

ARE YOU READY FOR CROWDFUNDING?

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People have ideas every day for products that have the potential to be life changing. Finding the funds to develop those ideas has become easier in recent years with the use of crowdfunding.

Although some crowdfunding is considered a nontaxable gift, reward-based funding, where a product is promised to the backer at the end of the campaign, is likely to have tax implications. Many people who start crowdfunding campaigns diligently work on their new product, but fail to consider some of the questions that can impact taxable income, including:

How will you keep track of your funds?

It is important to separate your personal funds from those of your new company. This will help you determine not only what income to report, but help you track them more easily. Be sure to keep all invoices and receipts for your records.

Will your company be cash basis or accrual basis?

Although cash basis is the simpler method, it means that income is recognized in the year it is received. If your campaign will end in one year, but your production will begin in the next, you may run into a timing difference. That timing difference may cause all income to be recognized in the first year, but most of your expenses to be recognized in the following year. Using the accrual method will result in matching of income and expenses but requires a better understanding of accounting principles to report transactions correctly.

Do you need to report state sales tax?

If you live in a state that collects sales tax, you will need to remit quarterly sales tax reports along with sales tax payments for all backers from your state. In addition, if you do more than \$10,000 in sales to any other state, you will want to make sure that you are in compliance with any click-through nexus statutes those states may have.



These are just a few of the many decisions that need to be made. Before starting your crowdfunding campaign, it is advisable to consult with a professional accountant.

If you have questions about this or any other business or tax issue, please contact your Account Manager or Christina Rowland at (314) 205-2510 or via email at crowland@connerash.com.