conducted by Wave revealed some troubling signs for small business owners.

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By David Axler.

The pandemic, the Great Resignation, and the subsequent shift to remote work has spurred an upsurge in new business formations. During 2021, a record-breaking 5.4 million new business applications were filed, according to U.S. Census Bureau data. However, many new entrepreneurs are navigating an environment of higher inflation, shrinking profit margins, suboptimal business bookkeeping practices, and

Our survey found that a majority of respondents (57%) say they have less than $5,000 in cash reserves. Nearly half of respondents (48%) said that they would not be able to pivot to alternative revenue streams if financial difficulties arise. Among the 52% of entrepreneurs who said they could generate extra revenue, 54% said they would turn to a side hustle, and 24% said they would try a digital revenue stream.

Takeaways for CPAs: Talk to your clients early and often about their overall financial stability. Encourage them to set up an emergency savings account with at least 3 months' worth of expenses. You also may want to encourage your clients to diversify their base of business income where possible. Are they relying too much on one big client or a single product or service? What if that large client decides to end receiving services, or if consumer preferences for that product change as consumers cut back on discretionary spending in case of rising prices or recession?

Some small business owners may feel like after the stress and disruptions of the last two years, they can survive anything. But it's good practice to remind your clients to be prepared for possible financial challenges that could lie ahead. Help your clients build financial resilience, and they will benefit from your guidance during these uncertain times.

Small Business Owners Need to Professionalize Their Finances

One of the common mistakes that small business owners make is not running their business like a real, professional, well-organized entity that is separate from their personal financial life. When business owners get complacent with their finances, it can not only cost them dearly at tax time, but also prohibit them from making informed decisions impacting the day-to-day operations and sometimes survival of their business. It's important to know where you stand on a daily basis.

Our survey found that small business owners are making a variety of rookie mistakes with their business finances:

- 26% of small business owners admit to not paying themselves a salary

bank account and begin the process of building business credit.Remind them to keep their business and personal expenses rigidly separate, and show them how it can save them time (and money) during tax season.

Help your clients recognize how being disorganized, using shortcuts, and bending the rules can ultimately cost them more money in the long run. Especially during times of high inflation, when every dollar counts, it's crucial for your clients to understand the value and peace of mind that comes from doing business in a more organized, well-structured way.

New Payment App Tax Rules are an Unpleasant Surprise

Fifty-one percent of the business owners we surveyed accept payments through third parties, such as payment apps like PayPal or Venmo. However, nearly one in four (24%) respondents were not aware that the IRS is increasing its requirements for reporting business income that flows through these popular mobile payment apps. Ten percent of respondents plan to transition away from digital payments platforms because of the new tax regulations.

Takeaways for CPAs: Tax reporting of Peer to Peer (P2P) mobile payment app business income is a hot topic that is a cause of concern for many small business owners, especially solopreneurs and gig workers who might not have been rigorous about tracking and reporting all their income and expenses.

Be ready to explain to your clients that they need to raise their game on tracking and reporting any business income that goes through third-party payment processors or P2P apps, even if it's the same app they use to pay their friends for last night's dinner and drinks. This is another reason to encourage the separation of business and personal finances.

Especially during high inflation, when a business's expenses might be increasing faster than its income, it's crucial for the business to keep cash coming in. Discuss cash management strategies and the benefits of remaining financially vigilant. Times of high inflation are an opportunity for CPAs to reach out to their clients and offer professional advice to keep them on track for long-term success. Financially resilient clients will help keep your CPA practice thriving – with repeat business, referrals, and a healthier base of business for years to come.

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