Tax Strategy for Entrepreneurship: A Stabilization-to-Scale Methodology for Financial Formalization and Business Resilience

Publish Date
01/28/2026

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Publication Info:

The American Journal of Management and Economics Innovations –

ISSN: 2693-0811

PUBLISHED DATE: 28 January 2026

ISBN: 978-1-957653-62-4

DOI: https://doi.org/10.37547/tajmei/book-03

Abstract. Within the framework of the study, an analysis is conducted of the strategic function of tax planning as a factor for maintaining sustainability and expanding small and medium-sized enterprises in the context of the economic turbulence of 2024–2025. The argumentation is structured around the author's methodology Tax as Strategy, within which fiscal architecture is interpreted not as an inert external constraint, but as a controllable contour of capital optimization and a mechanism for reducing agency costs. The conceptual core of the work is formed by propositions concerning the transformation of business organization: from the dominance of survival heuristics at the stage of stabilization to institutionally embedded and procedurally formalized structures at the stage of scaling.

Substantial attention is devoted to startups and entrepreneurship in the United States, where financial formalization acquires the significance of a highly informative signal for external stakeholders and functions as a condition of trust on the part of counterparties, investors, and the regulatory environment. The study synthesizes empirical evidence regarding the effectiveness of transitioning to the S-Corporation model, which is associated with tax savings in the range of 15–35% and an increase in net profit of 20–40%. A separate analytical block examines the impact of artificial intelligence and digital platforms on fiscal resilience, and also constructs a prognostic model of adaptation to probable changes in tax legislation after 2025.

The methodological framework is grounded in the theory of dynamic capabilities, agency theory, and contemporary approaches to risk management that are relevant to an environment of high inflation and market volatility. Thus, tax planning is revealed as an element of strategic management that is capable of simultaneously enhancing organizational viability, supporting growth, and ensuring the alignment of interests among key participants in the economic process.

Keywords: tax strategy, S-Corporation, financial formalization, business resilience, entrepreneurship, startups in the United States, agency theory, scaling of small and medium-sized enterprises, digital transformation, tax architecture.

CONTENT

INTRODUCTION

The relevance of the study is determined by profound transformations in global and national economic conditions that, in 2024–2025, have made it imperative for small and medium-sized businesses to reconsider the prevailing paradigm of financial management. Under persistent inflationary pressure and the rising cost of borrowed capital, in a context where interest rates on SBA loan programs reach 12.5%–15.5%, managerial practices grounded in non-formalized heuristics demonstrate limited applicability and are associated with the erosion of competitive positions [1]. Within the structure of the United States economy, where 36.2 million small businesses constitute 99.9% of the total business sector and provide nearly half of private-sector employment, the quality of these organizations' tax architecture takes on the significance of a macroeconomic variable and is examined through the lens of national economic resilience [2].

Accordingly, the **author's hypothesis** can be reduced to the proposition that systematic financial formalization, embedded within the methodological logic from stabilization to scaling, enables enterprises not only to rationalize the fiscal burden but also to materially strengthen operational antifragility. The transition from LLC status to taxation under the S-Corporation model is construed not as a procedural modification of reporting, but as a strategic pivot that unlocks internal capital and expands the capacity for reinvestment into development.

The purpose of the work consists in substantiating and operationalizing the Tax as Strategy methodology as a strategic instrument of financial formalization and of the transition of small and medium-sized enterprises from stabilization to scaling, thereby increasing business resilience under the economic turbulence of 2024–2025, including through structural solutions such as S-Corporation and through digital transformation.

The scientific novelty of the work lies in the conceptual articulation of the Tax as Strategy model, adapted to the characteristics of specific entrepreneurial

groups. In contrast to studies traditionally oriented toward large corporate structures, the proposed approach shifts the analytical focus to micro and small enterprises, demonstrating that the formalization of financial flows, in combination with digital transformation (artificial intelligence, cloud computing), generates distinctive scaling advantages under conditions of constrained access to external financing.

CHAPTER 1. CONCEPTUALIZING TAX ARCHITECTURE AS A STRATEGIC ASSET

Within Chapter 1, it will be demonstrated how, within the logic of the Tax as Strategy methodology, taxes move from the category of ex post costs to a manageable resource embedded in the company's capital structure, contractual network, and cash-flow configuration: first, the methodological shift from reactive compliance to proactive design of the tax model at the level of unit economics, cash taxes, timing differences, and scenario modeling of growth triggers is explicated as especially critical for small and medium-sized enterprises and startups; next, through the lens of agency theory, the role of tax planning is explained as a mechanism for reducing information asymmetry, strengthening decision discipline, and enhancing financial resilience, including through the formalization of processes; the chapter concludes with an analysis of the dynamic capabilities of the tax function, namely its capacity to sense regulatory change, seize fiscal opportunities, and transform organizational and contractual architecture under the shocks of 2024–2025, including the tightening of anti-avoidance requirements and the growing salience of data quality and demonstrable substance, which necessitates the institutionalization of managed compliance, including a risk map, internal regulations, data controls, and due diligence, to reduce assessments and increase payment predictability.

1.1. Tax as Strategy Methodology: From Costs to Resources

Within the classical paradigm of accounting, taxes are often construed as an unavoidable outflow of resources, subject to reduction only after tax liabilities have already arisen. In the logic of the Tax as Strategy methodology, tax architecture is interpreted differently: as a flexible element of the capital structure, comparable in importance to the choice of funding sources, the parameters of the

contractual network, and the configuration of cash flows. For entrepreneurial practice in 2025, tax in effect acquires the status of a manageable variable, embedded at the stage of business-model design, which is especially critical for startups, where the marginal value of each percentage point of preserved capital is maximal.

Empirical observations indicate that companies that build proactive tax planning retain, on average, 15% greater cash flow than organizations oriented toward reactive compliance [5]. In the context of the stabilization-to-scaling approach, this implies the necessity for the tax strategy to be anticipatory relative to financial outcomes: a correctly configured tax structure must prefigure growth, ensuring that the corporate architecture is prepared for the next phase of expansion.

The practical implementation of this logic presupposes moving tax decisions from a period-closing mode into a mode of managerial design. Tax parameters are integrated into unit economics and the financial model through forecasting the effective tax burden, evaluating timing differences and the impact of deferred taxes on capital availability, and through scenario modeling across key growth triggers, including shifts in sales jurisdictions, transformations of contracts with counterparties, and changes in the cost structure of personnel and development. As a result, the tax function becomes a component of the liquidity management mechanism, rather than merely a control perimeter for the correctness of reporting [6].

At the same time, the strategization of taxes requires adherence to the boundaries of permissibility: the growing significance of anti-avoidance rules, business-purpose requirements, economic-presence standards, and transfer-pricing control increases the cost of errors under aggressive optimization. Consequently, sustainable Tax as Strategy is grounded in demonstrable substance, documentation of key assumptions, alignment between contractual terms and actual functions and risks, and regular tax due diligence during scaling.

Such a construction reduces the likelihood of additional assessments and ensures predictability of tax payments, which directly improves the quality of managerial decision-making under conditions of accelerated growth.

Below, Figure 1 will demonstrate the impact of formalization on the financial resilience of small and medium-sized enterprises.

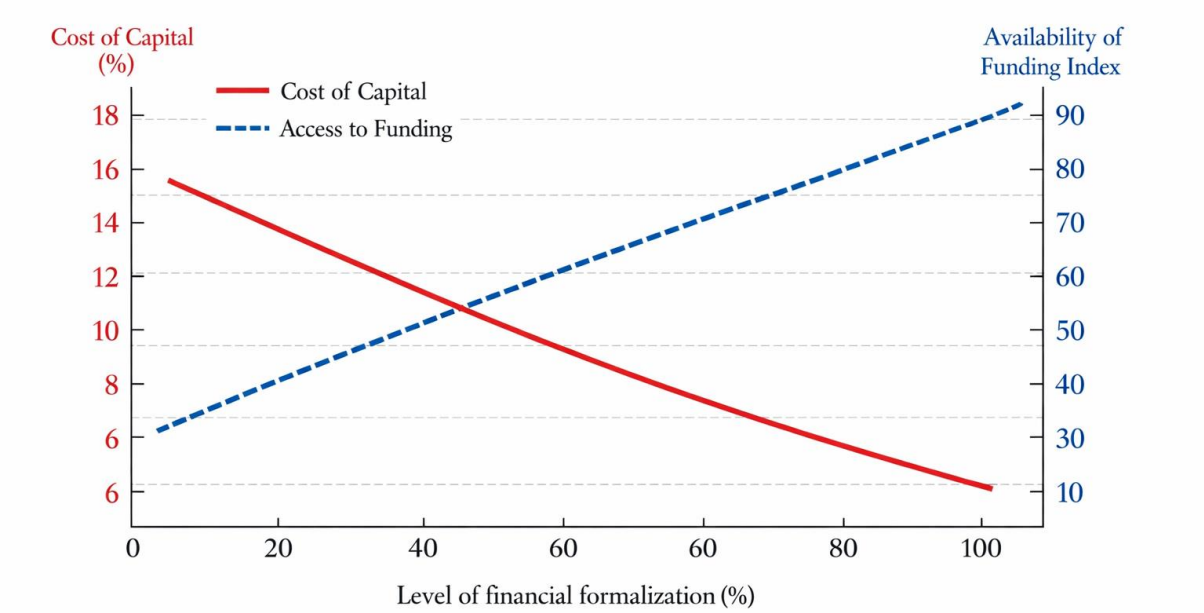

Fig. 1. The Impact of Formalization on the Financial Resilience of Small and Medium-Sized Enterprises (prepared by the author based on [5]).

That is, within the contemporary logic of managing small and medium-sized enterprises, and especially startups, the tax function ceases to be ex post compliance and becomes a strategic parameter of the business model, comparable to the capital structure and the architecture of cash flows: proactive tax planning must be embedded at the stage of designing unit economics and the financial model, accompany the transition from stabilization to scaling through forecasting cash taxes, accounting for timing differences, and scenario modeling of growth triggers, thereby increasing liquidity and predictability; however, the sustainability of such an approach is possible only under strict observance of regulatory boundaries, including business purpose, economic presence, anti-avoidance rules, and transfer pricing, as well as the presence of demonstrable

substance and disciplined documentation and due diligence, which together reduce the risk of additional assessments and improve the quality of managerial decision-making.

1.2. Dynamic Capabilities and Adaptation to Fiscal Shocks

Business resilience in 2024–2025 is increasingly determined by the capacity for rapid reconfiguration of the tax position in response to external shocks, including sudden shifts in regulatory regimes, the reallocation of value chains, and heightened requirements for data disclosure. In this logic, the tax function ceases to be purely accounting-oriented and becomes a contour of adaptive management grounded in dynamic capabilities: the identification of relevant opportunities, for example the emergence of new deductions, the clarification of rules for recognizing expenses, and changes in tax regimes, as well as the operational transformation of organizational architecture, the contractual matrix, and document flows [8].

Empirical results indicate that enterprises with advanced digital competencies in tax accounting and reporting adapt to legislative changes 2.5 times faster than traditional firms [9]. This effect is explained by lower transaction costs of interpreting rules, faster reconfiguration of accounting logic in ERP and business intelligence environments, and the ability to stress-test the tax burden through scenario modeling without losing managerial comparability of data. Against the background of continuous recalibration of international and domestic tax rules, including the implementation of OECD Pillar Two and the adjustment of self-employment thresholds, tax adaptability becomes a factor that directly affects survivability and investment attractiveness [11].

Additional complexity is created by the diffusion of global minimum taxation norms: the Pillar Two rules are designed to ensure an effective rate of no less than 15% for large multinational groups and introduce the logic of a top-up

tax at the jurisdictional level when the actual taxation of profits proves insufficient. This shifts the center of gravity from the statutory rate to data quality, requiring precise country-by-country segmentation, reconciliation of financial and tax bases, and a stable contour for report preparation and the substantiation of calculations.

The consequence is the need to institutionalize tax flexibility through managed compliance mechanisms: the development of a tax risk map, regulations for changing accounting policy, controls over source data, and documentation of business purposes in key transactions. Approaches to compliance risk management in the digital era emphasize a shift toward more systematic work with risks and digital processes, which further increases the value of the tax function's technological maturity as an instrument of resilience.

Below, Table 1 will be presented, demonstrating how different types of organizational capabilities in tax management, from monitoring changes to altering the business structure, directly reduce risks, prevent penalties, and enhance the company's financial resilience.

Table 1. Types of Tax Capabilities and Their Contribution to Business Resilience (prepared by the author based on [5, 13, 14]).

Type of Capability	Description in the Taxation Context	Effect on Resilience
Sensory	Continuous monitoring of changes in IRS Publication 334 and in regional regulatory acts	Prevention of penalties for underpayment
Absorptive	Application of 100% bonus depreciation or the Qualified Business Income deduction	Preservation of working capital
Transformational	Timely transition from a Limited Liability Company to an S Corporation	Reduction of Federal Insurance Contributions Act taxes by 15–35%

Thus, under the conditions of 2024–2025, a company's resilience is increasingly determined not by the optimality of a tax regime selected once, but by the tax function's ability to rapidly sense changes, including rules, deductions, and regimes, to seize emerging opportunities, and to transform organizational, contractual, and document architecture without sacrificing the managerial comparability of data; a key accelerator of such adaptation is digital maturity, including ERP and business intelligence environments, scenario-based stress testing, and the reduction of transaction costs associated with interpreting regulatory requirements, while the tightening of requirements for data quality and country-by-country segmentation against the backdrop of global minimum taxation, including Pillar Two and the top-up tax, shifts the focus from nominal rates to the reliability of data and reporting contours, as a result of which practical sustainability is achieved through the institutionalization of managed compliance, namely a tax risk map, protocols for changes in accounting policy, controls over source documentation and primary data, and a demonstrable business purpose for key transactions, which reduces the likelihood of penalties and additional assessments and sustains investment attractiveness amid fiscal shocks.

CHAPTER 2. THE STABILIZATION STAGE: FINANCIAL FORMALIZATION AND OVERCOMING BARRIERS

Within Chapter 2, it will be examined how the transition of small and medium-sized enterprises from an informal gray zone to a managed financial system converts resources from dead capital into an asset suitable for collateralization, investment, and scaling: first, the genesis of formalization is analyzed as the introduction of reproducible accounting rules, traceability of transactions, and separation of personal and business flows, which reduces the risk of accumulated tax discrepancies and cash gaps at the moment of growth; next, the specificity of entrepreneurship in the United States is explicated, where double discomfort, comprising institutional barriers and a deficit of social capital, is combined with a more frequent role as an employer and, consequently, a higher fiscal burden, making formalization a critical condition of resilience; finally, the instrumental contour of stabilization through digital platforms, including cloud accounting, payment providers, integrations, and reconciliation, is demonstrated, as these increase transparency and the quality of the tax trail and package the business into a structured asset for fintech scoring and due diligence, while emphasizing the necessity of tax data governance so that automation does not replicate errors and preserves demonstrability of the economic substance of transactions.

2.1. The Genesis of Formalization: From Dead Capital to Active Growth

At the stabilization stage, a substantial share of small enterprises continues to operate within an informal gray zone: managerial decisions are made intuitively, accounting is maintained manually, and personal and operating cash flows are not separated [15]. This configuration is especially typical for

microbusinesses, where there are no protocols for capturing primary documents and the financial picture is assembled from fragmented records and bank notifications. In the proposed interpretation, financial formalization is reduced not to the fact of registration, but to the embedding of standardized accounting procedures into day-to-day practice, with the codification of rules for recognizing income and expenses, uniform principles of documentation, and regular period close processes [16, 19].

A deficit of formalization shifts enterprise resources into the state of dead capital: assets and flows lack demonstrability and legal transparency and therefore cannot be used as collateral, credibly substantiated in negotiations with investors, or correctly reflected in due diligence procedures [17]. For entrepreneurs and startups in the United States, this gap takes on a systemic character, because access to financing and contracts is often mediated by verifiable reporting, banking history, and the quality of the tax trail. At the same time, 2024 statistics indicate that the level of voluntary compliance with tax norms among sole proprietors is 80%, while reporting errors driven by the deficit of third-party data reach 55% [18]. In such a situation, a slow-burning tax mine is formed: accumulated discrepancies between actual turnover and declared figures can materialize in the form of additional assessments, penalties, and cash gaps precisely at the moment of accelerated growth.

Restoring manageability begins with building traceability of financial operations: separating personal and business accounts, introducing discipline around primary documents, unifying expense categories, and configuring a regular reconciliation contour among bank statements, invoices, payment providers, and the accounting system. Formalization in this sense creates an evidentiary base for the origin of cash flows and the economic substance of transactions, reducing the probability of classification errors, for example conflating capital expenditures with current expenses, and enabling correct assessment of margin structure, tax burden, and working-capital needs.

It is also critical that the contemporary tax environment strengthens the dependence of reporting quality on the digital trail: transactions processed through acquiring, marketplaces, and payment platforms generate large data sets that are comparable to tax returns by amounts and periods. In the absence of formalized accounting, such data become a source of inconsistencies, whereas a transparent accounting logic transforms them into an instrument of protection, enabling the enterprise to explain differences rapidly, substantiate revenue composition, and minimize the risk of disputes. As a result, formalization functions not as a bureaucratic encumbrance, but as growth infrastructure: it moves the enterprise from a survival mode to a mode of managed scaling and makes capital available for collateral, investment, and institutional financing.

2.2. Entrepreneurship: Specificity and Integration Challenges

Entrepreneurs in the United States constitute one of the most dynamic segments of the community, acting as initiators of approximately 25% of all newly created companies [3]. At the same time, the trajectory of such enterprises toward a stable stage of development is complicated by the phenomenon of double discomfort, which includes, on the one hand, institutionally conditioned barriers to accessing the instruments of the financial system and, on the other, a deficit of social capital and limitations of networks that provide role models and practical reference points for entrepreneurial behavior [3].

Below, in Table 2, the results are presented of a comparison of business owners under 40 years of age among United States-born individuals by the share of those who are employers.

Table 2. Comparison of Entrepreneurs, United States Citizens, Among Business Owners Under 40 by Key Indicators (prepared by the author based on [3]).

Demographic group (owners <40 years old)	Employer status	The goal is business growth	Financial difficulties
US citizens	61%	65%	31%

In 2025, against the backdrop of tighter policy in the sphere of entrepreneurial activity and a reduction of the labor force by 1 million people, the demand for a highly effective tax and human-capital strategy takes on an existential character, because it is directly connected to the preservation of operational resilience and the ability to continue as a going concern [20]. Under such conditions, financial and managerial formalization for entrepreneurs functions not as an optional practice, but as a critical mechanism for moving from labor-intensive, low-margin segments to high-technology directions, in which scaling and profitability growth become structurally attainable.

2.3. Instruments of Formalization: Digital Platforms and Transparency

The adoption of digital platforms serves as a key catalyst of financial formalization, because it transfers a substantial portion of business operations into an environment characterized by recordable events, logging, and a reproducible accounting logic. In 2025, nearly all small businesses use at least one digital platform, which reflects the de facto normalization of digital channels for sales, payments, and document workflow [21]. Electronic commerce, in combination with cloud-based accounting systems, radically reduces the share of manual labor, lowering operating costs while simultaneously increasing the transparency of transactions for external stakeholders, including tax authorities [21, 22].

For startups, the use of tools in the QuickBooks class and specialized artificial-intelligence assistants makes it possible to automate the collection of

source documents and the preparation of standard tax forms, including Schedule C and calculations for SE Tax, reducing the time devoted to tax procedures, which for a substantial share of owners exceeds 40 hours per year [4]. At the same time, digital formalization moves opaque small business into the mode of a structured asset: standardized data sets are formed, including revenue, gross margin, regularity of receipts, and expense structure, suitable for algorithmic models of creditworthiness assessment and risk profiling [15].

The additional value of digitalization is connected with growing requirements for data comparability and traceability: integrations among merchant acquiring, marketplaces, bank accounts, and the accounting system create a continuous operational trail that can be condensed into registers and explained through unified classification rules. Such a contour reduces the probability of discrepancies between cash flows and tax reporting, because inconsistencies are detected at the reconciliation level rather than at the level of consequences in the form of notices and additional assessments. As a result, the manageability of the tax position increases by preventing errors before the submission of returns, rather than correcting them ex post.

At the same time, the technological maturity of tax accounting requires managerial safeguards: automation without data-quality protocols is capable of replicating errors as quickly as it replicates correct entries. Therefore, a critical element of digital formalization becomes tax data governance, namely the establishment of reference directories, rules for mapping expense categories, controls over the completeness of primary documentation, and an auditable change trail, especially when artificial-intelligence tools are used. Such an architecture supports not only the speed of reporting preparation, but also the demonstrability of the economic substance of transactions, which is fundamental for resilient access to lending, investment, and contracts in an environment of intensifying digital oversight [15] (see Fig. 2).

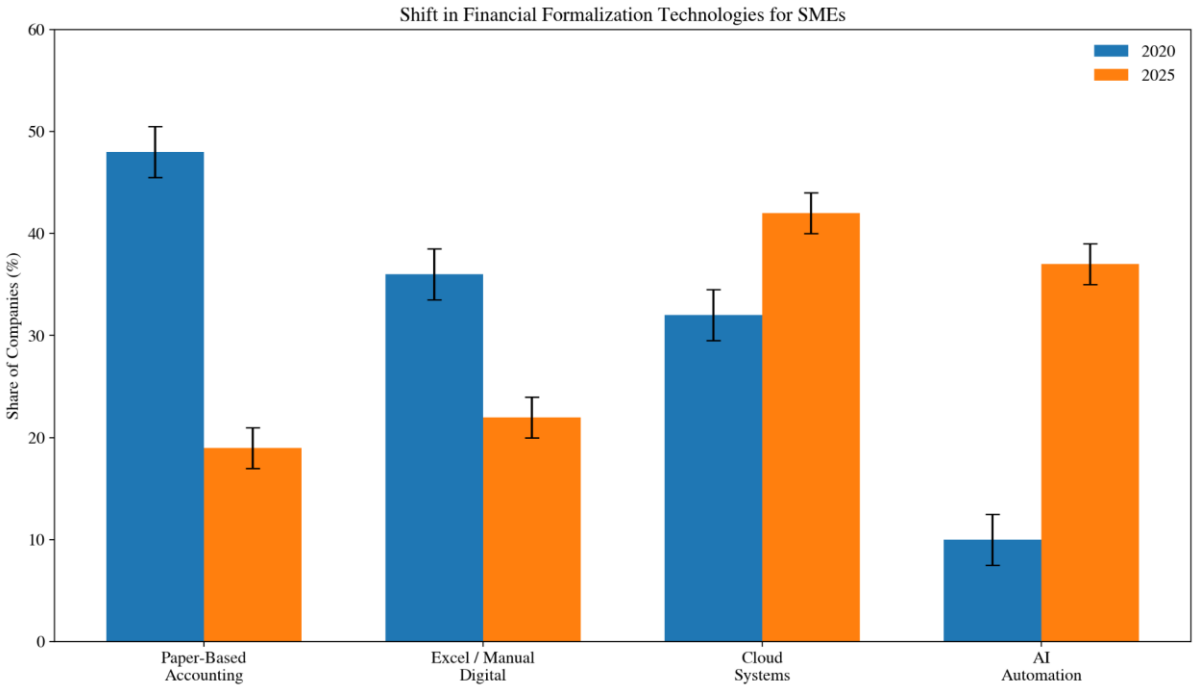

Fig. 2. The Evolution of Accounting Methods among Small and Medium-Sized Enterprises (prepared by the author based on [15]).

Digital platforms in 2025 become a foundational instrument of financial formalization for small and medium-sized enterprises: transferring sales, payments, and document workflow into an environment with logging and reproducible accounting logic reduces manual labor and costs, while simultaneously increasing transparency for external stakeholders and the manageability of the tax position through early reconciliations and the prevention of discrepancies prior to the filing of returns; for startups, this produces the effect of packaging the business into a structured asset, namely standardized data sets suitable for fintech scoring, lending, and investment, and accelerates the preparation of standard reporting, however, a sustainable outcome is possible only in the presence of tax data governance, including reference directories, mapping rules, control over primary documentation, and an auditable trail, otherwise automation scales errors as rapidly as it scales correct operations, undermining the demonstrability of economic substance and the trust of counterparties and regulators.

CHAPTER 3. THE SCALING STAGE: STRUCTURAL TRANSFORMATION AND THE PIVOT TO S-CORP

Within this chapter, the economic and legal logic of transitioning a growing business from a transparent LLC to the S-Corporation taxation regime is explicated as an element of tax architecture that increases cash flow and improves the manageability of growth: first, the mechanism of FICA and self-employment tax optimization is examined through splitting the owner's income into a reasonable W-2 salary and distributions, along with the zone of transition feasibility, namely when the expected savings exceed the administrative costs of payroll and corporate formalities, and the calculated effects are demonstrated on comparable LLC versus S-Corp scenarios; next, the legal and fiscal boundaries of reasonable compensation are analyzed, including substantiation criteria, the risk of recharacterizing distributions as wages, requirements for documentation, annual review, and the construction of an evidentiary base, including benchmarking and an auditable trail; then, it is shown how the tax savings that are freed up are converted into low-cost internal capital for reinvestment, including marketing, automation, and working capital, and under what managerial conditions a durable profit-growth effect emerges rather than a one-time fiscal benefit; finally, the chapter fixes the contextual constraints of the strategy, including industry asymmetry of the effective tax rate, state selection and actual economic presence, including apportionment, withholding, and entity-level fees, as well as the requirements of the international perimeter when entering external markets, including contracts, intangible assets, transfer pricing, and

intercompany agreements, thereby forming an integral model scaling ↔ structure ↔ compliance ↔ predictability of ETR.

3.1. The Economic Logic of the S-Corporation: The Mechanism of FICA Optimization

Upon reaching a net-profit threshold of approximately $60,000–$80,000, the traditional LLC configuration, treated as transparent for tax purposes, begins to generate an excessive fiscal burden through the self-employment tax of 15.3% [14]. At the scaling stage, within the logic of Tax as Strategy, a transition to the S-Corporation taxation regime is rationalized, because it is precisely along this segment of the growth trajectory that the marginal effect of reallocating the tax base toward a more efficient payout structure becomes most pronounced.

The key S-Corp mechanism is associated with the functional separation of income into a reasonable W-2 salary and profit distributions. Social Security and Medicare contributions apply to wages, whereas profit distributions do not create a base for these payments, which allows the reduction of payroll burden while preserving pass-through taxation of profits at the owner level [14]. The relevance of the approach is strengthened against the backdrop of the Social Security wage base increase: for 2025 income, the maximum amount of earnings subject to the Social Security portion of the tax is $176,100 [13].

The practical sustainability of this strategy is determined by the correctness of the reasonable compensation construction: if the W-2 salary is understated and payouts are excessively shifted into distributions, the risk rises that distributions will be recharacterized as wages, with additional employment taxes and penalties. Consequently, savings on the self-employment tax should be treated not as a mechanical difference in rates, but as the result of a managerial balance among

market-based compensation for the functions actually performed, the structure of cash flow, and the compliance contour of payroll reporting [33, 34].

In addition to the direct payroll-tax effect, the transition to an S-Corp is embedded within a broader design of financial architecture: additional fixed costs arise for payroll processing, corporate formalities, and reporting support, and the requirements for demonstrability of the owner's role as an employee-performer become stricter. Therefore, the $60,000–$80,000 threshold should be interpreted as an empirical zone of feasibility, in which the expected savings on the 15.3% self-employment component begin to exceed administrative costs and the risk premium associated with an improperly configured compensation policy [14].

For clarity, Table 3 is presented below, reflecting the results of a comparison between an LLC and an S-Corp.

Table 3. LLC versus S-Corp Comparison: SE and FICA Savings at $150,000 Profit (prepared by the author based on [14]).

Parameter	LLC (Default)	S-Corp (Optimized)	Difference / Savings
Net Profit	$150,000	$150,000	-
Base for Self-Employment Tax / Federal Insurance Contributions Act	$150,000	$75,000 (Salary)	-$75,000
Tax Amount (15.3%)	$22,950	$11,475	$11,475
Distributions	$0 (all Self-Employment)	$75,000	0% tax (Federal Insurance Contributions Act)

Thus, the economic attractiveness of transitioning from a transparent LLC to the S-Corporation taxation regime at the growth stage is determined primarily by the mechanism of reducing the FICA and self-employment tax base through

splitting the owner's income into a reasonable W-2 salary, which is subject to Social Security and Medicare, and distributions, which do not constitute a base for these contributions, a structure that, at profit levels of approximately $60,000–$80,000 and above, can generate material savings and improve cash flow; however, the sustainability of the strategy is determined not by the arithmetic of the 15.3% rate, but by a managerial balance among the market defensibility of compensation, the reliability of payroll compliance, and the additional administrative costs of an S-Corp, because understating reasonable compensation increases the risk that distributions will be recharacterized as wages with additional assessments and penalties, and therefore the zone of feasibility is the point at which expected savings exceed the cost of ongoing support and the risk associated with misconfiguration.

3.2. Reasonable Compensation: Legal and Fiscal Boundaries

A critical element of S-Corp functioning is the correct determination of the owner's reasonable salary, because the United States tax authority pays heightened attention to situations in which compensation is artificially understated in order to shift payouts into distributions and reduce payroll burden [14]. In 2025, the diffusion of artificial-intelligence tools and analytical platforms makes it possible to conduct industry- and region-specific benchmarking of compensation on the basis of large market-data sets, aligning the owner's role with typical job profiles, levels of responsibility, and labor contribution. Such parameterization reduces the likelihood of subjective errors and strengthens the evidentiary robustness of the selected W-2 salary level in the event of a possible examination [4].

If compensation is found to be excessively low, the tax authority is entitled to recharacterize a portion of distributions as wages, assessing additional employment taxes as well as penalties and interest, which transforms the expected

savings into an aggregate regulatory loss [14]. For this reason, within the Tax as Strategy contour, the practice is established of an annual review of compensation policy as a procedure of tax risk management and corporate hygiene, necessary for scaling and for maintaining predictability of cash flows [14, 24].

Methodologically, the reasonableness of compensation should be derived from a set of factors that reflect economic substance: actual functions and managerial roles, qualifications and experience, the volume of working time, the degree of operational involvement, the comparative level of pay in relevant labor markets, as well as the company's financial results and the stability of its cash flow. It is important that the assessment is not reduced to a single number: a substantiated compensation range is formed, within which the selected figure is supported by business logic and documentation rather than declarative assertions [4, 14].

The technologization of the process through artificial intelligence should be treated as a means of increasing the quality of the evidentiary base, not as a replacement for managerial judgment. A reliable compliance contour includes preserving the sources of comparative data, fixing the calculation methodology, describing the owner's job profile, minuting the decision of the company's authorized body, and ensuring an auditable trail of changes. Within such a construction, an annual audit of compensation policy performs a dual function: it reduces the risk of recharacterization of payouts and simultaneously forms a standardized foundation for further growth, the attraction of financing, and the completion of due diligence without loss of manageability of the tax position.

3.3. Impact on Profit Growth and Reinvestment

The release of cash resources through the selection of the S-Corp regime forms an internal source of growth financing: at profit levels of approximately $150,000, potential savings are often estimated in the range of $8,000–$15,000,

creating an additional reserve for scaling without the attraction of external capital [14]. In highly competitive sectors, primarily manufacturing and retail trade, where the average effective tax rate lies within the corridor of 19–21%, an effect of this magnitude is comparable to a 5–7% increase in revenue at unchanged margins, because expanding sales typically requires a proportional increase in variable costs and working capital [18].

Empirical observations record that companies that transition to S-Corp demonstrate net profit growth of 20–40% over the subsequent two years [14]. This result corresponds to a leverage effect: the saved payments do not dissipate into current consumption but are transformed into investments that accelerate the generation of future cash flows. In particular, a significant share of small businesses plans to increase marketing expenditures, with 94% of companies budgeting for higher spend, which makes directing freed resources into customer-acquisition channels one of the most typical scenarios, alongside the adoption of digital tools and automation [1, 31].

It is essential that tax savings within this configuration possess the properties of low-cost capital: they do not dilute owners' equity, do not increase debt burden, and do not create mandatory payments characteristic of borrowed financing. Under conditions of constrained access to credit, this strengthens the resilience of the cash-flow contour, reducing the probability of cash gaps during headcount expansion, procurement growth, larger advertising prepayments, or the launch of new product lines. At the same time, the manageability of the financial trajectory increases: the enterprise gains the ability to allocate the released resource in advance across priorities, including working capital, quality control, supply-chain development, or technological modernization [25, 26].

However, a durable leverage effect does not arise automatically, but rather under a disciplined linkage of investments to measurable efficiency drivers. In marketing, control of unit economics, the payback horizon, and the reproducibility of channels are critical, whereas for technological investments the

key becomes the reduction of transaction costs and the improvement of the accuracy of managerial data. As a result, savings obtained through an S-Corp acquire strategic meaning only when they are embedded into a systematic reinvestment cycle, in which each tax unit is converted into a predictable increase in operating profit and the strengthening of competitive advantages [14] (see Fig. 3).

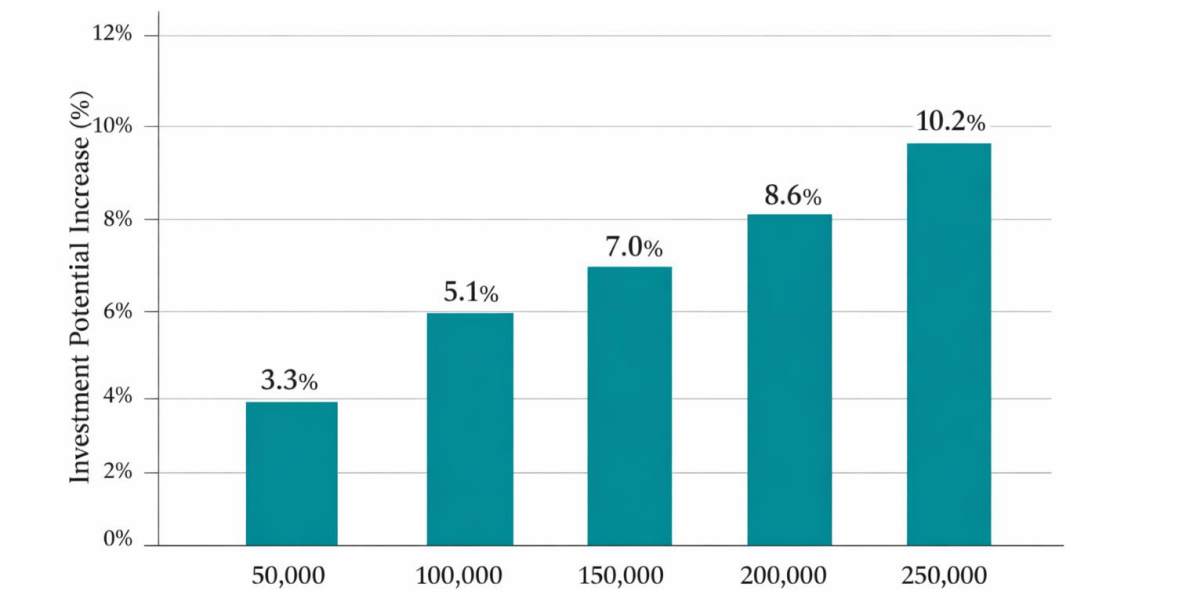

Fig. 3. Comparison of Profit Under Different Strategies (prepared by the author based on [1, 14, 18]).

Selecting the S-Corp regime can convert tax savings on the payroll and self-employment component into a durable internal source of growth financing: at profit levels around $150,000, the released cash flow, on the order of $8,000–$15,000, is, in economic terms, comparable to a meaningful increase in revenue at the same margin profile, while simultaneously possessing the advantages of low-cost capital, namely without equity dilution, without additional debt burden, and without mandatory payments, which is especially important under constrained access to credit and heightened risks of cash gaps; at the same time, the claimed leverage effect, expressed as net profit growth in subsequent periods, arises only under managerial discipline of reinvestment, that is, linking the freed

resources to measurable drivers, including unit economics, marketing payback, channel reproducibility, reduction of transaction costs, and improvement of data quality, otherwise the savings will remain a one-time fiscal benefit rather than a mechanism of predictable acceleration of operating profit and competitiveness.

3.4. Industry Specificity and Jurisdiction Selection

By its nature, tax strategy cannot be universal, because it is formed at the intersection of industry economics, the structure of the value chain, and the applicable regulatory regime. An industry cross-section demonstrates a persistent asymmetry of fiscal burden: for agriculture, the average level is approximately 14.9%, whereas for the manufacturing sector it is on the order of 21%, reflecting differences in capital intensity, cost structure, and the availability of specialized deductions and incentives [18]. Accordingly, identical organizational and legal forms, at comparable revenue, can produce fundamentally different results in after-tax cash flow and therefore require configuration to the industry rather than adherence to a template.

The architecture of scaling is additionally determined by the choice of the state of formation and by the nature of economic presence. For example, Colorado applies a flat income tax rate of 4.4%, and the S-Corp regime in certain cases does not imply taxation at the entity level, which amplifies the role of correct jurisdictional configuration as profits grow and operations expand [14]. However, in an interstate perspective, the key determinant is not only the state of formation, but the actual geography of business activity: profit apportionment rules, requirements for withholding and reporting, and the presence of special regimes, for example mandatory fees or franchise taxes, shape the aggregate tax burden, which can differ materially from what is formally expected.

For startups oriented toward international markets, structural decisions must account for the transfer-pricing perimeter, the potential application of tax

treaties intended to avoid double taxation, and the configuration of ownership of rights in intangible assets. Against this backdrop, the role of small business in external trade is illustrative: in 2025, approximately 33% of goods exported from the United States, amounting to $588.4 billion, are produced by small firms, which makes international tax strategy not an option for the future, but a component of business architecture already at the scaling stage [2]. Otherwise, expansion into foreign directions is often accompanied by unforeseen costs, ranging from limitations on deductions for intercompany payments to disputed questions of profit allocation across jurisdictions [30, 32].

A practically significant complement becomes the institutionalization of the evidentiary base: developing and maintaining intercompany agreements, a functions-and-risks profile, a pricing policy for controlled transactions, and protocols for the retention of primary data. Such an infrastructure reduces the likelihood of adjustments as a result of tax examinations, increases the predictability of the effective tax rate, and facilitates the completion of due diligence when attracting investment or accessing debt financing. As a result, tax strategy becomes not a set of fragmented decisions, but an integrated system synchronized with the operating model, the geography of sales, and the scaling plan.

CHAPTER 4. RESILIENCE IN AN ERA OF UNCERTAINTY: ARTIFICIAL INTELLIGENCE AND MACROTRENDS

Within the framework of Chapter 4, it will be demonstrated how the tax function becomes a contour of business antifragility amid regulatory and macroeconomic volatility: first, the role of artificial intelligence is disclosed as an applied layer over financial data that enhances the manageability of tax-related cash flow, including forecasting of quarterly payments and cash gaps, anomaly detection, and scenario modeling of regulatory changes, including the risks associated with the transformation of TCJA provisions, with particular emphasis placed on the critical importance of tax data governance and validation procedures for preventing plausible errors and strengthening the demonstrability of the tax position; next, the integration of tax strategy with the sustainable development agenda is analyzed through the lens of sustainable taxation and a set of incentives, including Section 179D, the research and development credit, the Work Opportunity Tax Credit, and the Qualified Business Income deduction, where the key effect is achieved not through one-time application of benefits, but through a predesigned evidentiary base, encompassing cost qualification, modeling, certification, timing, and data traceability, which simultaneously delivers predictable tax savings and ESG-related commercial value within supply chains; finally, the resilience of small and medium-sized enterprises is examined in the context of global reforms, including Pillar Two and the increasing requirements for substance, contractual provisions, and documentation, as well as tactical instruments within the United States, including state-level PTET and PTE elections and their interaction with limitations and changes to the SALT regime, demonstrating that resilience is formed through a combination of strategic risk management, regular reassessment of assumptions, and stress testing of the tax model during scaling.

4.1. Artificial Intelligence as a Factor of Fiscal Antifragility

By 2025, artificial intelligence tools have ceased to be the prerogative of large corporations alone and have entered the everyday managerial contour of small business: 88% of small enterprises use artificial intelligence to strengthen competitiveness [4]. In the sphere of tax planning, generative models and machine-learning algorithms are used as an applied layer over financial data, enabling not only the acceleration of routine operations but also the improvement of the precision of managerial decision-making. The most in-demand practices include dynamic forecasting of cash gaps when quarterly taxes are paid [10], optimization of inventory holdings, which affects the final taxable base at year-end [4], as well as scenario modeling of the consequences of regulatory changes, including the potential effects of the expiration of certain provisions of the TCJA at the end of 2025 [5].

The perception of artificial intelligence as a strategic asset is confirmed by the orientations of owners: 73% of small and medium-sized enterprise owners consider artificial intelligence a critically important condition of growth [4]. Companies that have integrated artificial intelligence into the financial contour report a 52% increase in profitability, which creates an additional safety buffer during periods of macroeconomic volatility and strengthens cash-flow resilience [4]. Taken together, this shifts artificial intelligence from the category of an automation tool into the category of an infrastructure of manageability, in which the speed of data interpretation and the quality of forecasts become a resource comparable in significance to access to capital.

At the same time, the practical value of artificial intelligence in the tax function is determined not only by the computational power of models, but by the maturity of data and control procedures. The most effective implementations rest on the discipline of tax data governance: unified reference directories and rules for categorizing transactions, end-to-end reconciliations across sources, including

banks, payment providers, and accounting registers, as well as a reproducible auditable trail of changes in the financial model. Under such an architecture, artificial intelligence begins to function as an early-warning system, identifying anomalies in the expense structure, inconsistencies between turnover and primary documentation, and potential zones of regulatory risk before reporting is filed, that is, at a stage when correction is minimally costly [27, 28].

Separate attention is required for the compliance aspect of using generative models: the risk of plausible errors and incorrect classifications rises in the absence of validation and formalized accountability for outputs. Therefore, a resilient contour presupposes a division of roles between automated analytics and mandatory expert review of key assumptions, including criteria for expense recognition, interpretations of transactions, and scenario parameters, as well as the establishment of rules for using external sources and the retention of calculation logic. Under such a formulation, artificial intelligence strengthens not only processing speed, but also the demonstrability of the tax position, which becomes a fundamental condition for scaling in an environment of intensifying digital oversight [4].

4.2. Tax Strategy and Sustainable Development Goals

Contemporary tax architecture increasingly incorporates the principles of sustainable development, shifting the focus from a purely fiscal function to the behavioral incentivization of investment and the management of externalities. The concept of Sustainable Taxation describes taxation as an instrument for redirecting capital toward green energy, energy efficiency, human capital, and elements of social infrastructure, that is, toward directions that correlate with the United Nations Sustainable Development Goals [12]. At the level of public policy, this is expressed in an expanded palette of tax incentives and in the growing importance of demonstrable sustainable practices in reporting,

compliance, and supply chains.

For small business, this logic creates applied points of entry into tax savings that are directly linked to asset modernization and human-capital policy. A representative example is the deduction for energy-efficient commercial buildings, Section 179D: for properties placed in service in 2025, deduction amounts are indexed and depend on the achieved energy-savings metrics, including enhanced levels when the prevailing wage and apprenticeship requirements are satisfied. At the same time, in the social dimension, incentives associated with hiring workers from groups facing employment barriers retain significance, for example the Work Opportunity Tax Credit, extended by federal law through December 31, 2025, which makes it possible to embed a social component into the tax design of personnel costs [13].

The proactive use of such incentives within the logic of Tax as Strategy presupposes not an episodic use a credit, but the design of an evidentiary base for the incentive before costs are incurred: energy modeling and correct qualification of improvements for Section 179D, the formation of a package of supporting documentation, and, for workforce-related credits, compliance with certification procedures, filing deadlines for forms, and traceability of employee status. This approach reduces the risk of subsequent adjustments and converts the tax benefit into a predictable element of the financial model, comparable in reliability to other sources of margin improvement.

In parallel, a reputational effect emerges: tax decisions linked to energy efficiency and social inclusion strengthen the company’s ESG profile and increase the legibility of sustainable practices for counterparties. In procurement contours of large corporations and public-sector entities, ESG parameters are increasingly used as a supply-chain risk filter and as a criterion for supplier selection, which amplifies the commercial value of documented sustainable behavior alongside direct tax savings [7].

In Table 4 presented below, existing tax instruments of resilience will be

demonstrated.

Table 4. Tax Instruments of Resilience: Deductions and Credits and Their Effects (prepared by the author based on [5, 7, 12, 13, 18]).

Resilience Instrument	Description	Tax Effect
Section 179D	Energy efficiency of buildings	Deduction of up to $5.00 per square foot
Research and Development Tax Credit	Innovation activity and research and development	Direct credit applied against payroll tax
Qualified Business Income Deduction	Support of pass-through structures	Deduction of 20% of income

Accordingly, it can be stated that tax strategy within the contemporary managerial contour increasingly functions as a mechanism of sustainable development, converting tax from a cost into an instrument of managed incentivization of investment in energy efficiency, innovation, and socially oriented employment in the logic of the SDGs: for small and medium-sized enterprises this creates applied points of savings, for example Section 179D, the research and development credit, the Work Opportunity Tax Credit, and the Qualified Business Income deduction, yet the core value emerges only under the Tax as Strategy approach, when the company designs the evidentiary base for incentives in advance, including modeling, cost qualification, certification procedures, deadlines, and data traceability, thereby transforming the tax effect into a predictable element of the financial model and reducing the risk of adjustments; additionally, such decisions yield a reputational and commercial gain, strengthening the ESG profile and improving eligibility within procurement and supply-chain contours of large customers, where sustainable practices are becoming a selection criterion alongside price and reliability.

4.3. Resilience in the Face of Global Tax Reforms

The year 2025 becomes a turning point in many respects for global tax policy: the launch of the 15% global minimum tax regime, Pillar Two, for large multinational groups reshapes incentives in international jurisdictional competition and reduces the attractiveness of low-tax offshore configurations [11].

The indirect impact on small and medium-sized enterprises manifests through the reconfiguration of supply chains and contractual models of large customers, for whom the cost of locating functions and risks changes, as well as through tightened requirements for documenting intercompany terms and economic substance. As a result, small enterprises embedded in cross-border ecosystems, including manufacturing cooperation, marketplaces, franchising, research and development outsourcing, encounter a higher probability of tax collisions, ranging from competing characterizations of income to an increased risk of double taxation when jurisdictions diverge in their approaches to profit allocation.

The logic from stabilization to scaling under these conditions presupposes the formation of tax immunity not through a single optimization decision, but through the diversification of instruments and control contours. Within the United States, a significant element of such diversification is the use of Pass-Through Entity elections at the state level, including PTET variants, which in certain cases allow the payment of state taxes to be transformed from an individual-level limitation into an entity-level deduction [23]. At the same time, the original structure of the federal SALT limitation under the TCJA was traditionally associated with the $10,000 cap; however, in 2025 federal regulation was modified, with the cap for many taxpayers temporarily increased to $40,000 alongside a step-down mechanism for higher incomes, which does not eliminate the relevance of PTET models in situations involving phase-outs, differences in

state rules, and heterogeneity of owner profiles.

Practical resilience in the Pillar Two context rests on readiness for heightened demands from major counterparties: requests for tax clauses in contracts, confirmation of the country in which functions are actually performed, greater granularity of royalty and services flows, and the unification of the evidentiary base for transfer pricing become part of standard business hygiene. This means that even in the absence of Pillar Two's direct applicability to small and medium-sized enterprises, the value of procedures that ensure comparability of managerial and tax data, as well as the reproducibility of pricing logic and profit allocation across jurisdictions, increases [11, 29].

Tactical techniques at the level of PTET and PTE elections require the same discipline: the effect is evaluated on a model of owners' aggregate tax burden, taking into account differences in state regimes, election deadlines, limitations on carryforwards, and interaction with other elements of the federal calculation, including potential trade-offs involving deductions. It is precisely the combination of such tactics with a long-term strategic contour, encompassing documentation of decisions, regular reassessment of assumptions, and stress testing of legislative changes, that forms predictability of tax-related cash flow and strengthens business resilience during scaling.

CONCLUSION

The Tax as Strategy methodology, operationalized through a sequential trajectory of transition from stabilization to scaling, demonstrates applied effectiveness as a mechanism for sustaining viability and accelerating the expansion of small and medium-sized enterprises in 2024–2025. The results obtained confirm that financial formalization is not reducible to a bureaucratic encumbrance, but rather constitutes a foundational institutional process that builds trust between the economic actor and the surrounding institutional environment, including financial intermediaries, counterparties, and regulatory contours.

For entrepreneurs and startups in the United States, a priority vector of development is the reduction of information noise through reliance on digital platforms and the implementation of transparent managerial contours that ensure data comparability and the manageability of financial flows. A statistically significant savings effect in the range of 15–35% associated with the transition to the S-Corporation regime forms an internal resource sufficient to partially offset the high cost of external borrowing and inflationary pressure, thereby expanding the space for managerial maneuver under conditions of constrained access to capital.

Over the long-term horizon, the sustainability of entrepreneurial success is determined by the ability to integrate tax architecture into the company’s overall digital strategy as an interconnected managerial module rather than an autonomous compliance function. The use of artificial intelligence for ex ante forecasting of the tax consequences of decisions and for managing margin structure is established as a de facto standard of organizational effectiveness. As a result, the fiscal component is transformed from a perceived category of losses into a category of strategic assets, creating prerequisites for the formation of antifragile and scalable business systems.

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