

Savings Plans for Small Businesses

1.1 Introduction

Welcome to SBA’s online training course: Savings Plans for Small Businesses.

SBA’s Office of Entrepreneurship Education provides this self-paced training exercise as an overview of how to establish a long-term savings plan as a small business owner. The course will also explain the importance of creating a savings plan when launching a small business.

You will find this course easy to follow and the subject matter indexed for quick reference and easy access. It will take about 30 minutes to complete the course. Additional time will be needed to review included resource materials and to complete the suggested next steps at the end of the course.

Audio is used throughout the training, so please adjust your speakers accordingly. A transcript and keyboard shortcuts are available to assist with user accessibility.

When you complete the course, you will have the option of receiving a completion confirmation from the SBA.

1.2 Course Objectives

The course has four key objectives: One, explain the importance of saving

Two, explain the difference between a contingency savings plan and a long-term savings plan

Three, list ways to save by getting tax breaks

Four, identify ways to cut costs and save money

1.3 Course Topics

This course will discuss areas that address why it is important to establish a savings plan from the very beginning—i.e., from the first dollar you earn as a small business owner. Although planning your finances can take a lot of work, this course will focus on three main areas that can help you be prepared with your money now and in the future. This course helps in:

- Planning your retirement savings
- Identifying tax-saving options, and
- Cutting costs

Numerous additional resources are identified to assist you. Visit the Resource icon in the course player or locate additional tools, templates, and mentors on SBA.gov once you finish the course.

Let’s get started!

1.4 Background

Have you planned your savings for surviving difficult situations such as recessions or for facing unexpected life challenges?

Have you planned your finances so that you can have a steady and adequate income after your retirement? As a small business owner, you need to plan for yourself and for your business, including for your employees.

1.5 Saving as a Small Business Owner

Saving for retirement is probably the last thing on your mind as you look at startup costs for your new business. Should you be planning your retirement savings so early?

Before taking risks with your business, think about how to withstand the ups and downs of the economy and how you can make smart investments so that you are prepared for the worst.

Don't wait to start planning for your future. Be proactive when it comes to making the necessary preparations to your business in order to plan for your savings.

1.6 Saving as a Small Business Owner (cont'd.)

It may seem daunting to think about saving money in the early stages of your business venture. Before you put money aside, it is important to determine your goals in saving.

You need to plan your savings to ensure a steady and adequate flow of income, even during contingencies and after retirement.

Even a small amount saved every week can provide a beneficial security and fallback safety net that would outweigh the initial investment of time and money involved in creating a savings plan upfront.

Some people use automatic deductions to manage their savings investment, as this removes the temptation of spending money before they have a chance to invest it.

1.7 Developing a Savings Plan

Following are the three main areas every business owner should think about while developing a savings plan:

- Life events
- Retirement
- Taxes

Let's look at each of them in detail.

- <Life events>
 - Certain life events can happen at any time, although no one wants them to happen. As a business owner, you need to take into account the fact that you are the sole person responsible when something unexpected happens with your business. Therefore, make sure you always have a contingency plan.
- <Retirement>
 - When it comes to your retirement plan, it is likely that you make this a low priority. Compared to those who are in corporate jobs where an employer matches their 401(k) contributions, it is up to you to take the initiative to plan for your future.
- <Taxes>

- It is likely you will have a large tax bill each year. Having a long-term savings plan that takes this into account makes that tax burden smaller.
- Also, you need to set aside money every year for taxes. When you were a corporate employee, you must have noticed that your employer deducted taxes from your salary. Your employer was paying those taxes to the government. As a small business owner, you have taken a whole new responsibility for paying your own and your employees' taxes. Be prepared for it.

1.8 Life Events—Why You Should Save

It is always a good idea to have a contingency plan, because things in life don't always go as originally planned, and your business will be no different.

Let's look at a few events that you probably wouldn't expect to have happen, but for which you need to be prepared.

- **Emergencies**
 - Emergencies can be related to life, health, or environment. These emergencies aren't something anyone wants to imagine, but they happen. It is important to make sure that your business is insured against such events. Your business shouldn't suffer because of such emergencies.
 - In addition, plan for the possibility of supply-line interruption. For example, if a supplier goes away, do you have the funds to pay market prices for raw materials? Be proactive and save for the —what ifs.
- **Sequestration and Government Shutdown**
 - If you primarily perform work for the Federal government, have an action plan for how you will continue to pay and be paid if the government is shut down for a period of time.
- **Lawsuits**
 - You might not think that your product or your service could create a legal problem for you, but the fact is that it happens. Make sure you are prepared to get legal help should someone bring a lawsuit against you.
- **Lack of Credit**
 - That money you were waiting for so you could pay your employees is held up. Now what do you do? You need to have a backup plan to handle such situations. Make sure you have a solution to your financial woes.

1.9 You Want To Retire Someday—Where To Save

Without a doubt, retirement is one of the things small business owners must save for the most. A Certified Public Accountant for small businesses or even a financial planner can help you determine the best savings options for you and your business.

When thinking about where to put your and your employees' money for retirement, decide on:

- How much you can contribute to it
- How soon you want to draw from it
- How much interest it can earn

- How convenient it is
- The amount of deductible tax

1.10 Savings for Retirement

There are many ways to save for your retirement. Many mutual funds allow as little as \$50 per month for investing or saving. These contributions buy more shares when prices are down and fewer shares when prices are up, thereby protecting you by providing a low average cost.

For companies with 25 or fewer employees, the top three kinds of retirement plans are:

- Traditional 401(k)
- Savings Incentive Match Plans for Employees (SIMPLE) IRA and
- Simplified Employee Pension (SEP) IRA

Click each plan to learn more.

Traditional 401(k)

Traditional 401(k) tops the list of most popular retirement plans.

The most attractive feature of this plan is the flexibility that it offers. It allows you to make contributions on behalf of all participants, to make matching contributions based on employees' elective deferrals, or both. Traditional 401(k) contributions can be subject to a vesting schedule. There is an annual testing to ensure that benefits for the normal employees are proportional to benefits for owners or managers.

Savings Incentive Match Plans for Employees (SIMPLE) IRA

The second most popular option is the Savings Incentive Match Plans for Employees (or SIMPLE) IRA. This plan is easy to set up and has an affordable maintenance cost. You can contribute a fixed amount for your employees or can match the employee contribution.

Criteria for a SIMPLE Plan:

- You have to be a business that has 100 or fewer employees who earned \$5,000 or more in the previous year
- You cannot have another retirement plan

Simplified Employee Pension (SEP) IRA

Simplified Employee Pension (or SEP) IRA is the third among the most popular retirement plans. This plan has an easy and affordable setup. Major features of this plan are: easy maintenance, non-mandatory contributions, tax-deductible contributions, and large contribution potential (25% of employee's pay). Another advantage of this plan is that the contributions don't affect your other accounts and can be terminated at any time.

To be eligible for an SEP Plan:

- Employer and employees should be at least 21 years old
- The employee should have performed service for you for at least three of the last five years

1.11 Taxes Can Hit Hard—Know Your Options

Tax codes and laws are constantly changing. It is important that you as a small business owner stay abreast of the latest happenings or have someone to do it for you. There are a lot of tax credit opportunities to choose from. Some of the great tax credit opportunities to take advantage of, if you are eligible, include:

- Write-offs
- Flexible Spending Accounts (FSAs)
- Health insurance
- New employee benefits, and
- Employee stock ownership plans

Click each tax credit opportunity to learn more about it.

Write-offs

As a small business owner, you are eligible to write off almost everything that helps you do business. For example:

- Office equipment
- Software
- Subscriptions
- Mileage
- Food
- Insurance premiums
- Retirement contributions
- Telephones
- Childcare and
- Many more

Flexible Spending Accounts (FSAs)

Funds deposited into a medical FSA by you and/or your employees aren't subject to payroll tax.

Health insurance

If you cover 50% of your employees' health insurance costs, you can claim a deduction on premiums paid for your employees.

New employee benefits

If you hire previously unemployed workers, you may be eligible for a tax exemption. Visit <http://hireact.org/> for more information.

Employee stock ownership plans

This option is motivating to employees and can help you save big on taxes. The following are just a few deductibles:

- Contributions of stock
- Cash contributions

- Dividends

1.12 Saving or Cost-Cutting Tips

With an economy that's struggling, every small business owner is looking for ways to increase profits, save money, and improve efficiency. If you are able to apply the long-term savings plans we covered earlier in this course, you may find that savings in certain areas will bring more money to invest in other areas. You can start by creating a cost-savings plan for your company and implementing it effectively.

Depending on your business, you can consider the following options to save money:

- Conduct audits
- Eliminate credit card processing fees
- Save on mortgage or rent payments
- Use e-mail for customer service
- Simplify products
- Use free software
- Be honest about revenue
- Encourage employees to save
- Piggyback on others' marketing efforts
- Go paperless
- Shop around for insurance
- Negotiate
- Allow telecommuting and
- Cut back on travel

1.13 Summary

That was a lot of information. This course focused on why it is important to establish a savings plan from the very beginning—from that first dollar earned as a small business owner.

In this course, you learned about:

- The importance of savings
- Contingency and long-term savings plans
- Ways to save and get tax breaks
- Ways to cut costs and save

As you now know, many situations can come up that cost a lot of money. Don't wait until it's too late—start planning now.

1.14 Next Steps

There are many things that have been discussed in this course. The instructional part of the program is complete. It is now up to you to apply what you have learned.

Consider taking these next steps to establish a savings plan:

- Step 1 – Evaluate your current savings status
- Step 2 – Meet with an accountant or financial planner
- Step 3 – Identify a contingency and savings plan with the help of the accountant or the financial planner
- Step 4 – Determine where you want to put your savings and
- Step 5 – Start saving.

1.15 Resources

SBA has a broad network of skilled counselors and business development specialists. Below is a short description of our resource partners:

- Small Business Development Centers (SBDCs) are associated with institutions of higher education – universities, colleges, and community colleges. More than 900 SBDCs offer no-cost, extensive, one-on-one, long-term professional business advising, low-cost training, and other specialized services such as procurement, manufacturing, and technology assistance, which are critical to small business growth.
- SCORE offers free, confidential small business advice from successful entrepreneurs. SCORE is a nationwide program and boasts more than 12,000 volunteers to give you guidance to grow your business.
- Women’s Business Centers (WBCs) provide free management and technical assistance to help women and men start and grow small businesses. There are over 100 WBCs located throughout the U.S. and Puerto Rico.
- SBA’s 84 District and Branch offices connect entrepreneurs to resources, products, and services that can help them start, manage, and grow their business. These offices are located in all 50 states, Puerto Rico, the U.S. Virgin Islands, and Guam.
- The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and more to help small business owners explore and learn about the many aspects of business ownership. Content is filtered by topic, so no matter what the stage of your business, or the kind of insight you need, you can quickly get answers.

Find your local resource using our handy ZIP-code tool by visiting www.sba.gov/local-assistance.

1.16 Have a Question?

Have a question?

- Call SBA—1-800 U ASK SBA (1-800 827-5722)
- E-mail SBA – answerdesk@sba.gov
- Locate a SCORE counselor, SBA District office near you, or an SBDC near you at www.sba.gov/local-assistance
- To provide feedback, comments, or suggestions for other SBA online content, please use the following email: learning@sba.gov.

1.17 Certificate

Congratulations on completing this course. We hope it was helpful and provided a good working knowledge of how to plan and establish a savings plan for you and your small business. Click the certificate to receive a course completion confirmation from the U.S. Small Business Administration.

2. Recommendations

A.C.T. NOW!

The Article, Course and the Tools below are related to the course you just completed. They are provided to help you take action on your path to entrepreneurial success. You can also get in-person assistance for all of your business needs through a local resource center. And if you liked the course, please help spread the word by sharing it with your friends!

[Click here to share on Twitter](#)

[Click here to share on LinkedIn](#)

[Click here to share on Google Plus](#)

[Click here to share on Facebook](#)

Read an SBA Article.

If you want to start a business or learn how to better manage your business money, begin with Money Smart.

LINK: <http://1.usa.gov/1myBO4E>

Take Another Course.

The Introduction to Accounting online course is designed to provide an overview of accounting.

LINK: <http://1.usa.gov/1dsjp6y>

Try a Tool.

SBA's partner, SCORE, created a Financial Projections Template to calculate your startup expenses, payroll costs, sales forecast, cash flow, income statement, balance sheet, and more for your small business.

LINK: <http://bit.ly/1ifQm98>

Find local assistance!

SBA has a broad network of skilled counselors and business development specialists.

LINK: <http://1.usa.gov/1kih dhJ>