UPSOURCED'S 2025 AGENCY TAX GUIDE

Entity & Setup

- Choose LLC/S-Corp/C-Corp based on profit and growth
  - LLC - Allows you to decide how you want to be taxed
  - S-Corp - Taxes paid at the individual level
    - Owners are W-2 employees & subject to payroll withholding.
  - C-Corp - Taxes paid at the entity level
    - Double taxation on owner distributions
- Separate business and personal accounts to keep things clean

Revenue & Expense Planning

- Most business entities are taxed on a cash basis; however, they report monthly on an accrual basis.
  - Cash Basis - taxes paid when cash is received
  - Accrual Basis - taxes paid when revenue earned
- Review year-end options by mid-November with your tax preparer. The best way to stay ahead is to know where the business is from a taxation perspective before 12.31.

Deductions

- Set up an Accountable Plan to get reimbursed for your home office expenses.
  - Written policy required
  - Amounts reimbursed are not subject to tax
- Max out retirement & HSA contributions.
- Claim all software, equipment, marketing, & dues.
- Save receipts for all travel & meals.
  - Meals are generally 50% deductible.

Equipment/Depreciation

- Buy/place new equipment by Dec 31 for maximum deduction
- Review major purchases with your CPA before year-end

Compliance & Credits

- Nexus studies should be done annually to make sure you are compliant in every state.
  - This is normally done during tax compliance
- Track the location of clients, staff, and contractors by state.
- Register/collect sales tax in all required states.

Owner Compensation & Retirement

- Calculate and document a reasonable salary for S-Corp owners.
- S-Corp owners must take a reasonable salary
- Take tax-efficient distributions, making sure not to take more than the company has made in profits.
- Max out Solo 401(k)/SEP IRA/SIMPLE IRA before year-end.
- Handle health insurance/HSA properly & timely.

Growth & Exit Prep

- GAAP-based books
- Reconcile books monthly & separate personal spending
- Organize contracts, tax records, and IP documentation
- Diversify clients (don't rely on one)
- Empower your team, document processes

Tax Payments

- Quarterly estimated tax checklist & safe harbor monitoring for owners
- Pay all pass-through entity (PTE) taxes before 12.31 to ensure the expense is captured in the current year

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