

ProfitMancer

MONEY MASTERY

Profit Hoarding: Why More Cash is Always in Fashion

TRANSCRIPT

Introduction

Welcome to the "Profit Hoarding: Why More Cash is Always in Fashion," part of our ProfitMancer Money Mastery curriculum. I'm Sharon, and today we're diving into the glamorous world of profits, where being fashionable means having a healthy bottom line. As Coco Chanel once said, "The best things in life are free. The second-best are very expensive." Let's tweak that a bit for our purposes: "The best businesses know how to generate profits. The smartest ones know how to keep them."

What are Profits?

So what exactly are profits? Profits are what's left after you've paid all your bills - the lifeline of your business. It's the cash that makes all your hard work worthwhile. It's the business world's version of a report card, indicating how well you've played the game of income versus expenses. But it's not just about making money; it's about what you do with it that counts.

How You Get Paid

Ideally, you're not working for nothing in your business. Or one day soon, you won't be. The temptation is real for business owners to just pull out excess profits as a draw or salary. However, that's not always wise.

Understanding Dividends

Dividends are your reward for the sleepless nights and endless cups of coffee. It's the money you get to take home from the profits earned. Depending on where you're setting up shop and where you live, choosing dividend distributions over a full salary can have tasty tax benefits.

It's about dressing your income in the most tax-efficient outfit possible. Your tax professional can provide you with recommendations on what is the best mix for you.

Factors they will take into account include your location, where your company is based and the structure of your business.

Just keep in mind that when the option to get paid in dividends exists, the business will generally pay taxes on those dividends and you may benefit from a reduced tax rate. If you're paid salary or draws, you'll be paid based on earned income and the business will have the benefit of expensing it.

Salary Vs. Dividends

Your salary should reflect what it would cost to replace you – no more, no less. The extra you want to get paid? That's your dividend. It's like being paid for being awesome and owning the place. Because, well, you do.

Here's a pro tip: I mentioned earlier the possibility of selling your business at some point. If this is your intention, it makes it a lot easier to get a higher selling price when you show more of what you get paid being in the form of dividends. Why is that? If your salary is in line with the cost of replacing you, then a potential buyer can look at the dividends you are getting paid and say, "That's how much I will get if I own the company!" and it can be pretty enticing.

One thing to keep in mind here: if you live in the US, Canada, or many other countries, and you're considering buying a house using traditional financing, salary may be important. The rule of thumb in the US and Canada is showing the last 2 years of income. It's a lot easier to get financing with salary-based income than other income sources in a lot of cases.

Questions to Ask

Here are some questions to ask your accountant and/or tax professional:

Does the structure of my business allow for the payment of dividends?

If it does, what are the tax ramifications of shifting over some of my earnings to dividends for the company and for my personal income?

If it doesn't, is there a business structure that would allow me to benefit tax-wise? What would it cost and what else would be involved to switch over? Sometimes, it might make more sense to reorganize your business because of the tax implications.

What is Profit Hoarding, and Why Does it Matter?

Now this module is called, "Profit Hoarding: Why More Cash is Always in Fashion," and you may be wondering, "Sharon, you've talked about pulling money out of the business and not hoarding." So yes, you're right, it's time to address that.

Let's start with what profit hoarding is and why does it matter?

Profit hoarding might sound like we're squirreling away every penny out of sheer greed. Not quite. It's about strategic retention of earnings for future growth, security, and valuation. It allows you to scale up faster, be able to weather storms, be able to pivot if there are economic or industry changes and overall increase your level of long-term security.

Why Keep Excess Funds in the Business?

Keeping funds in the business isn't just hoarding; it's smart finance. Look at Apple or Amazon; they keep a substantial reserve to invest in growth opportunities, cushion against hard times, or simply to have the cash to make strategic moves without relying on external financing. It's their runway to innovation and stability.

What if You're Not Yet Profitable?

You might be thinking, "But I'm barely making enough money to pay the bills, nevermind consider profit." That's okay. We'll get you there. Hopefully your goals factor in profit and revenue numbers. You may want to return to this module later. The next module will look at paying yourself!

Worksheet Alert

Now, for the hands-on part: the worksheet accompanying this session will walk you through assessing your profit, setting a sensible salary, and considering dividends. Plus, it'll nudge you to chat with your accountant—or find one if you haven't yet. Accountants are financial wizards that help you navigate the tax labyrinth and keep more of what you earn.