REMOVE THE STRESS FROM YOUR FITNESS BUSINESS

THE FITBIZ CPA MANIFESTO

LIFT YOUR FINANCES INTO SHAPE

ALL THE TAX SECRETS AND STRATEGIES TO KEEP AND GROW YOUR FITNESS INCOME

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Introduction

How many times have you banged your head against the wall, going crazy over how your accountant or CPA failed to take advantage of the keep loopholes within the current tax system? To be honest I hear a lot of talk now days about how the wealthy became wealthy because they can easily take advantage of the tax system by hiring smart CPA's. That might be true to an extent, but that is where most people stop and do not go any further. Why? Well because that is what society has trained everybody to be, we are trained to accept the system as it is and not do anything about. I amreferring to how you as a fitness entrepreneur can take advantage of the same system and come out on top. It is simple and obvious, but most people refuse to do the research and find out where and how they can get ahead. You may be wondering, why should I take advice from The FitBiz CPA and not your current accountant or CPA who barely has any handle on your finances forget the industry.

People like to over complicate this but if you want to be smart like the wealthy you need to think like them as well. This starts when you hire somebody who has the same level of passion and expertise for your industry as you. The FitBiz CPA not only has that passion but also insights into key accounting, tax and implementation issues that will position you to succeed in the industry. Nevertheless, this guide is not about selling you on The FitBiz CPA or the services that are offered at my website. Instead, this is a manifesto that is based on providing fitness business owners just like you that is not only meant to show you that the key to unlocking the tax code is not rocket science. In fact, it is inherently the simplest thing in the world if you pay attention to the details, the devil is always in the details. You on the other hand may not want to get bogged down into the details, and I do not blame you. Your vision is what makes you great, your drive is what makes you special. It is an expert's job to interpret the tax code for you and lay it out in plain English, have you opened a technical bulletin, FASB pronouncement, or IRS publication lately? It is like something out of an anime or Japanese comic book. You do not have the time to read all of that mumbo jumbo when you have other important tasks to take care of from your marketing/membership drive to addressing any facility rent issues.

Chapter 1: Crush the Basics of Recordkeeping and Taxes

As a fitness owner you will form a
a Sole Prop, LLC, Corp, or Partnership when starting out, but it is important to understand the key differences between these entities and the tax forms that you must file. If you chose the sole proprietorship business entity, then you must file Form 1040 and the Schedule C to pay the self-employment tax. If you run your business as a partnership then you must file form 1065, in addition as a Partner you must also file 1040 and Schedule E. Corporations must file form 1120 and if your business happens to be an S-Corp then you must file 1120-S. All of these forms are available on the IRS website and you can easily download them to analyze in further detail. An important component of getting ahead
in this tax game is to keep track of every single receipt and expense that you incurred on behalf of the business. You can keep track of your receipts using two accounting software: QuickBooks and Xero. Every single time you get an invoice or incur an expense you must enter it in your books, because if you do not then you are potentially leaving money on the table.

Therefore, it is critical that you hire a strategic accountant who can not only take good care of your books but also help you save tons of money during tax time. You cannot separate these two because it could result in potential mis ccomunication, and lack of full transparency. Again, if you properly maintain supporting documentation then the IRS can never try to blame you or trap you into an Audit. Remember an IRS audit could not only be an excruciatingly painful you as a business owner, but it could potentially set your business back substantially. In essence what I am trying to say is that when you go to war, do you go in without having an excellent strategy?

For instance, any inventory items that you obtain for your gym such as a squat rack, bench press or other workout machines come with invoices, slips or checks. Gross receipts for your business might include items like cash register tapes, bank deposit slips, credit card charges etc. After the creation of your legal entity with the state, you first plan of action must be to open a business checking account. I cannot stress how important this is, because if you mix your personal and business account then the IRS is more likely to investigate your business history.Arriving at expenses, the analogy of bread and butter comes to mind. If your revenues are your bread, then your expense are your butter. My goal in this chapter is to explain to you that expenses are not something you should be fearful of; in fact, I encourage you to spend money as long its going to be ordinary and necessary for your business. You have the potential of turning cumbersome expenses into a source of revenue during tax time.

Do not believe me? Well let me explain this to you in plain detail; let us say that you use your personal car for your personal training or fitness business. I am sure that you will, think about it you are going to need to interview employees, meet clients, travel to fitness shows etc. You will incur various expenses on these trips ranging from tires, oil change, parking fees, repairs, tolls etc. – all of these are deductible against your income and thus you net income will be less resulting in a lower tax burden. Oh, and it does not stop there you can also deduct depreciation on your car, garage costs, and even the lease expense. It is still important to keep in mind that the amount of your lease should be the portion that applies to your business use, and you cannot take the standard mileage rate deduction if you deduct your lease payments.

Remember its important to understand key accounting concepts when you converse with your accountant, because if your accountant thinks you are an imbecile when it comes to numbers then they will also treat you like one. If you want all star treatment, then you must hire an all star accountant to take care of your numbers rather than trying to understand tax nuances yourself For example, there two accounting methods that you must absolutely get familiar with. These two are the accrual method and the cash method, the cash method is exactly what the name states – you only record a transaction when you pay and receive cash. On the other hand, you only record a transaction under the accrual method when you incur it. For instance, let us say a member decides to pay you $500 dollars for a whole year on the first day of the sixth month, under the cash method you could recognize the entire revenue on that date. Under the accrual method you can only recognize half of that revenue as income for this year, the rest needs to be accrued.

Chapter 2 - How to turn Business Expenses into a Pot of Cash

Business startup costs are deductible up the first $5000 and then that amount gets reduced by start up costs that exceed $50,000. Now here is something that you might not have realized, your meals with potential clients, investors are deductible for up to 50% of the cost. These meals can occur anywhere, at the downtown bar or at a business convention/reception. Here are some other deductions that you might want to cash in on:

1. *Credit Card and Convenience Fees incurred*

2. *Cost of educating and certifying your trainers or staff.*

3. *Expenses you incur to buy a franchise gym or trademark your business name/logo.*

4. *Fees charged by attorney or accountants that are necessary and ordinary*

5. *Government license fees that you pay annually (depending on the type of license/permit)*

6. *Research and development costs in the early stages of your business*

If you own gym, then you're probably going to want to employ reliable gym managers and front desk customer service reps. The best way to gain loyalty from your employees is to provide them with top-of-the-line benefits. Did you know the premiums that you pay on the health insurance for your employees is deductible, and even better if you purchase it through the marketplace exchanges then your eligible for the Small Business Health Premium Credits. Remember as a small fitness business owner you can deduct any Medicare premiums, but you cannot take any deductions on subsidized insurance. A few other insurance related deductions
include:

1.Workers Compensation Insurance
2. Overhead Expense Insurance
3. Long-term car insurance

Well, that is all good and dandy
but what do you do with all that nice and expensive equipment at your gym? You are in luck! costs of purchasing fitness equipment are considered ordinary and necessary and thus are fully deductible. It does not matter where it is used, how it used and who uses them – if you purchased it for your gym then you should be able to deduct it. In addition, training, and education that your gym produces for your members is fully deductible as well. It does not stop there, let us say that you wanted to purchase laptops and computers for your employees at the gym, and let us say each laptop cost $2,000 and you ended up buying five of these laptops. You can go ahead and deduct each $2,000 as an ordinary and necessary business expense under the De Minims Safety Harbor Rule.
What the hell does De Minimis actually mean? Generally speakingDe Minimis Benefits are benefits that you may provide to your employee that have very insignificant or non-existent impact on your bottom line. By the same token, employee discounts that are offered to your wonderful trainers and employees on things such as protein shakes, bars, drinks, t-shirts are deductible

Chapter 3 - The Earned Income Tax Credit

The Earned Income Credit is a credit that the IRS offers, and it means more money in your pocket, as this is going to provide additional support during times of need like right now. To qualify for the EIC your income needs to be below $56,000, your tax filing status could either be Married Filing Jointly or Single. Also, there are additional rules that you must meet to qualify for this credit, such as being a US citizen, and not having investment income more than $3,600. Depending on certain calculations you could earn a credit for up to $5,000-$,7000. How crazy is that? Even if your spouse does not work and you are the sole breadwinner – you can still go ahead and apply for this. Other things to keep in mind are that any scholarship or fellowship grants that your business receives do not qualify as earned income. Other things that the IRS does not count as earned income include interest/dividends, pensions/annuities, social security, or unemployment benefits.

Your best bet is to find a strategic accountant that focuses on the fitness industry who will be better able to assist you with the income limitations/phase outs. If you erroneously make an error or try to fraudulently get the credit the IRS can ban you from taking the creditfor two years. Oh, the IRS does not like to play games with this type of stuff, thus its best to avoid outsourcing your bookkeeping and taxes to a firm overseas

Summary of Key Fitness Business Expenses Deductions

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Equipment and Gear Cost

Music and Exercise Videos

Home Office expenses

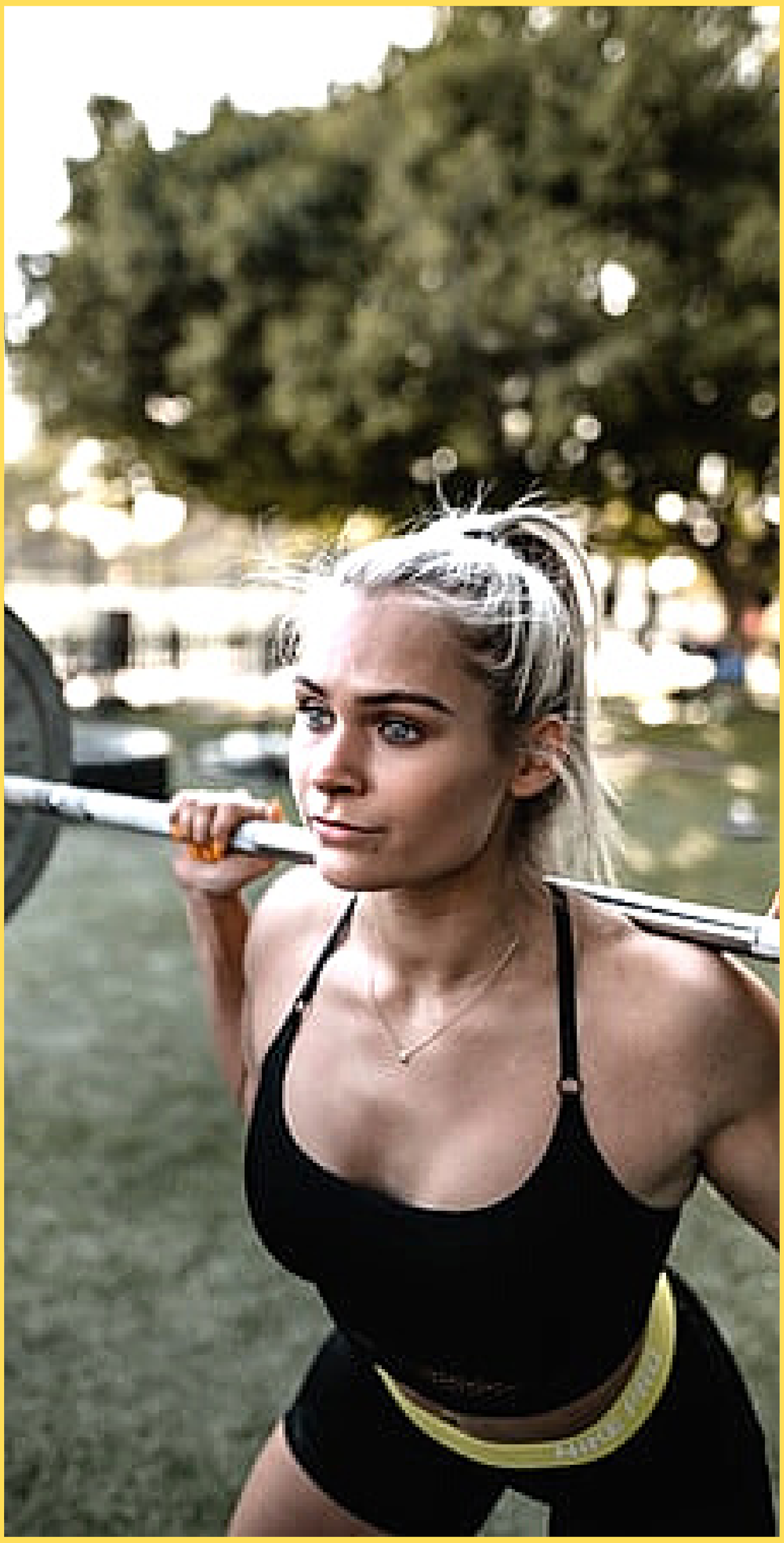
Bookkeeping software/accounting services

Entertainment and Meals that qualify

Business use of a vehicle

Subscriptions and memberships

Work clothing for your employees



Chapter 4 - How to kick COVID19 to the curb and claim your PPP funds

The PPP Round 2 is finally here and I cannot think of an industry that has suffered more under this pandemic than the Fitness industry. Politicians frivolously like to label certain businesses as essential and certain businesses as "non-essential" How could something as important and critical to a human being's well being such as mental and physical health be considered non-essential? Thus illustrating the need for strong lobbying on behalf of the fitness industry in D.C. While big businesses and corporations gobbled up a lot of the money in the first stimulus, the second stimulus package seems to be targeted more towards small businesses. With congress recently passing a second round of stimulus (PPP 2.0) there seems to be some good news for fitness business owners.

Here are the four main points that I would like to highlight:

Business owners can apply for the EIDL grant for up to $10,000 (available starting January 17th, 2021)

SBA 7a loan payments received for six months in 2019 are tax exempt income and payments received going forward in 2021 for three months will be considered tax exempt income.

PPP Loans of $150,000 or less will be forgivenExpenses paid using funds from PPP round 1 and round 2 are completely tax deductible (the new law is more clear around this subject)

Expenses paid using funds from PPP round 1 and round 2 are completely tax deductible (the new law is more clear around this subject)

That's great and all, but how do you know if you qualify?

- You must have less than 300 employees
- 25% reduction in your quarterly income
- Gym or Studio must be in operation prior to February 15th, 2020
- Have used or will use the PPP round one funds
- Your business isn't currently in bankruptcy

How much money can you borrow to help support your fitness studio or gym?

Answer: *Up to 2.5x average monthly payroll for 2019, or up to 2.5x average monthly payroll for the preceding 12 months*

Due to excessive bureaucracy, the Treasury is yet to open this program as they are probably still working out the interpretations for each provision of the law passed by Congress. To stay on top of your finances as a fitness owner, I recommend getting in touch with an accountant who can help you strategically navigate through this pandemic and come out as a winner.

Chapter 5 - Take advantage of key tax credits to grow your business income

Understanding the difference between tax deductions and tax credits is like understanding the difference between a life insurance policy vs a 401(K). The end goal might be the same, but the process is entirely different. You see deductions are meant to be taken on any ordinary and necessary business expense that your fitness business incurs. On the other hand, credits are more like rebates that the IRS provides you if you fall under special categories or meet certain qualifications. The Work Opportunity Credit is meant for employers to hire U.S military veterans, ex-felons, individuals who have been unemployed long term and individuals receiving social security income or people to be living in federal empowerment zones. To file for this credit, you must use Form 5884. Other qualified groups include a summer youth employee, SNAP recipient, and long-term family assistance recipient. In general, with Form 5884 you can claim a tax credit for up to 40% on the first $6,000 of your employee wages.

As a fitness business owner, you probably provide some type of health insurance coverage for your full-time employees. If that is the case, then you are entitled to something called the Small Business Tax Credit or better known as the small business health care tax credit. If I were a small gym or studio owner, I would absolutely jump all over this. First, providing benefits such as insurance for employees is not only going to pay dividends in terms of employee performance but it could literally end up being of no cost to you. There are a few key criteria that you must verify before claiming this credit:

1.Currently employ fewer than 25 employees

2.Pay average wages of less than $50,000 per full time employee, this is subject to phase outs so I would check in with your strategic accountant.

3. Purchase a qualified plan through the Healthcare Marketplace. The Marketplace is where small businesses and individuals can purchase health insurance.

4. Pay 50% of the cost for an employee only (you must exclude any dependents or family members)

A **qualified health plan** on the health care marketplace exchange usually falls under either the bronze, gold, or silver categories. Another critical consideration to be aware of is the **QSEHRA** (Qualified Small Employer Health Reimbursement Arrangement). I am sure that as a fitness business owner your mind is probably exploding hearing about all of these abbreviations for the first time. Fear not, because your strategic fitness accountant The FitBiz CPA is your one stop shop for all things tax and accounting. We are here to hold your hand when it comes to comprehending and understanding all the nuances related to taxes and keeping more income in your pocket.

Reverting back to the QSEHRA, this allows you to refund the employee their medical expenses which includes premiums on insurance purchased through the marketplace. To provide a clearer picture, let us say that you currently employ around 5 full time employees and pay around $25,000 in premiums - you could qualify for up to $5,000 in tax credits each year. Think about it, that is $10,000 for up to two years, you are essentially leaving FREE MONEY on the table if you do not claim this credit. The good news does not stop there, let us say that your health insurance premiums were more than the credit that you claimed, you can carry the credit back or forward. In addition, you can claim a business expense deduction and a tax credit to make up for the excess, so not only are you lowering your taxable income you are also getting cash back

Another important thing to keep in mind is to make sure that you inform the healthcare exchange about any changes or fluctuations in your income. If the IRS finds out that your business income was too high to be eligible than any excess will be deducted from your tax refund. Above all it is critical that you be extremely honest and transparent about how much income you made for the respective tax year. Certain types of employees are not eligible for this credit, these include owners of Sole props, partners in a partnership, and shareholders with more than 2% equity ownership. If you did not claim this credit in prior years you have 3 years from the time the original refund was filed to claim this credit. Instructions on how to claim the credit can be found on Form8941 2020 Form 8941 (irs.gov). As a fitness business owner, you must find every opportunity to save money wherever and however you can. Do not let this golden opportunity go to waste. The best source for learning about health insurance options as a small business are going to be found here: Offer SHOP health insurance | HealthCare.gov.

Another tax credit that small fitness businesses like yours can take advantage of is the Qualified Research Credit. The Qualified credit is generally accessible if you undertook research for the purposes of creating or discovering new technology or innovation. The following items would fall under qualified research and thus be considered eligible for the R&D credit:

Creating a prototype of an already existing model

Creating a new manufacturing process

Improving product efficiency

Improving quality control testing

Environmental or other certification testing

An example that would make more sense to you as a fitness business owner would be essentially researching or creating an app that could be implemented within your gym to better help your members achieve their fitness goals. There are countless more examples, but the key here is that you can subtract up to 10% of your R&D costs from your tax bill. Like other tax credits there are certain requirements that must be met before you can qualify for the credit. For instance, your average annual gross receipts for the past three years must not exceed $50 million dollars.

Did you know that you could also qualify for something known as the *Disabled Access Credit* if you employ individuals with disabilities? To qualify for this credit your fitness business must have less than $1 million in revenues and had less than 30 full time employees. I am not the one making these rules, it is the IRS and while they are at it, why don't you take full advantage of each every one of these credits? The Disabled Access Credit can help cover up to 50% of the expenditures that you incur for employing those with disabilities. The maximum amount of credit that your business can qualify for in one year is $5,000.

If you decide to provide childcare for your employees you can qualify for something called the *Employer Provided Child Care Credit*., To qualify for the credit, your fitness business must use the Form 8882 and can take a credit on all childcare expenses including any referral expenditures. The provision allows you to take a credit for 25% of the qualified childcare facility expenditures and then take up to another additional 10% on any referral expenditures. The credit is limited to around $150,000 dollars per tax year. The following expenditures would be considered qualifying childcare expenditures under the IRS's definition:

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Construction ore rehab of any property that is used as part of a qualified childcare facility.

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Property that is not part of your principal residence or your employee's residence.

As a fitness business owner, you can take advantage of something called the *Retirement Plans Startup credit*. You can qualify if you start a SEP, SIMPLE IRA, or qualified plan like a 401(k) plan and claim a tax credit of $5,000 for three years. Essentially the credit is 50% of your eligible startup costs up to the greater of $500 or the lesser of $250 multiplied the number of NHEC's in the plan or $5,000. To be eligible for this plan you must have fewer than 100 employees at your fitness business and have provided at least $5,000 in comp in the prior year. Eligible startup costs include setting up a plan administrator, plan custodian/actuary and educating your employees about the plan. Also, keep in mind that you cannot take both a start up costs deduction and the retirementplan set up credit. The IRS is very picky with these things, so its importantto plan with your Fitness CPA on how to properly utilize deductions vs credits

To conclude this chapter on the various tax credits, I would like to bring up something known as the *New Markets Tax Credit*. The New Markets Tax Credit is meant to support small businesses just like yours if you decide to invest in a low-income area. Investment efforts in these low-income zones are supported through CDE's (Community Development Enterprises) or CDFI's (Community Development Financial Institutions). To qualify you must either acquire, renovate, or construct real estate in a low-income area or expand a current business that already exists in that area. Luckily as a fitness business owner if you decide to construct or rehabilitate a health/athletic facility then you qualify for this credit. In addition to qualify the area where you decided to establish your facility must have a 20% poverty rate and median incomes must not exceed 80% of the area median income.

Chapter 6 - Section 179 Deduction

Are your fitness equipment bills killing your bottom line as a fitness business owner? Well, I am here to inform you that they no longer must.
Generally, you are only allowed to take deduction on a property or equipment by depreciating it over its useful life. The IRS sets the criteria on everything, even on what "qualifies" as a depreciable property. It sounds a little whacky at first but if you were to dig a little deeper then you will find out that there is good news for fitness business and gym owners. You can take advantage of something known as the Section 179 Deduction. What is cool about this deduction is the fact that you can take the full purchase price of any equipment and deduct it in the year that you placed the equipment in service. The threshold for this in 2019 was $1,020,000, that means all those racks, benches, dumbbells, kettlebells, dip/chin up bars are DEDUCTIBLE

Pre-Section

179 Deduction Example:

You decide to purchase an equipment (rowing machine) and it cost you $800.00 dollars. You depreciate it over five years and that is a total depreciation expense of $160 dollars per year, multiply that by a hypothetical tax rate of 30% and you end up saving $48 dollars every year.

Taking

the Section 179 Deduction:

You purchased a rowing machine for $800 dollars, a squatting rack for $1,200, a bench press for $500. Your equipment purchases total $2,500, under Section 179 you can go ahead and deduct the entire $2,500 against your income. Let's put this in contect, if you did not take depreciation expense under Section 179, then your income would be higher by $2,500 and you would owe an additional $750 dollars in taxes.

The good news does not stop there, let us say that you decided to finance the equipment instead of purchasing it. That is fine too, because with Section 179 you can take the entire purchase price as a deduction instead of simply deducting the amount that you paid in cash. I cannot emphasize how critical it is for you to plan around tax deductions, savings, and credits with your strategic accountant. If you wait till the last minute to initiate any type of planning, then it might inhibit your ability to take advantage of all the goodies that the IRS can offer

Final Word

I used to be a regular at a brick-and-mortar gym a few years ago, and I ended up becoming friends with the owner of the gym. Due to confidentiality and privacy related reasons, I will call this person Tim. Tim was truly passionate about everything fitness and working out, heck the guy loved sharing tips and advice on how to up your lifting game. As a fitness business owner, you probably share a lot of traits that Tim had. He had purchased the gym only a few months before I joined, and I am not exaggerating when I state that this was truly one of the best athletic facilities that I had discovered. Time used to tell me how his marketing had catapulted the gym from having only a few members to having a few hundred. Nevertheless, what Tim did share with me was the fact that he struggled with hiring the right accountant to handle his books. Tim was a number driven person, but by numbers I mean he really wanted to grow his membership and reach as many people as possible. Tim was not too concerned with the balance sheet, income statement or the statement of cash flows. I do not blame him, why should he be concerned with something that is not his expertise?

Well after one year Tim's brick and mortar gym was no longer there, I was shell-shocked and could not believe what had just happened. The gym that I loved and treated as my second home was no longer there. Apparently due to lack of liquidity and problems being heavily leveraged ended up costing him his business. We have all heard the old saying, if your business is in a loss and you cannot pay yourself or your employees then it is no longer a business, it’s a hobby. Since the day that Tim made the decision to shut his gym down due to lack of profitability, I made it my mission to help brick and mortar fitness business owners somehow or other. It is critical for you as a fitness business owner to get a tight hold of your finances, especially when it comes to accurate recordkeeping and tax filings

Sources:

Publications | Internal Revenue Service (irs.gov)