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MODULE ZERO

# MASTERCLASS

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So I've named this masterclass workbook Module 0 because it's really the foundational step towards getting your cash flow flowin'.

During the masterclass you'll learn:

- How to start trimming expenses to obtain better profit margin
- 4 game changing commitments
- The cash flow system to get off the WTF happened to my money hamster wheel
- S corp basics and how they save you taxes

Then, after all that education, I'll share some info about my signature program, Unf\*ck Your Biz. If you're curious to learn all about it, you can stick around for that info.

In this workbook, I'm sharing a few sample sections from the course textbook. First, you'll find the Expense Reduction Guide. If you have time before class, go through Step 1 in the Guide.

Then, you'll also find some of the snippets from the Textbook on S Corps.

Looking forward to the class!

- Braden

# WHY CREATE A SYSTEM

*I'm often tempted to skip this section feeling like you likely are already committed if you bought this course, but here's the thing. To really make this work, you must fully buy into the system.*

## GET OFF THE HAMSTER WHEEL

It's natural for us to increase expenses as we increase our income. New client, new software. New sale, yay! I'm going to that retreat.

In year 1, your income is \$1,000 a month and expenses are \$200. Six months later, you feel like you're killin it, but all the money is gone. You make \$4,000 that month but your expenses were \$3,000. Then you're making \$10,000 a month but your expenses are \$7,000.

You're making more money, and the bills are a little easier to pay, but with a such a large jump in income, you're wondering why money is even a struggle.

Expense creep is real, and it happens to all of us. But at some point, we have to put our foot down and commit to running a healthy business that first and foremost bring in the income we deserve for running the show. If your salary isn't the biggest line item in the books, we have a problem.

## OPERATE LIKE A "REAL COMPANY"

Ok, so there's really no such thing as a "real company," but here's a story to show what I mean.

Two friends graduate from Stanford business school. They get an ingenious business idea, and do the hustle and struggle for a couple of years to get it off the ground.

Then, they get venture capital funding for a cool \$3,000,000. At this point, they put themselves each on a salary of \$120,000. They hire a few employees, each of whom are making about \$80,000. They pay their expenses and expect to have little or no profit for a few years.

In year five of business, they turn a \$1,000,000 profit. The partners are both 30% shareholders. Their venture capital people own the other 40%.

They decide to distribute 50% of profit to the shareholders. As employees, the partners are still getting their \$120,000 salary, but now as two of the

shareholders, they are also each going to receive a shareholder distribution equal to 30% of \$500,000 (\$150,000).

Over the next two decades, their salary steadily climbs as it would in any other business, but their distribution doubles, then triples, and eventually they're pulling a couple million dollars a year out of their business in shareholder profit distributions.

This is a simplified version of the expectations of companies that plan to scale. Even if this whole salary versus distribution thing is new to you, it makes sense in this context right?

You expect that people like Bill Gates make a shit ton of money.

Even if you never plan to make a couple million dollars a year in business, you should still think about paying yourself in the manner.

You get a salary for your daily work in the business. Your salary is your compensation for your efforts and should be based on your skill, role in the business, and experience.

We're almost always the most skilled employee in our business, and, therefore, should almost always be the most well compensated. An exception might be if you're working 10 hours a week making a healthy amount of money, and you don't mind paying a

full-time employee a higher salary to do most of the work.

That kind of model is totally fine. You did the work to build the business. Now, reap the rewards.

In addition to your salary, you can also take a distribution as your reward for being the owner of the business.

All this may be getting a bit repetitive at this point, but I really like to drive home these concepts.

Because understanding them will make all the money stuff that much more clear as we move forward

## **TRANSITIONING TO AN S CORP**

By paying yourself a salary and distribution now, what you're really doing is treating yourself like a full-fledged company. This will help you make a smooth transition into an s corp once you're ready.

I talk to many business owners who are grossing enough to become an s corp, but their problem is cash flow. They don't have a good handle on it, and can't commit to paying themselves on a biweekly salary. Their expenses are out of control, and they simply don't know if they can make the payroll.

This is actually pretty common. So don't beat yourself up over it if TJOS sounds like you. That's why we're here.



GUIDE

# EXPENSE REDUCTION GUIDE

*Keep this guide handy. You may want to reference it from time to time.*

In this guide, we will go through the process of how you can get started cutting your business expenses. This is a very important exercise, so don't skip it.

This is our gut check moment where we look at where we are in business right now and determine if our expenses are sustainable.

# EXPENSE REDUCTION GUIDE

cut those expenses

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Follow these steps and go through the exercises:

1

## LOOK AT THE NUMBERS

Open three month's of bank & credit card statements. Write down all recurring expenses along with the amount (e.g. Calendly \$15/mo.). Find a grand total.

2

## TRIM THE FAT

Ask yourself what you haven't used in months. Cut those things first.

3

## PAY LUMP SUMS

See if you can switch anything to annual payments to save money. I suggest waiting until services are set to auto renew, and then challenge yourself to save and pay annually as able.

4

## NEGOTIATE

Call other big ticket expenses and see if there are less expensive alternatives. Note, I'm not suggesting you do this with other service providers.

5

## TOTAL

Now, total all remaining, recurring expenses. Add in other predictable expenses. Find your profit margin on average. You'll need to know your monthly income and expenses.

6

## PLAN

Are you over 30%? If so, think hard about what you can cut now to decrease your expenses. Can you get under 30% within the next 6 months by relying on an increase in revenue? Create a plan and make a written policy on how you'll take on new expenses.

# EXPENSE REDUCTION GUIDE

cut those expenses

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## LOOK AT THE NUMBERS

Open three month's of bank & credit card statements. Write down all recurring expenses along with the amount (e.g. Calendly \$15/mo.). Find a grand total.

Track all of your expenses below. Write the monthly dollar amount. Then put a check or an x as to whether you're keeping or canceling.

EXPENSE	AMOUNT	
_____	_____	<input type="checkbox"/>

# EXPENSE REDUCTION GUIDE

cut those expenses

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2

## TRIM THE FAT

Ask yourself what you haven't used in months. Cut those things first.

Now, go and cancel everything you have decided you don't need. Write down the total expenses before, amount cut, and the total expenses after.

EXPENSE BEFORE

AMOUNT CUT

EXPENSES AFTER

3

## PAY LUMP SUMS

Create a list of items that you are currently paying for monthly that you could switch to annual payments and save. Also, note the dates the renew and amount saved. If you want to switch them to annual payments, put a reminder on your compliance calendar to switch them over.

EXPENSE	SAVE	DUE DATE	
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>

# EXPENSE REDUCTION GUIDE

cut those expenses

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4

## NEGOTIATE

Make note of every expense you have that doesn't let you auto downgrade to a cheaper or free plan. If require you to contact customer service to cancel, they'll likely negotiate.

After you make your list. Contact the company and try and negotiate. If you genuinely think you could do without, tell the company you wish to cancel. They'll likely offer a reduced rate. For things like a phone bill, let them know that you need to reduce your expenses. You don't need to go into detail as to why. See if they can reduce your payments or plan. Write below each expense you plan to negotiate, the amount saved, and if you decided to cut or keep.

EXPENSE	SAVE	
_____	_____	<input type="checkbox"/>

5

## TOTAL

Now, total all remaining, recurring expenses. Add in other predictable expenses. Find your profit margin on average. You'll need to know your monthly income and expenses.

**TOTAL REMAINING EXPENSES**

**MONTHLY INCOME**

**EXPENSE PERCENTAGE**

# EXPENSE REDUCTION GUIDE

cut those expenses

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6

## PLAN

Are you over 30%? If so, think hard about what you can cut now to decrease your expenses. Can you get under 30% within the next 6 months by relying on an increase in revenue? Create a plan and make a written policy on how you'll take on new expenses.

You can decrease your expense percentage 1 of 2 ways. Decrease expenses more or increase income. If you expect a steady climb in income, you might be ok with your current level of expenses provided that you don't incur more.

If you actually find you have rather low expenses, maybe you'll feel more free to hire help at this point. Either way. Note your current expense % and your goal %. Then, write a few sentences on how you plan to hit the goal.

CURRENT %

GOAL %

## MY EXPENSE PLAN

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# THE MAGICAL S CORP

At some point, most of us are told about the magic S corporation. It's like the unicorn of business entities. It's unique and mysterious. Everyone thinks it's super cool, but how do you really know? In this section, I'm breaking down the intricacies of s corps, debunking some myths, and giving an actionable way to determine if s corps are worth looking into further.

To start, we need to discuss some basics.

## SALARY VERSUS DISTRIBUTIONS

The first step to understanding s corps is realizing that you will start to pay yourself differently. As a sole proprietor, you can really do whatever you like when you get paid by clients.

When you form an s corp, what you're effectively doing is making yourself the sole shareholder AND sole officer (employee) in your business. Think about it this way. You can own stock in a corporation and receive dividends as a shareholder. You could also be an employee of a corporation and receive a salary and paychecks from the business. You could also be an employee who owns stock in the company who receives dividends and a salary. This last scenario is what happens in a s corp except that you are the only shareholder and the only employee.

Once you form the s corp you become an employee of the business and pay yourself a monthly salary in exchange for the services you perform for the business. You may then pay yourself a distribution as the sole shareholder.

The salary is your compensation for working in the business. Distributions are your reward for being the owner of the business.



Only the salary is subject to self-employment tax.. This is how the s corp saves tax dollars. A sole proprietor pays this percentage on top of normal income taxes. In a s corp, the distribution portion is not subject to this tax.

Sounds awesome right!? Many new business owners get super excited when they learn how the s corp works and are ready to pay themselves a low salary to save taxes on the high distributions. Obviously, the IRS wants to prevent that, so the salary must be “reasonable.”

## **REASONABLE SALARY**

Initially, the process of determining a salary for yourself seems super arbitrary. After all, if we're the only one running our businesses, all the money we bring in is our own money. This is the part where we have to realize that our business is its own being. We perform work for our business which needs to be compensated at a reasonable rate. Then, our business brings in its own money via things like reputation, goodwill, and the like.

Once you have determined that an s corp is the right way to go, you must determine what your salary will be. You can determine your “reasonable salary” by looking at the market rate of pay to someone providing your services, in your geographic area, with your level of expertise. Alternatively, consider how much you would have to pay someone else to do what you do. What would be a reasonable amount of pay to find someone qualified to do what you do?

The importance of this is that s corps are subject to fraud and abuse, so the IRS does keep a closer eye on them. Taking time to research and document your salary can help prevent some risk.

## PAYROLL - WHAT IS IT & WHEN DO YOU NEED IT

As an officer of the s corp taking a salary, your business is now subject to all of the same rules as any other corporation with employees. You must not only pay taxes, but you must have tax withholdings. Think about the last time you had an employer where you got regular paychecks from a payroll company. They usually have all those perforated edges and look more legit than just a handwritten check. Those checks have line items for federal and state taxes withheld from the amount paid to you. Once you have an s corp, you're obligated to withhold taxes just like those checks did.

You could handle these tax withholdings on your own, but the calculations for withholding are complex, and the penalties are a huge pain. Instead, you will want to pay a monthly fee for payroll services. The payroll service will connect to your business bank account and withdraw funds to issue you paychecks. The checks will take out the withholdings, and the payroll company will send the taxes where they need to go. You simply deposit that check into your personal bank account.

## LET'S DEBUNK SOME COMMON S CORP MYTHS

1) S corps are too complicated and burdensome

Forming an LLC is straightforward. After you form your LLC, you can file paperwork electing to be taxed as a S corporation. Forming the S corp is just a couple of extra steps. You also need to put yourself on payroll, which will require some researching on determining what your "reasonable salary" should be.

2) An s corp doesn't make sense for a service based business

S corps can save us tax dollars by splitting our pay into two categories, salary and distribution. Your salary must be reasonable compensation for the services you perform for your business. Some people mistakenly believe that if they're only performing services in their business, all compensation must then be salary, which would negate the benefits of an S corp (savings of self-employment taxes on distributions). However, this isn't the case.

S corps can be fantastic for individuals that provide services. Just because you only provide services doesn't mean that your salary must be your full income. If you built a fantastic brand, you could make \$125,000 a year when a reasonable salary for your job might be \$55,000 per year.

Let's look at two examples of what a reasonable salary could look like . . .

## EXAMPLE 1

A quick Google search told me that in 2018 the average expected income for a photographer in Los Angeles is \$71,158. Let's assume that Elena has been a photographer for 15 years. She's fantastic. Her clients love her, and she has a wildly popular blog. She decides on a \$85,000 salary. Assume that in 2018, she ends up making \$200,000. \$150,000 through photography services, while the other \$50,000 she made through selling photo albums and using affiliate links. Elena's \$85,000 salary is probably fine. She has a strong brand and presence, which helps her make more money than the average photographer even with her amount of experience.

## EXAMPLE 2

Now, let's consider Paige. Paige was a hobbyist before she decided to become a wedding photographer. She had a full-time office job when her friend asked her to shoot her wedding. After that, she did a few more in the next two years. Paige left her job at the beginning of 2016 to start her photography business. She made \$30,000 in 2016, \$60,000 in 2017, and plans to make \$90,000 in 2018. She determines that a reasonable salary for her, being three years in business is \$55,000. Forming an S Corp would likely save Paige between \$3,000 and \$5,000 in taxes for her first year as a S Corp.

## WHEN TO KNOW IF YOU'RE READY FOR AN S CORP

This is the big ticket question. People tend to toss around a magic number with regard to what your income should be to know when it's time to form an S Corp. I often hear \$100,000. Other professionals say \$60,000. The number really depends on your business and industry.

If a reasonable salary for you would be \$40,000 and your business is netting \$60,000, then you might be a great candidate. In other industries, \$40,000 might not be reasonable, so the right time may not be until they hit six figures.

More details on this in Module 3.

## COSTS OF FORMING AN S CORP

- Monthly payroll services \$40-\$80 per month - \$480-\$960 annually
- Must keep accurate books and records and create balance sheets. I recommend hiring a full-service bookkeeper if you don't feel confident in this area. Add the costs of payroll to that and the annual overhead is \$2,500-\$4,000. If you already pay for bookkeeping the annual overhead is more like \$1,000.



## GUIDE

Keep this guide handy. You may want to reference when you get to cash flow in the later modules.

# BIZ ENTITY SUMMARY GUIDE

	TO FORM	LIABILITY PROTECTION	REQUIRED FORMALITIES	TAXATION
SOLE PROP	NOTHING REQUIRED	⊗	⊗	PASS-THROUGH
GEN. PARTNER.	NOTHING REQUIRED	⊗	⊗	PASS-THROUGH
LLC	FILE W/STATE	✓	✓	PASS-THROUGH
S CORP	FILE W/STATE & IRS	✓	✓	PASS-THROUGH
C CORP	FILE W/STATE	✓	✓ ✓	DOUBLE TAXED