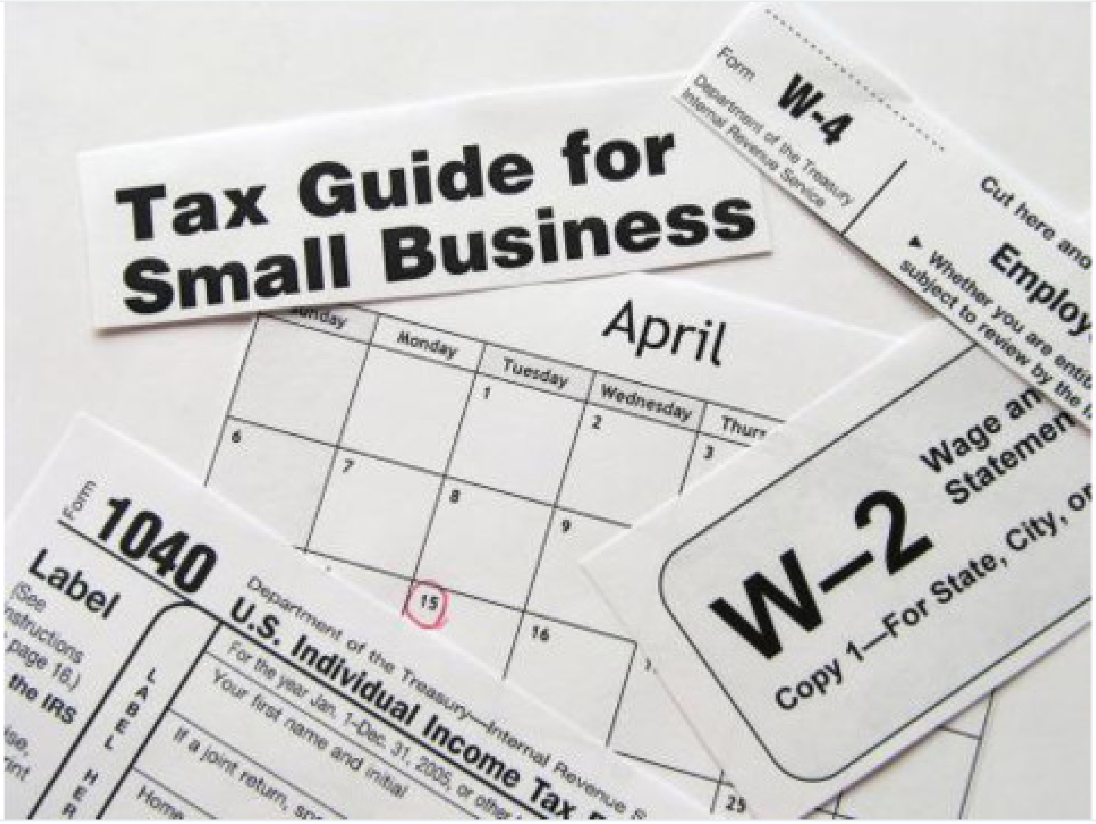
CPA Practice Advisor

with accurate and timely advice on a wide range of tax and financial matters.

Vanessa Kruze • Jan. 08, 2023



By Vanessa Kruze, CPA.

As a CPA who works with startups, I've seen almost every mistake founders can make, from not filing a tax return to filing an unnecessary return. Here's a list of the biggest mistakes that I've seen, and that accountants need to steer their clients away from.

1. **Not filing taxes on time, or at all.** For starters, let's note that every startup needs to file state and federal tax returns every year, even if the company isn't profitable. And filing late can create penalties, particularly if the startup has foreign shareholders (startups with overseas shareholders that miss filings can incur up to

$25,000 in penalties per form). And problems don't end there. Late returns show

a Delaware annual report and pay franchise tax!

3. **Missing a necessary state filing.** This is the flip side of filing unnecessary returns, and it's one of the biggest issues we find with founders. Tax nexus is a concept that many startups struggle with, particularly in the wake of the changes to nexus standards from *South Dakota v. Wayfair*, and the rise of remote workers from the pandemic. We educate founders on the importance of their nexus footprint, breaking out any sales by state, and we publish maps for both income and sales taxes thresholds in every state.
4. **Poor bookkeeping and inaccurate records.** Accurate and complete records are critical for preparing tax returns. And, as noted above, accurate state sales records are essential in determining a startup's tax nexus. Without accurate and up-to-date records, the chances of making mistakes and missing deductions dramatically increases, along with potential penalties, interest, and audit risk. Getting expenses and/or income wrong might means the startup over- or understates its tax liability, and errors like that can affect due diligence. As part of our onboarding process, we work with founders to establish accounting procedures and recommend technology solutions to streamline, simplify, and organize their bookkeeping.
5. **Mixing business and personal expenses.** A lot of founders start building their companies with their personal funds but commingling personal and business expenses can be a serious problem. Beyond potential ethical issues, we explain to founders that payments from a Delaware C-corp can be considered taxable income, and they could end up paying taxes on income they didn't receive. Founders need to record and document any personal funds transferred to the business or payments received from the business to show loans, contributions, or income in tax filings.
6. **Forgetting tax credit and deductions.** Tax laws are complex, and founders are busy running a business. That can lead to missed opportunities to save money. The

biggest missed credit we see is the research and development tax credit, which

file Form 3115 to document the change with the IRS.

As trusted advisors, CPAs have the knowledge and expertise to provide our clients with accurate and timely advice on a wide range of tax and financial matters. We function as advocates for our clients, and we are in a unique position to help minimize their tax burden by avoiding common tax problems like these.

=======

Vanessa Kruze, CPA, is founder and CEO of Kruze Consulting. Her firm, founded in 2012 and based in San Francisco, works with more than 700 startups and assists with accounting, taxes, finance and human resources.

Income Tax • IRS • Small Business • Taxes