



Cashbox

Improve Your Financial Literacy to Grow Your Business and Tame Your Tax Bill

By Tracy Allen

EVEN SMART, SAVVY SMALL-BUSINESS owners often lack comprehensive accounting knowledge and a clear understanding of avenues for tax savings. Accounting is not why people go into business—unless their business is accounting. But it's important to take your finances as seriously as you take your coffee to assure cash flow, opportunities for growth, and a solid tax return that maximizes deductions while showing profit that can open doors for your business.

With so many bookkeepers, accountants, and auditing clerks to choose from, be sure you hire one who understands inventory-based businesses. “You want to make sure they understand cash versus accrual as it relates to inventory, and they should look at things like landed cost versus buy cost, which can have a huge impact on the profitability of a business,” says Timothy Hannon, a vice president and business banker at Enterprise Bank & Trust in Kansas City, Mo., where he works with small to midsize businesses on cash flow management and best-case funding opportunities for growth.

The Big Picture on Taxes and Access to Capital

Taxes are a hefty expenditure, with small businesses facing an average income tax rate of 19.8%. And according to early IRS data, the average tax refund will be about 11% smaller in 2023 versus 2022, largely due to the end of pandemic-related tax credits and deductions.

But engaging a tax and business finance expert can help you navigate these changing rules while also minimizing tax obligations and setting you up for favorable financing terms. The less profitable your business, the lower your tax bill will be at the end of the year. The IRS states that for an expense to be deductible, it must be:

Ordinary: A cost that is typical for businesses in your sector (e.g., other retail enterprises).

Necessary: A cost that is beneficial or aids in the growth of your business.

And while yes, you always want to reduce your tax bill where possible, be careful not to get carried away, advises Ashby Walters, an executive and business and tax advisor at AW Vanguard and former tax director at Peet's Coffee. “You don't want to appear unprofitable if you actually are making money,” Ashby says. “If you want to secure financing to grow your business, you need to show that you're generating enough revenue to make your loan payments.”

Adds Timothy of Enterprise Bank & Trust: “Showing a profit and ability to pay your bills [goes] a long way in helping you attain favorable financing terms and the capital you need to grow.”

Equipment Depreciation: Often Confusing, Always Important

One of the biggest write-off conundrums for coffee roasters and retailers can be how to claim depreciation on equipment. “The importance of taking your business equipment depreciation into account cannot be stressed enough,” says Ashby. But how, with so many terms and types of depreciation—like double declining balance, Section 179, bonus, straight line, and sum of the year's digits? This is just one area where tax prep and planning accountants are invaluable, making sure you're all buttoned up and using the most advantageous and proper depreciation on your tax return.

Qualified Business Income Tax Credit

As of 2018, businesses are allowed a 20% tax deduction on qualified income. Sounds simple, but Ashby cautions, “There are many factors that can change your eligibility for the income tax deduction, including what type of service you offer; your income level, wages you pay, and/or assets you own.”

Chalk that up as another reason to hire a finance pro.

An Outside Eye Can Bring You Fresh Ideas

An external expert may also readily recognize where you're bleeding cash, where you can save on labor, what assets you might want to unload, and even how to maximize sales within your square footage. Lorene Dixon, who leads the accounting services team at AW Vanguard, is regularly in the field helping clients see the big picture, and to plan ahead or pivot to increase profits. “It makes a huge difference to go to a place of business and see how it truly operates—something you can never predict over a video call,” she says.

Lorene sees ways businesses can increase their sales and usable capital all the time. “People will have a piece of equipment that's just sitting there. I tell them to get rid of it; it's just taking up space, so you should turn it into cash and use the extra space for something that helps the business make money,” she continues.

A good accountant or business banker will also look at your bank statements to see what funds are coming in and going out, to help determine ways to be more efficient when paying vendors, or making sure your average ticket cost covers your labor costs. They can even help determine which days and hours you should be open to maximize profits, how many staff you'll need to keep long lines from forming, and more. “You have to be a good listener, but also really look at the data from a retailer's POS machine and accounting reports,” says Ashby. “Everyone's different—some could easily stay open 24 hours, while others are better at 16 or even eight hours open to the public. And they need to be willing to cut staff hours on slow days. Losing money to keep the doors open isn't going to keep anyone in a job for long.”

Equipment: Used or New?

Equipment such as an espresso machine, grinder, roaster, dairy case, and more is one of a coffee-business owner's biggest expenditures



“THE IMPORTANCE OF TAKING YOUR [COFFEE] EQUIPMENT DEPRECIATION INTO ACCOUNT [WHEN DETERMINING WRITE-OFFS] CANNOT BE STRESSED ENOUGH.”

—Ashby Walters, business and tax advisor at AW Vanguard and former tax director of Peet’s Coffee

outside the day-to-day, and hence important to keep in check. All of the business finance experts we talked to are fans of used equipment, both buying it and selling it. “There is a big market for used equipment, and you shouldn’t hesitate to buy used if it’s in good shape and serves a real purpose and can generate revenue,” says Lorene. But as she warned above, don’t start building an inventory of equipment that gathers dust.

Especially when starting out or expanding, investing in used equipment that you’ll actually use will help you build some reserves and pay your bills on time. “It’s one of the many ways to create efficiency,” says Timothy. “If a used piece of equipment has three to 10 years of life in it, that cost savings will help you show an increase in revenue.”

Separate Retail and Roasting

If you’re a roaster-retailer, you should keep your roasting and retail accounting separate. This will help you know the true cost of roasting your coffee, and how much you should charge for it, “from the space your roaster takes up in your facility, to green shrinkage and the time and materials it takes to test roasting profiles, it all adds up,” says Lorene. “I’ve seen a number of roasters that aren’t charging enough at the wholesale or retail level to make a profit, because they’re not factoring in all of their costs.”

Prepare in Advance!

Tax season doesn’t have to be stressful. If you plan ahead, you’ll meet your deadlines instead of scrambling to reconcile months-old bank statements. Experts often say you should at least be thinking about taxes in mid-November when the bulk of the year is over, but you can get a realistic forecast of your tax situation while there’s still time to plan for it.

“Small businesses should be meeting with their accountants to do tax planning and adjust over time—preferably quarterly, but at least in October, November, and December,” says Ashby. “You should be meeting with your accountant and saying, ‘Here are my rough numbers. What can I do legitimately to maximize my tax savings?’” This window of opportunity is where the most effective strategic tax planning happens. Once the year closes, even the best tax advisor won’t be able to do much.

With a little planning and a healthy portion of expert advice, it’s possible to ace your coffee skills and your financials. Don’t go it alone! Experts will help you avert disaster and even build more capital than you thought you could, so you can survive tougher times, and even rest easy with a cup of your favorite roast. **b**