

# *J* Leif Jensen and Associates

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Solutions Based Consulting & Certified Public Accounting Firm



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## LLC vs S-Corp

LLC or S-Corp, these tend to be the options of choice by most small business operators. If consulting an attorney the choice is an LLC, if an accountant the preference is usually an S-Corp, or an LLC with an S-Corp election. If



this is on the table I prefer the straight approach of an S-Corp.

Both options are flow through entities. The LLC profit is taxed for self-employment income, an S-Corp the owner needs to have a reasonable salary. An S-Corp also needs to maintain corporate books and records. I encourage all businesses to have and maintain corporate books and records, even LLC's; these should include the measurable goals and strategies that should be reviewed regularly.

I have argued with attorneys that they prefer LLCs for the organization fee and for the Operating Agreement preparation. So they get two sales from the client, they typically argue for the simplicity of the maintaining and no responsibility for the corporate books and records as the rationale. This is based on the belief that clients don't like or will not keep the records up to date, essentially weakening the corporate veil.

From a tax perspective an S-Corp has financial benefit, after the salary the profits are taxed at the ordinary income levels. An LLC is taxed at the ordinary income level, but the profit is also subject to the self-employment taxes. If the S-Corp election is processed the LLC reports taxes as an S-Corp.

If you are looking to incorporate or organize a business give a call to discuss all options to see what might be appropriate for your needs.



## Start Up Structure

I recently met with a prospective client who has started down the road of becoming an entrepreneur. While still working full time they have started working as a side consultant for a business.

They will be paid on a 1099-M and they will be reporting their income and expenses on a Schedule C attached to their 1040. I believe that this is appropriate for a new business where the owner is not sure whether it makes sense or that they have the ability to become an entrepreneur.

I have met with people who believe that they want to be entrepreneurs, but never commit fully to an actual attempt or expand upon their initial concept.

Since being an entrepreneur is not for everyone, I suggested that they hold off on the expense of incorporating or organizing unless they believe that they really do wish to push through and take the chance on succeeding or failing as an entrepreneur.

Once the decision is made to become an entrepreneur and break away from the shackles of being a wage slave, I believe that you need to push forward and organize an LLC or incorporate an S-Corp, to protect limit your liability and protect your home and family.

I like the use of Schedule C's as a testing ground, consider it the minor leagues before becoming a professional. Get your feet wet and test the waters, make sure that it is the right thing for you and potentially your family.

If you have any questions on how you should proceed, give us a call.

## Growth Consultants

I have been receiving e-mails from a consultants who are attempting to solicit business by promising to help me grow my business exponentially.

Being a business owner who continues to want to grow the firm I have skimmed some of these e-mails. I have been intrigued by a couple of the ideas, albeit briefly hinted at. I have then investigated a couple of these ideas a bit farther; even have a friend locate a copy of the gentleman's book.

The book was not dated, but the ideas were old. We had implemented most of them years before. So it held little value to assisting in growing the firm.

But I have had several clients who have brought in consultants to grow their firms and one had sold a portion of their business to a consultant who they expect to take



them beyond the next couple of levels.

The first who brought in a huge nationally known consulting firm had little luck and no growth from the monies spent. They released the consultant after the initial contract for failure to perform. The second brought in a individual whom they knew to consult expecting to be able to tap their contact for business. That was met with a lack of success as well. The one who has sold equity is too soon to know the outcome, yet.

Another client brought in consultants to help is restructuring the firm. They brought in a cookie-cutter outline and analysis, never penetrating beyond the superfluous level and thus failed.

It seems like I am knocking consultants, but that could not be farther from the truth. I am a consultant to my clients at various entry points and at multiple levels. The above failed in my eyes, because they never got to know the true nature of the business and the personality of the employees.

Each entity is unique, even if in a common business segment. The processes and personality of the firms are based on the owner and employees and how they do work or don't work together. You need to know this to become an agent of change, and a consultant is typically supposed to be an agent of change.

A one size fits all approach does not work, a broad outline may be a starting point, but it needs to be nuanced to fit the company and to get the appropriate buy in from the owner and employees. This means getting to know the client intimately, knowing what is working, what is not working, what to change and what to leave untouched.

This is not something that can be done in a couple of days and truly be successful.

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## Idiom of the Month: Butter someone up

**Meaning:** to praise or flatter someone, usually to gain a favor.

**Origin:** A customary religious act in ancient India included throwing butter balls at the

statues of gods to seek good fortune and their favor.



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## Featured Client: Next Level Northwest

Next Level Northwest is a not-for-profit business accelerator program founded by five Northwest Chicagoland municipalities to support existing local businesses ready for the next level. Next Level Northwest delivers value to business owners and leaders, participating communities, and the region as a whole through collaboration.

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