




TOP 3 BUSINESS ISSUES FACING DESIGNERS IN 2019

(And How to Fix Them)





As someone working in a fast-paced industry, you have a lot to keep you busy.

And with emerging tastes and ever-changing trends, coupled with client demands and deadlines, it can be all too easy to take your eye off the ball.

That's why I've written this short guide, outlining the top 3 business issues facing designers in 2019, and how you can fix them before it's too late.

ISSUE #1

Confusing cash flow management

Does this sound familiar?

You've invoiced for another great design job (awesome!), and you're checking your bank account for payment. It's there in full (also awesome!), but you don't know how much of the money in your account is yours; how much belongs to the business; and how much you need to keep for taxes.

Confusing, right?

Many of my clients agree, and they're often looking for me to create a monthly cash budget to help them figure out the best way to manage their cash flow. But that's only one part of puzzle.

Let's take a look at what you should be doing to control your cash, in four simple steps.

Getting to grips with your cash flow management

Here's what you need to do:

1

Use more than one bank account. If you only have one bank account into which all of your money flows, it's obviously going to be difficult to keep track. In one of my favorite books, [Profit First](#) by Mike Michalowicz, its suggested that you open four additional accounts (one for vendor purchases, one for collected sales tax, one for payroll, and one for profit). That way, you can get into the solid habit of transferring the money out of your main account and into the appropriate accounts as soon as you receive it. If you do that, then you won't fall victim to temptation, and spend money that's not actually yours. As they say, out of sight, out of mind.

2

Set up a budget. Next, you need to work with your accountant to develop a budget for both fixed and variable expenses. After all, if you don't know what you're spending your money on, how can you adequately allocate it when you receive it? This is a useful exercise as you may uncover superfluous costs, and actually save yourself some money in the process.

3

Change your operational mindset (i.e. get paid up front!). You might feel bad about asking for money up front before you start a new project. Don't. You're a business, not a bank. I've seen so many designers rush out and put materials on their credit card, only for a project to fall through, leaving them in the lurch. If you don't already charge a deposit to your clients, start immediately. Better yet, open an additional account to the ones discussed above and use that for client deposits. This will help you manage your project's budget more effectively.

4

Learn to put yourself first. In Profit First, Michalowicz discusses the importance of paying yourself first. Here's how it works:

With your multiple accounts set up, and your change in approach to getting paid up front, you start each new project by allocating funds to the appropriate places - including yourself. Instead of working to the age old formula of $\text{Sales} - \text{Expenses} = \text{Profit}$ ", you flip it to $\text{Sales} - \text{Profit} = \text{Expenses}$ ".

This prevents you from seeing income as a relief, and subsequently spending it on whichever matter is most pressing (be it rent, bills, materials, or tax). With a more considered approach, you can cover all of your expenses, while managing - and growing - your profits.

To benefit from multiple accounts, Michalowicz recommends the four main business bank accounts outlined earlier. For interior design purposes, I recommend a few more (noted below) and these can vary depending on the complexity of your business:

- ◇ Operating Expenses Account
- ◇ Client Deposit Account
- ◇ Tax Account
- ◇ Profit Account
- ◇ Payroll Account
- ◇ Savings Account
- ◇ Sales Tax Account
- ◇ Vault Account (used for long-term plans)

Together, with the client, we determine the percentages that should go into each account. The goal is for it to feel challenging, but not agonizing. The best part about this is, you'll actually see a profit. For many of my clients, this is a first.

Not only does Profit First Accounting set you up for success, it also allows you to minimize the stress of not having enough money to cover a client's materials or pay your bills. Less wasted time on stress = more freedom to create and enjoy.



ISSUE #2

Not knowing which legal entity is the right one

Most designers start out as a single member LLC. It's the easiest and simplest way to launch a business. But when you select this entity, your entire profit is subject to an extra 15% employment tax - and if you don't know this, or don't plan for it, it can spell trouble.

I've seen it time and time again. Designers sleepwalk their way into choosing a legal entity for their firm without fully understanding their responsibilities. And then BAM, they're suddenly caught off guard by an eye-watering tax bill.

The good news is, it doesn't have to be this way.

When your profits hit the \$40-50K per year mark, and they show no signs of slowing, you can change the structure of your business. By switching to an S-Corporation, you can potentially save thousands of dollars a year by not being subjected to the additional 15% employment tax.

If you're achieving those sorts of numbers, and you have the processes and client base in place to do it consistently, it's as simple as filling out a form and letting the IRS know that you're making the switch.

You should know that when you file as an S Corp, you are subject to more formalities than an LLC. An S Corp typically has shareholders, owners and directors, and is required to meet at least annually, and more. Your accountant should also compare the tax benefits with the costs and requirements before a decision is made.

ISSUE #3

Getting tripped up by the Sales Tax Nexus

Thanks to the advances in cloud technology and the improvements in video calls and project management software, many designers are no longer shackled by geography. I have clients who are based in California or New York, but work on projects nationwide.

And this new reality brings with it a very particular Sales Tax challenge. **Nexus.**

From the Latin “to bind”, nexus is a legal term that refers to the requirement to collect and pay sales tax in the state in which a business is operating. For example, if you’re a designer in Santa Monica, you must file and pay California state taxes.

Where it gets tricky is when you’re based in one state and operating in a different state, and you meet that second state’s threshold on a set level of sales transactions or gross receipts. Each state has its own sales tax rate, and to complicate matters further, some states even have different rates for counties and cities.

So, even if you don’t have a physical presence in a state, you may have to file sales tax if you carry out a project there. But how do you know when you’ve gone through a state’s sales tax threshold?

Well, for example, a state could say that if you make over \$100K in sales, or you make over 200 separate transactions, you are then liable for sales tax. However, every state has different thresholds, and these thresholds can change without notice.

That’s why you need to work closely with a CPA who understands the sales tax ramifications of a nexus. I see a lot of designers fail to take this into consideration before embarking on a contract with an out-of-state client. What typically happens is: they don’t do the necessary research on that state’s tax rates; they don’t relay the fact that their customer has to pay them sales tax up front; and they’re left scrambling to collect it after-the-fact.

The good news is, most of the leading cloud accounting software providers let you set up new jurisdictions which automatically take into account the specific sales tax rates. You just need to make sure it’s set up properly before you send out a proposal and an invoice.

Facing one or more of these issues? Need a helping hand?

LET'S FIND OUT IF WE'RE A GOOD FIT.

[Click here](#) to take a short questionnaire
and discover if the Designer CPA is right for you.

