



Fintech Tax Planning Strategy:

Key Questions to Consider for the Road Ahead

Every fintech company is in pursuit of fast, stable growth. But what if an overlooked tax detail could throw a wrench in these plans?

The path from promising startup to market leader is peppered with cautionary tales of companies delayed by avoidable blind spots. At Crowe, we see common themes in challenges shared by companies at similar levels of development — and many of these challenges can be proactively addressed.

Strategic, proactive attention to potential tax risks can mean the difference between a successful funding round and a very uncomfortable and unexpected due diligence conversation.

Crowe can help organizations prepare for financial challenges on the horizon through proactively positioning their business, so it's prepared for each milestone. When done successfully, businesses can more easily navigate the challenges common to the journey.

“Companies should be able to focus on the quarters to come, not on the tax return for the period that ended six months ago that hasn't been filed yet,” says Cody Lewis, Tax Partner at Crowe LLP, a public accounting and consulting firm. “Understand your tax positions, document them well, and get professional support to alert you to opportunities to reduce risk or tax liabilities.”

Depending on the stage of business, some companies don't have a tax professional or team in place to help them navigate nuanced, emerging situations. Working with an organization like Crowe allows you to go further on your journey with the team you have in place, mitigating tax challenges.

Here are some of the top tax questions that come up for FinTechs as they scale up:



The discussions we have with our clients are in hopes that they have peace of mind over their tax function...that their team is mitigating risk and maximizing opportunity, so that the business leaders can do what they do best, grow the business.”



Cody Lewis
Tax Partner, Fintech Lead, Crowe LLP

“We have historically been in a loss position and have carried forward tax attributes, but we have turned profitable quickly – what do I need to be thinking about from an income tax perspective?”

A: I like to say, “Remember to mind the gap,” so that you don’t have an unexpected cash-basis tax liability even though you have more net operating losses (NOL) carryforward assets or tax credit carryforward assets than expected tax liability. Changes under the Tax Cuts and Jobs Act of 2017 (TCJA) limit NOL deductions to 80% of taxable income for losses sustained in years after 2017. Additionally, research and development (R&D) credits and other general business credits are capped at 75% of the remaining tax liability. Thus, there is a gap that cannot be offset by tax attributes. Additionally, if the business has recently engaged in an equity raise, there could be further limitations on the ability to use tax carryforward attributes due to the ownership change rules under Sec. 382 and 383.

Ultimately, the job of an effective tax director or tax adviser is to prepare the business for liabilities or risks that are on the horizon and limit unwelcome surprises. Being mindful of these issues is the core of effective planning.

– Cody Lewis, Tax Partner, Fintech Lead, Crowe LLP

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[Critical Tax Areas for Proactive FinTech Companies](#)



Scaling up requires a proactive tax adviser who manages the risks on the horizon.”



Cody Lewis
Tax Partner, Fintech Lead, Crowe LLP





“We are required to issue our first set of audited financials, including a tax footnote. What processes do we need to have in place as a part of this?”

A: As your company grows and begins issuing financial statements, there will be a new need to document the income tax provision and support the income tax footnote in the audited financial statements.

Companies preparing financial statements for the first time need to implement robust income tax accounting processes, typically including documentation of several complex matters, such as the reason for or against a valuation allowance against deferred tax assets whether or not there has been an ownership change under IRC Sec. 382, and any uncertain tax positions. Audit firms want to see clear documentation of tax positions and the rationale behind any that are ambiguous.

Proactive fintech companies can use this exercise as an opportunity to understand their tax positions. If these capabilities don't exist in-house, then a qualified adviser is key.

– *Cody Lewis, Tax Partner, Fintech Lead, Crowe LLP*



“A heavy component of our current year loss is from interest expense on debt. We don’t have any material interest income. What kinds of planning should I be considering with respect to taxable income based on this fact pattern?”

A: Under provisions introduced by the TCJA, businesses with net interest expense (where interest expense exceeds interest income) must capitalize this expense. It cannot be deducted unless the company meets certain thresholds, which can be problematic for unprofitable businesses where the threshold is effectively zero.

This issue affects companies relying on borrowing rather than equity funding, potentially creating unexpected taxable income. While these differences are typically temporary, they often feel permanent due to the perpetual nature of the debt funding. Understanding and planning for this treatment is essential to effectively managing stakeholder expectations.

– *Cody Lewis, Tax Partner, Fintech Lead, Crowe LLP*

“Though our company does business in several states, we are in a loss position so we won’t have any income or franchise taxes due. Correct?”

A: Not necessarily. Even if a business is in a loss position and has no tax liability based on net income, it still might be subject to franchise or equity-based taxes. States like Delaware, Tennessee, North Carolina, Texas, and Washington impose taxes based on revenue, equity, or other factors unrelated to profitability. Additionally, many states impose fixed-dollar minimum taxes.

The assumption that “we’re not profitable, so we don’t owe taxes” can catch companies off guard in early stages of growth. Understanding these alternative tax structures is key to avoiding surprises and ensuring compliance, even when traditional income taxes are not applicable.

– *Cody Lewis, Tax Partner, Fintech Lead, Crowe LLP*

“We have customers in most or all 50 states. What do we need to consider from an income tax perspective?”

A: With customers in most or all 50 states, businesses must navigate the complex landscape of multistate income tax obligations. For FinTech companies (and others with dispersed customer bases), sourcing revenue accurately becomes critical. Unlike businesses tied to a specific location, companies operating nationwide face varying state-specific rules that complicate compliance.



Here are examples of some common issues that arise in these circumstances:

- ▶ Is the business considered a financial corporation (or similar) for income/franchise tax purposes and how does that impact the apportionment factor, tax rate or filing method in a given state (such as California or Tennessee)?
- ▶ Does the state require revenue-sourcing based on the location where the customer receives the benefit (such as New York), or where the revenue creating activity occurs (such as Virginia)?
- ▶ Does the state allow usage of NOLs in the same manner as federal rules or is there a limitation (e.g., Illinois)?
- ▶ Does the state consider payroll or property in its apportionment factor?

Understanding and managing these nuances proactively is essential to ensuring compliance and minimizing tax liabilities. Consulting with tax professionals who specialize in multistate taxation can help improve compliance and optimize tax strategies. Additionally, using technology and software solutions designed for multistate tax management can streamline the process and reduce the risk of errors.

– *Kyu Chun, State and Local Tax Senior Manager, Crowe LLP*



Every business cycle comes with its own set of tax challenges. Whether you're scaling up or preparing for M&A, proactive tax planning is essential."



Cody Lewis
Tax Partner, Fintech Lead, Crowe LLP

“We have significant R&D spend. What are the tax implications of that?”

A: Significant investment in R&D brings important tax considerations, not all of which can be anticipated, considering the evolving and time-sensitive nature of regulations. Given the innovation-driven nature of the fintech sector, businesses often engage in qualifying activities without realizing they can claim an R&D tax credit, directly reducing tax liability.

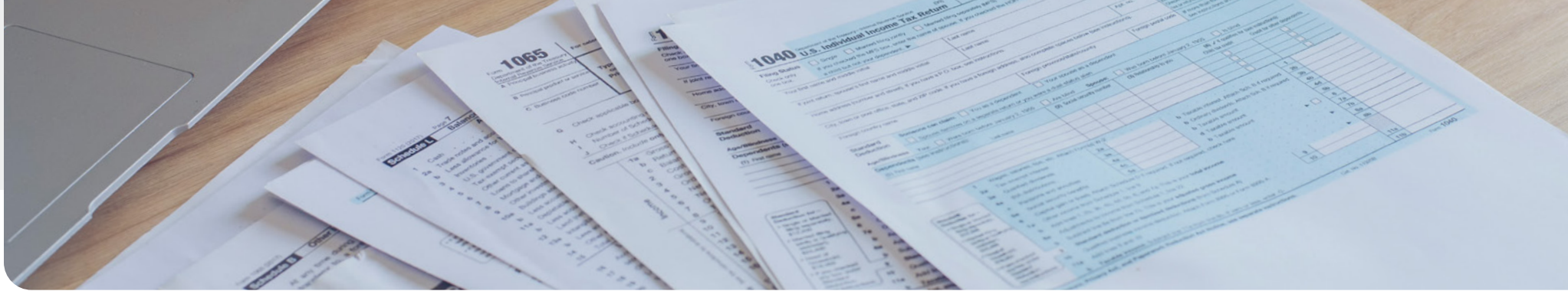
In addition, recent changes in tax law require R&D expenses to be capitalized rather than deducted outright. It remains to be seen whether this change in law will hold for tax years beyond 2024.

What the requirement to capitalize R&D expenses means is that, instead of immediately offsetting taxable income, companies must amortize these expenses over several years, potentially delaying tax benefits. Because of this requirement to spread the R&D costs over multiple years, businesses already need to examine their R&D spend for tax planning and filing purposes. The R&D tax credit and analysis to capitalize R&D expenditures contain several synergies, providing companies with an opportunity to maximize their positions and proactively mitigate risk.

– *Sophia Shah, Tax Senior Manager, Crowe LLP*

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“Our company has transactions requiring 1099 information reporting of a sizable volume. What should my next steps be?”

A: When a company handles transactions requiring 1099 information reporting, particularly in large volumes, preparation and planning can't be overlooked. For businesses paying out interest income or managing interest expenses — such as those dealing with small-dollar accounts or lenders — compliance can become a significant burden.

Payment processors and fintech companies face complex rules about who is responsible for issuing 1099s. For example, if a fintech company partners with a bank to provide deposit services, who is responsible for providing the 1099-INTs to the customer?

Management should ensure these questions are addressed in any agreement with a third party. Additionally, management needs to have the infrastructure in place with its vendors to meet this IRS requirement.

– Cody Lewis, Tax Partner, Fintech Lead, Crowe LLP

“Are we optimally positioned to respond to or navigate international tax rules and changes, such as recent Pillar II guidance?”

A: It's increasingly critical that FinTech companies ask this question as we approach the implementation of Pillar II, part of the Organization for Economic Cooperation and Development's (OECD) effort to address global tax disparities. Designed to combat tax avoidance by multinational corporations, Pillar II establishes a minimum jurisdictional tax rate of 15%, targeting companies operating in low-tax jurisdictions.

Pillar I, if implemented, will focus on reallocating taxing rights for digital services. Pillar II took effect in 2024, causing many multinational companies to assess their readiness. This shift has significant implications for corporate tax strategies, as profits might become taxable in various jurisdictions, even if a company is reporting losses in the U.S.

The urgency behind this question lies in identifying planning opportunities while understanding the significantly increased compliance burden. Companies are formulating strategies now to ensure compliance and minimize financial impact.

– John Kelleher, Tax Partner, Crowe LLP

“We have a foreign subsidiary or parent company providing services to our U.S. company. What do you recommend we should do from a transfer pricing perspective?”

A: The first thing to keep in mind when a foreign subsidiary or parent company provides services to your U.S. entity is that you comply with the relevant transfer pricing rules. These rules mandate that cross-border transactions — whether involving goods or services — are conducted at arm’s-length.

Proper documentation and adherence to transfer pricing guidelines are crucial to demonstrate fair compensation for these services. Failure to address these requirements adequately can lead to scrutiny from tax authorities and potential adjustments and associated penalties. Proactive planning and compliance are vital for companies operating in international markets. Furthermore, it is also possible to achieve tax efficiencies by paying close attention to transfer pricing.

– Sowmya Varadharajan, Tax Principal, Crowe LLP

▶ **FURTHER READING:**

[What You Need to Know About TCJA’s Expiring Provisions](#)



Mid-market companies often discover tax challenges only when it’s too late to avoid an issue. That’s where we can help in advance of challenges to provide clarity, strategy, and a path forward.”



Cody Lewis
Tax Partner, Fintech Lead, Crowe LLP





Equip a Small Team to Confidently Navigate Growth Milestones

As your business grows, each milestone brings new layers of tax complexity. Whether it's a tax position left undocumented or a compliance requirement overlooked, an unforeseen issue has the potential to disrupt your momentum and create costly setbacks. When stacked up over time, these challenges can feel overwhelming and, if left unaddressed, can derail a promising growth trajectory.

However, with the right financial guidance and proactive planning, these hurdles become manageable. A trusted organization like Crowe LLP can help you anticipate challenges, navigate them swiftly, and position your company to pass each milestone with confidence. By preparing thoughtfully for what's ahead, you can focus on scaling your business without being held back by unseen complexities.



About Crowe

Crowe LLP is a public accounting and consulting firm that uses its deep industry expertise to provide audit, tax, and consulting services to public and private entities. Crowe is recognized by many organizations as one of the best places to work in the U.S. As an independent member of Crowe Global, one of the largest global accounting networks in the world, Crowe serves clients worldwide. The network consists of more than 200 independent accounting and advisory services firms in more than 130 countries around the world.

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