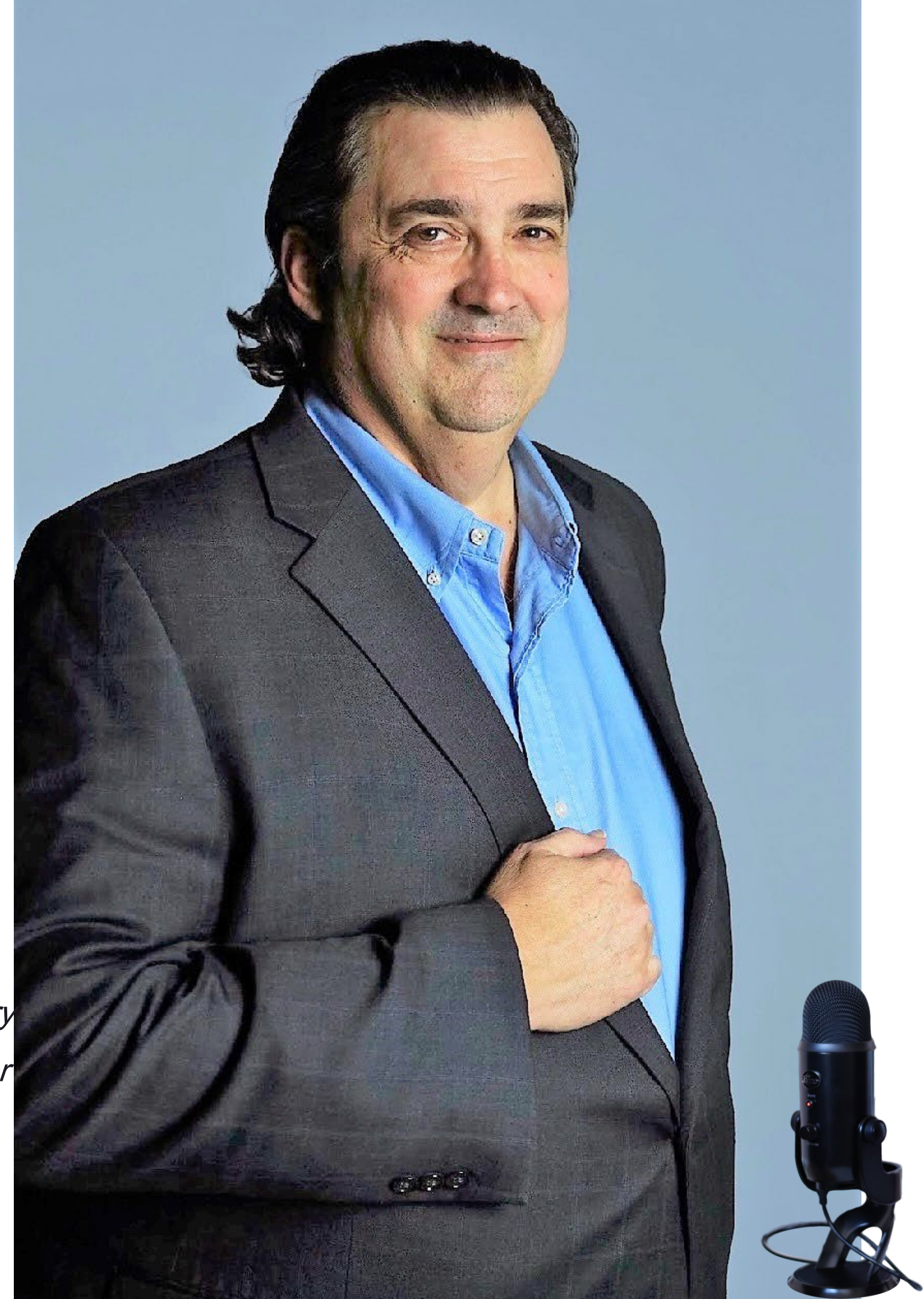
- Introductions
- Plotting the Course
- Avoiding Mistakes
- Major Focus Areas
- Summary
- Your Questions



INTRODUCTIONS

JIM KAHRS

- 39 Years in Business Systems
 - Started Prosperity Plus in 2001
 - “Achieve Your Goals by Improving Profit, Cash Flow & Growth.”
 - M&A, Valuations, Succession Planning (>350 Transactions)
 - Marketing Programs
 - Consulting Based on Experience + Highly Successful Hubbard Management System & Value Builder System
- *Disclaimer: Jim is not a CPA. The data provided is for management purposes. Every business and business owner's situation is different. Please consult your tax advisor before making any tax decisions.*



THERE IS ONLY ONE WAY TO LEGALLY
NOT PAY TAXES IN THIS COUNTRY.

DON'T MAKE ANY MONEY!



UNDERSTANDING TAX BASICS

- Taxes are based on your corporate entity.
- C-Corp
 - Corporation pays taxes on net income.
 - 21% federal tax rate for corporation.
 - Shareholders are taxed on earnings and distributions.
- Passthrough Corporation (S-Corp, LLC, etc.)
 - Corporation doesn't pay income taxes.
 - Shareholders are taxed on corporate net income via K1.
 - Distributions are not taxed

UNDERSTANDING TAX BASICS

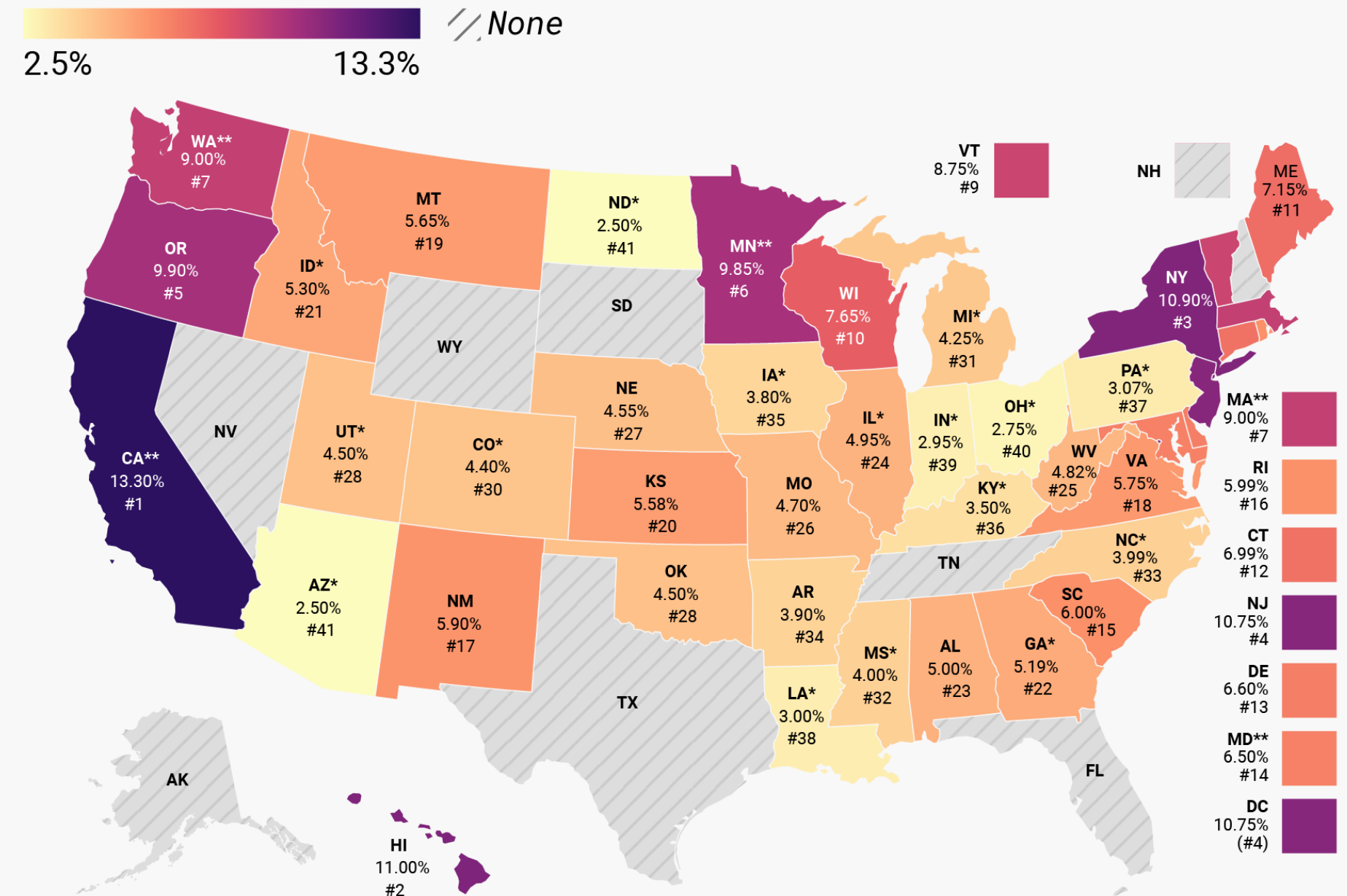
- Examples: Based on \$500,000 Net Income
- C-Corp:
 - \$500,000 net income taxed at 21% = \$105,000
 - Profit distribution to shareholders may be taxed as ordinary income at the tax bracket of the shareholder.
 - If remaining \$395,000 were distributed, it would be at least 32% = \$126,400
 - Total tax burden in this scenario is \$231,400.
 - Most companies are not able to distribute 100% of net income.
 - Any earnings that are retained (left in company) will be taxed at some point.

UNDERSTANDING TAX BASICS

- Examples: Based on \$500,000 Net Income
- Passthrough Corp:
 - \$500,000 net income taxed to shareholder(s)
 - At 35% federal rate = \$175,000
 - Earnings that are retained are not taxed when distributed.

TOP MARGINAL STATE INDIVIDUAL TAX RATES

Top Marginal State Individual Income Tax Rates (as of January 1, 2026)



Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective tax rates, which would include the effects of various tax preferences. Local income taxes are not included.

(*) State has a flat income tax.

(**) Washington's 9% rate only applies to high earners' capital gains income. Top rates exclude non-UI payroll taxes in CA (1.3%), MA (0.46%), and WA (0.58%), a 1% high earners' investment income surtax in MN, and a 2% high earners' capital gains surtax in MD.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

UNDERSTANDING TAX BASICS

- State and local tax deductions (SALT), were raised to \$40,000 in 2025.
- 36 states have instituted Passthrough Entity Tax (PTET) provisions.
- This allows passthrough corporation owners to pay state taxes through the company, making the full amount deductible.
- The tax savings are significant.
 - California 13.3% on \$500,000 = \$66,500 (savings of \$8,480 at 32% federal tax rate)
- Each state has different registration and payment policies.
- Check with your CPA.

WHY YOU SHOULD KNOW YOUR TAX BURDEN IN ADVANCE

- No April 15 surprises.
- Allow for better planning.
 - Set targets for net income.
 - Plan large purchases.
 - Meet minimum tax deposit requirements.
 - Increase savings.
- Have an accurate picture of your cash position.
 - The company's cash position can be overstated.
 - Taxes can take a big chunk of cash flow.
 - It's best to know this as you go.

HOW TO HANDLE TAX MONEY

- Open a separate bank account for tax set aside.
- Move money each month to cover the year-to-date tax burden.
- Work with your CPA to determine required quarterly estimate payments.
- Pay the minimum safe harbor amount allowable under the tax code.
- Earn interest on the rest.

HOW TO ESTIMATE TAX BURDEN

- Must have accurate financials on a monthly basis.
- Look at monthly and year-to-date net income.
- Consider forecast for the balance of the year.
- Work with CPA to get your expected federal and state tax rates.
- Multiply the net income by the tax rate for an estimate of tax burden.
- Better to overestimate then underestimate.
- Adjust as you go through the year.

SUMMARY

- No one likes paying taxes, but it is better than not making money.
- Tax upsets often come from poor planning.
- Calculating estimates and putting the money aside removes the mystery and surprises.
- It also provides an accurate cash picture through the year.
- Be sure you are operating with the corporate entity that will best meet your needs.
- Be in control!



Questions?



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