

Guidance for Every Stage of Your Fintech's Lifecycle

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March 23, 2021

As a fintech, it can be difficult to navigate your dynamic tax, audit, and compliance environment while prioritizing growth. From inception to exit, fintechs need a reliable professional services firm to provide the necessary services and expertise to guide them every step of the way.

Foundation & Tax Requirements

You've just founded your company. You're now a legal entity and, as such, you immediately have corporate tax income filing requirements. Some fintech entrepreneurs might believe that they didn't spend enough money on their foundation to be subject to corporate taxes. However, all legal entities are subject to tax requirements—and the various regulations surrounding a fintech's tax environment can be extremely technical and challenging.

Fintech start-ups should engage a firm with nuanced expertise to handle the specific opportunities and obstacles seen in the industry, such as initial year elections, research and development (R&D) tax credits, or specific programs available for fintech companies. These tax concerns might seem simple, but there are some fintech-specific challenges that your current accountant might not be aware of.

Engaging a firm that doesn't have extensive fintech experience can cost you valuable time and money in the long run. Enlisting the help of a firm with advisory services tailored to fintechs will ensure your tax compliance and help you capitalize on advantageous tax opportunities to encourage expansion and innovation.

Seed Financing, Customer Outreach & SOC 2 Reports

During your early financing rounds, you'll be putting the finishing touches on your initial product offering and you'll be in talks with your first customers. However, before a customer buys your product or service, they may ask for a System and Organization Controls (SOC) report. SOC 2 reports are given after a thorough audit of internal controls related to information technology (IT) systems and security processes. Customers often ask for a SOC report to provide assurance that your fintech has the appropriate controls in place to protect their data and ensure secure operations. Fintech companies can gain a competitive advantage if they're able to concretely evidence that they have the proper procedures and safeguards in place to protect customer data.

A comprehensive audit team with deep industry expertise is needed to effectively evaluate your fintech's unique control environment. A holistic audit approach will lead to a thorough SOC report to provide your customers with the utmost confidence in your company's security.

Series A & Financial Statement Audits

After your first round of funding, and after you've accumulated customers and proven that you can sell to a particular customer base, you'll begin pursuing Series A funding. Typically as a condition of the Series A financing, your VC's will require you to start getting audited financial statements. Engaging a firm that can perform high-quality financial statement audits will help ensure your audits are efficient, effective, and timely. These audits will produce reliable, transparent financial statements that will increase stakeholder, lender, and investor confidence in your company.

During this period, you might also have to examine new tax considerations. An influx of funding will help your business grow, and you'll soon be faced with more complicated tax requirements to coincide with that growth. For example, many fintech products have sales tax considerations. Or, if your growth has led you to employ workers in other states, state tax nexus issues may arise. You might also run into international tax issues based on, for example, an offshore development or sales team. To navigate these new challenges, you'll need an accounting firm practiced in the unique needs of fintechs.

Growth

Although every fintech company will need tax services, financial statement audits, and SOC reports, there are additional services that various fintechs might need during their growth phase depending on their specific sector.

- Penetration Testing
Penetration testing can uncover gaps in your security protocols to help you avoid malicious attacks. Remediating these weaknesses will solidify your security posture to prepare your organization for potentially harmful breaches.
- Payment Card Industry Data Security Standards (PCI DSS) Compliance
Many fintech companies are deploying new technologies to enhance the security and efficiency of electronic payment transactions. However, protecting cardholder data is crucial, and implementing the proper procedures to remain compliant with PCI DSS is imperative when pursuing these advancements.
- Regulatory Compliance & Know Your Customer/Anti-Money Laundering (KYC/AML)
If you're a fintech working in cryptocurrency, payments, lending, or account opening you might need help navigating the complex regulatory guidance surrounding these transactions.

- Employee Benefit Plan Audits

As your fintech grows, you might reach an employee headcount that would require an audit of your company's 401(k) plan to remain compliant with your fiduciary responsibilities and stay up-to-date with ever-changing regulations.

Exit

After you raise capital, develop your product, gain customers, and increase revenue, your fintech might look to exit. When your company prepares to exit, potential buyers are going to conduct due diligence. That due diligence will consist of looking at your tax compliance, financial statement audits, and IT security. If you've been working with a qualified accounting firm well-versed in the fintech ecosystem since your foundation, this exit process will be streamlined, and your company will be well-positioned to receive offers and successfully sell.

Tax Compliance Reporting

Your prospective buyer's due diligence will closely examine your sales tax compliance, state tax filing compliance, and other potential tax issues. How do you know if you did everything appropriately and according to the buyer's expectations? Consistently working with a tax professional experienced in this space will allow you to produce impressive, clear evidence of tax compliance to a potential buyer during the due diligence process. Already having these issues identified and thoroughly addressed will also accelerate the exit event.

Financial Statement Audits

Potential buyers will look into your financial reporting to ensure your fintech's compliance with generally accepted accounting principles (GAAP) before they buy. If you've been working consistently with a firm skilled in the fintech industry, you'll already have a long history of detailed, organized financial statements that satisfy the quality-of-earnings due diligence process required by your buyer.

IT Security

You may be extremely confident in your company's security controls, but buyers will want proof that your security posture is strong and stable. The inability to produce a SOC report when asked can severely harm your chances of securing a deal with the potential buyer. However, having a SOC report readily available will provide the necessary assurance to your buyer, and can help push the deal over the finish line.

Conclusion

The fintech environment is constantly evolving and is rapidly gaining adoption across industries. As more fintech companies emerge, the need for expert accounting, tax, and IT security guidance becomes evident. Working with a certified public accounting (CPA) firm that knows the ins and outs of the fintech ecosystem will help companies maneuver the unique challenges and requirements seen through every stage of their business lifecycle.