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CKR Financial Services

monthly journal

HELPING OUR CLIENTS GAIN THE ADVANTAGE OVER THE COMPETITION

It's your business, so why can't you take money out of it when you want to? As in Life, there's a right way and a wrong way to do that. Don't make the mistake of

Commingling Funds

When taking money out of a business, too often, owners forget about the contracts they have made with themselves. They feel like the money is theirs and they should be able to access it at any point, in any way that suits them. Unless your business is more of a hobby, or you are a sole proprietor, this is not the case. (And most sole proprietors like to keep business funds separate from personal funds).

If you have gone through the trouble of registering your business with the State, you have probably registered that business as some sort of legal business entity that comes with some additional requirements.

Many companies going into business establish their company by forming a Limited Liability Company (LLC) or a corporate entity to enter into contracts, purchase goods and services, get a loan, and to protect themselves from personal liability in case something goes wrong. This is also referred to as the "Corporate Veil". According to the Business Dictionary, The Corporate Veil is the "legal concept that separates the personality of a corporation from the personalities of its shareholders, and protects them from being personally liable for the company's debts and other obligations." This "corporate veil" does not generally exist for sole proprietors or general partnerships as these business entities do not have personal liability protections.

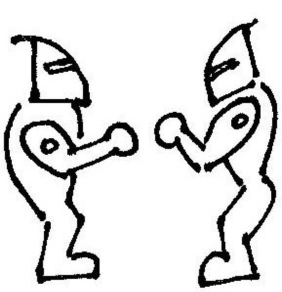
This "corporate veil" is both strong while remaining fragile. How can it be both? Consider silk, glass, or aluminum. Each of these have an inherent strength but can also be destroyed or reshaped rather quickly.

So, how does one pierce the corporate veil?

1.The most common, quickest, and easiest way is to intermingle, or commingle funds. Commingling funds happens when a business owner uses company money to pay for personal expenses or uses personal funds to pay for company expenses without following certain rules. It could be as innocent as "I took the wrong card out of my wallet", or as serious as setting up recurring personal expenses tied to the corporate accounts.

2. Another common way to pierce the corporate veil is for owners or shareholders to fail to follow corporate formalities, such as annual meetings of stockholders, keeping minutes of board meetings, and maintaining corporate bylaws. These details are easy to miss but can wreak havoc if there is a question about the legitimacy of your business entity.

ANTINOMY



Why are we forced to live in black and white? What about gray? It seems we're being pushed into categories: Liberal or Conservative, Democrat or Republican, Fox or CNN, Camp Chris Rock or Camp Will Smith. What's wrong with Fiscally Conservative Democrats or Socially Conscious Republicans, or to say "Chris and Will were both wrong"? Antinomy: Two things, seemingly opposite, can both be true. We can appreciate differences and still be proud of who we are. So be uniquely you, whether it fits into your family's mold or your friends' expectations. And permit yourself to change your goals without feeling like you've failed.

Continuing Our Topic on Commingling Funds.

See additional ways your corporate veil can be compromised and advice on how to keep your business accounts separate, healthy and compliant.

"Too many people spend money they earned…to buy things they don't want…to impress people that they don't like.."
WILL ROGERS

"Empty pockets never held anyone back. Only empty heads and empty hearts can do that."
-Norman Vincent Peale

3. Undercapitalization. If a company carries a lot of debt and very little capital, this is an indicator that the corporate veil has already been pierced.

4. Siphoning away of corporate assets by the dominant shareholders. Consider how many ATM withdrawals are coming out of the business accounts that can't be specified to business expenses.

5. Failure to maintain arms' length relationships amont related entities. If one entity keeps paying the expenses of another, this is intermingling.

So what does this mean for the business owner? Keeping the personal and corporate finanaces separate is vital to surviving an audit. If the comapny makes a habit of running personal expenses through corporate accounts, they are opening not only the business to scrutiny, but all of ther personal assets (car, home, jewelry) could be up for the taking. Think critically, would the expenses on the personal card pass muster with the IRS since they didn't legitimately flow through established business accounts?

Besides the audit, your bookkeeper or CPA will have to account for all of these "equity draws" by allocating those amounts to the shareholders who pulled them out. Note, depending on the entity structure and the owners basis, this could be considered untaxed income.

Owners are often surprised when they receive a large tax bill because of all the funds and personal expenses they have taken out of the company. Withdrawals, doctor visits and personal grooming cannot be reclassified as legitimate business expenses. These are benefits to the shareholder and thusly count as income.

It is extremely important for the business owner to examine the use of their business accounts and take stock of any personal expenses being paid through the company.

Identify what is happening in your business and take steps to discontinue intermingling company and personal monies. This will help the business owner accurately reflect the health of the company.

Understandably, when a business first starts, it is difficult for a small company to secure credit and most owners end up using a personal card for company expenses. If this happens, it is important to keep that card separate and use it ONLY for business. This shows intent to treat the business as a legitimate entity from the start.

"Where's My Tax Refund?" *Log in to https://www.irs.gov/refunds and click the blue button "Check My Refund Status". You will need: 1- Your SSN, 2-Filing Status, 3-Exact Refund Amount. Refunds are generally issued within 21 days of when you electronically filed your return or 42 days of when you filed a paper return. CKR Financial Services does not have an "in" with the IRS for information on your refund. This is your best bet to find out where your money is!*

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Your Partner in All Things Business

6540 South Pecos Road, Suite A-104 • Las Vegas, NV 89120 • (702) 463-0990