

2021 FILING SEASON

FORMATIONS TAX SAVINGS REPORT



INTRODUCTION

At Formations, we understand that our customers want more than just tax savings. That's why we're committed to delivering benefits that enable them to feel in control of their financial futures. While we take great pride in offering these benefits, we understand that predictable tax savings remain the cornerstone of our commitment, so once a year, we evaluate our delivery of that promise.

In October 2022, we completed the 2021 tax filing season with the final individual tax returns filed to the IRS. Today, we're publishing our Annual Tax Savings Report for the 2021 filing season, a deep examination of our practices and the results we delivered for our valued customers.

OVERVIEW AND METHODOLOGY

At the core of the Formations playbook is a tax strategy specifically for the self-employed, taking into account the customer's unique business situation. This includes factors like state of operation, industry, place of residence and place of business, income, expenses, and current business structure, to name only a few.

Each business is then configured to take full advantage of what the tax code can offer them. It is continuously evaluated throughout the year to address tax events and changes to the tax code. Tax savings is a factor of decisions made throughout the year and actions taken by customers to take advantage of tax opportunities such as deductions, pre-tax savings, tax credits, and more.

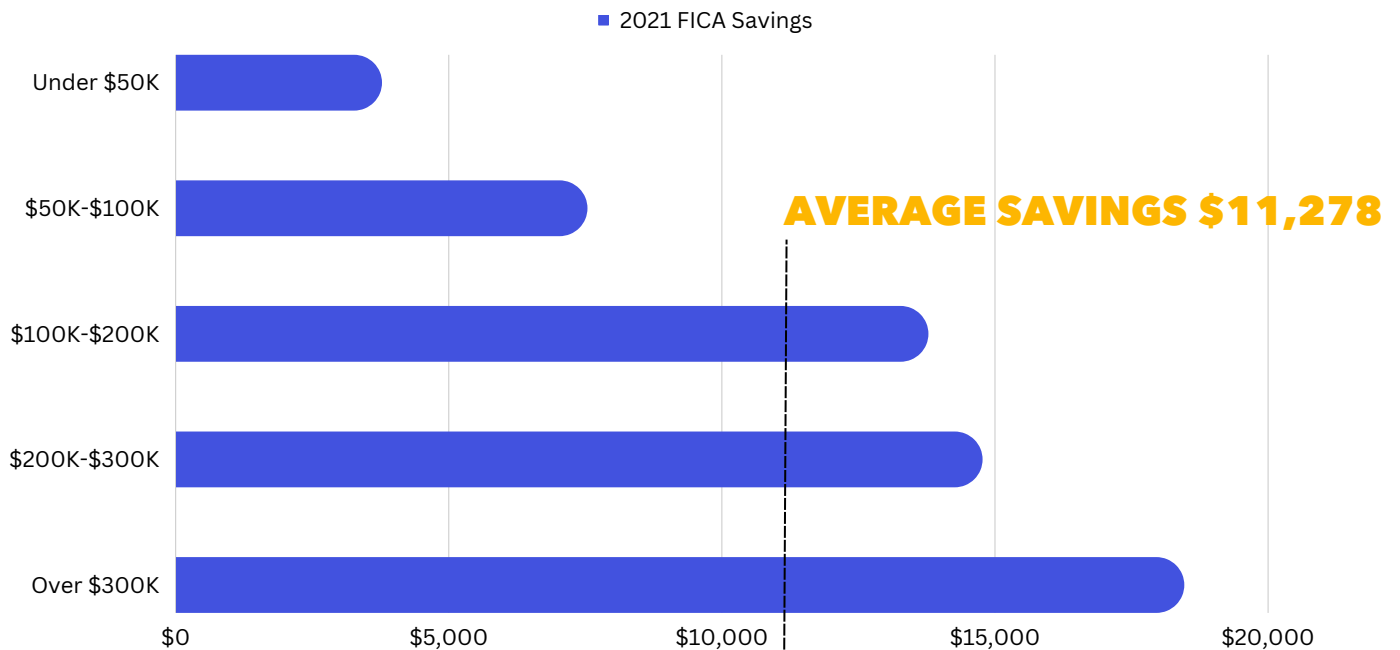
Finally, at the end of the filing season (after the extension deadlines), we assess the difference between the customer's tax liability with Formations and the tax liability they would have had without following the Formations playbook and guidance.

Our analysis is based on the actual tax filings for customers compared to a simulation of the filing had the customer stayed in their pre-Formations state. In this analysis, we only looked at the tax liability of a customer's business income, and the savings Formations could generate for the business. This analysis did not calculate other monetary and non-monetary improvements, such as retirement savings, time savings, optimization of business expenses, and others.





TAX SAVINGS RESULTS


In 2021, the average customer at Formations saved \$11,278 in self-employment taxes compared to their pre-Formations state. This figure doesn't include the tax savings realized through retirement savings, an additional tax saving strategy that 40% of Formations customers have adopted.





OTHER KEY FINDINGS


 95% of customers saved on FICA taxes (Social Security, Medicare, Medicaid) compared to their pre-Formations state. The 5% that didn't were for various reasons, including maximization of social security benefits and maximization of their W-2 for loan approvals such as a home loan.

 Our average tax savings have improved year-over-year, with the average savings for the 2021 filing year of \$11,278, compared to \$9,700 for the 2020 filing year and \$8,900 for the 2019 filing year.

 67% of customers who have been with Formations for more than one filing year saw an increase in their total savings compared to last year. The median increase was \$2,169, with the 75th percentile reaching over \$8,000 in increased year-over-year savings.

 83% of customers saved more than their subscription to Formations. When factoring that Formations is a business expense, 89% of customers saved more than their Formations subscription, making Formations a positive return on investment just from tax savings, let alone the other benefits.

 There's a positive correlation between total income and tax savings; the more you make, the more you can save. However, the correlation is imperfect, and the increase is not linear. Benefits start as low as \$40K in annual revenue, accelerate at \$100K, and start to flatten at the \$300K mark. There's still a nominal, consistent increase in savings, but at that point, additional strategies must be deployed for more tax savings.

 There was no direct correlation between the number of transactions (income and expenses) and total savings. However, there was a threshold of at least 50 transactions to realize increased tax savings. This makes sense, as claiming business expenses is an important mechanism in reducing your taxable income.

CONCLUSION & NEXT STEPS

Formations customers continue to see year-over-year tax savings by following the Formations playbook. Additionally, Formations customers see year-over-year growth in their total net income as a result of more insights, better decisions, and more time available to spend on their business.

There are a lot of reasons to implement a predictive tax management solution like Formations (currently the only solution of its kind); based on our last three tax filing years, tax savings should be at the top of the list. Taxes are the largest single expense a self-employed business incurs every year. While most corporations in the US have long figured out that taxes can be managed like any other expense in the business, the self-employed segment is very much behind. But it's not too late to start.

For the 2022 tax filing season and future years, we're working on additions to the Formations playbook that will offer more opportunities for tax savings and better predictability. Predict your savings today and schedule a call with one of our experts to learn how much you can save.

PREDICT YOUR SAVINGS



**NEVER
OVERPAY
ON TAXES
AGAIN**