RAYMOND JAMES

Navigating independence

Asking the right questions before you establish an independent advisory business can be crucial to your future success.

Making the leap from being an employee advisor to owning and operating your own independent practice can be exciting, rewarding and lucrative. But it's also a big step that comes with its own set of challenges. If you're thinking about going independent, here are five key factors you should consider.

LEGAL STRUCTURE

If you're a solo advisor with a team of support staff, then you'll likely establish a straightforward legal entity like an LLC. However, teams of partner advisors that need to share expenses and liabilities may favor establishing a parent company to provide structure for equal or proportionate share of office space, staffing and marketing.

For group practices, there's also a structural decision to make regarding client service. Vertical structure makes it so that advisors are assigned to specific clients, whereas horizontal structure allows every advisor to serve every client as needed.

All of these factors will affect how your business is set up, how it operates and the legal ramifications that come along with it. Because the tax implications vary between structures, it's necessary to have a solid understanding before making any big decisions.

START-UP EXPENSES

Classifying expenses in an organized fashion is a key function for your business to have from day one. Everything from office space to equipment can be categorized and recorded for tax purposes. Knowing what's deductible and keeping track of detailed expense records can help you maximize your independent practice's tax efficiency.

TAX DEDUCTABILITY

To ensure smooth tax filing, learn which expenses are deductible, maintain detailed documentation and track out-of-pocket expenses properly. Although many of the expenses that are deductible are the same for business owners as they are for W-2 employees, the latter often are capped by a percentage of income. As a business owner you won't be subject to caps on deductions for travel, client events, or meals while conducting business.

RETIREMENT PLANS

To run an independent advisory practice, you'll also need to think about retirement. Not just for your client, but for yourself, your potential partners and your staff. Finding the right plan for your situation can help you be prepared and retain key talent. There are also tax implications to consider when offering a retirement plan to your employees.

ACCOUNT RECONCILIATION

One of the most crucial parts of tax planning as a business owner is keeping up with reconciliation of your books. Whether monthly or quarterly, you should take these records to your CPA or tax professional at the end of every year to determine which expenses were business and which were personal. Reconciliation on an ongoing basis can significantly reduce the headache of an audit versus reconciling retroactively.

Carefully considering each of these factors can help ensure the future success of your practice. Contact your local AdvisorChoice® consultant today and get connected with the tools and resources you need to embrace independence with Raymond James.

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