

Graduation Paths Foundational Research

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Background

Why & Approach

Why we did this research

We want sellers to grow with Square, and that means aligning their business's legal structure with their Square account (e.g., for taxes). However, updating important information like legal entity or business owner's name can be difficult as sellers evolve and graduate to different business entities. This can create frustration and inefficiency.

Currently when graduating from using an SSN as a sole proprietor to an EIN, there is no seamless transition.

Square must maintain up-to-date client information, beneficial ownership details, through ongoing monitoring. This research explores developing an Identity Dashboard as part of the **Seller Identity Management initiative (PL-30, PL-48)** to address these ongoing challenges.

Sellers on-board as sole proprietors.

Sellers graduate to non-sole proprietors with limited involvement from Square.

Objectives

1. Understand if sellers know whether or not their Square account is reflective of their actual legal business entity.
2. Identify motivations and decision-making factors behind sellers' changes to their business structures.
3. Gain feedback on the **Graduation Paths** concept within the Identity Dashboard.

Study Materials

- [Research Plan](#)
- [Interview Notes](#)
- [Recordings](#)



Our Approach

Survey:

Screener sent to sellers who attempted changing from SSN to EIN after onboarding through:

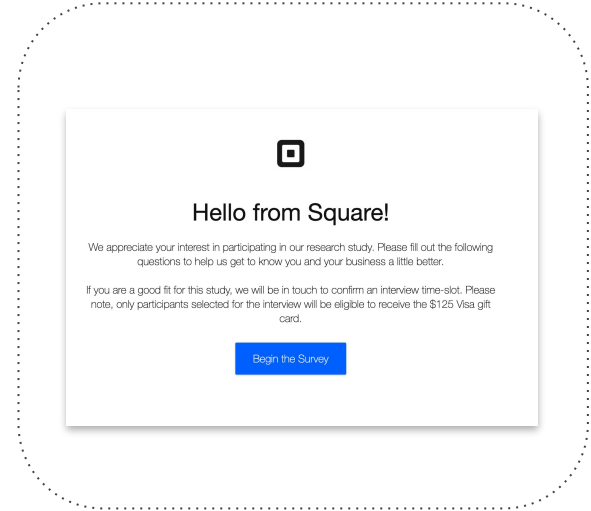
→ Onboarding for a new financial product (Payroll, Loans, Banking).

→ An update in the "Tax Info" page on dashboard.

Interviews:

60 minute moderated sessions with 8 sellers recruited from our screener survey.

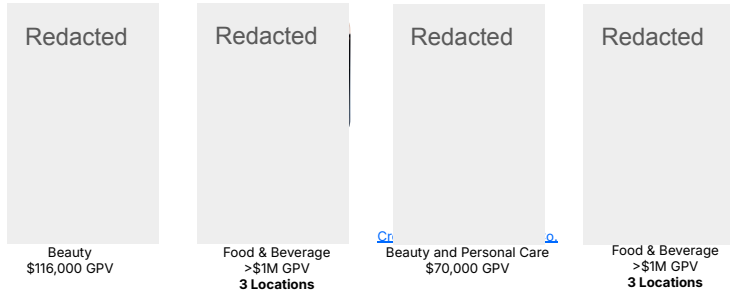
→ 3 synthesis and [workshop sessions](#).



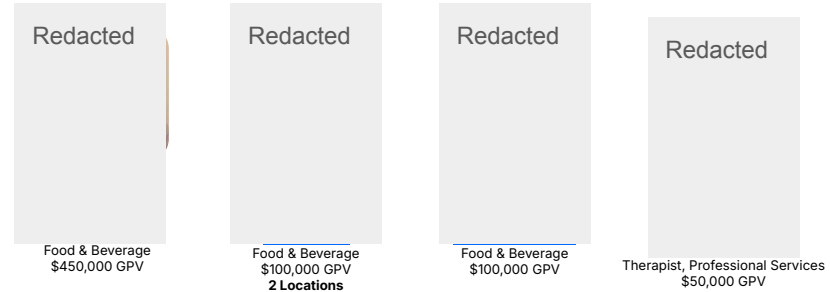
[Screener Survey](#)

Our Sellers:

S-Corps and Corporations



LLCs



Summary of Insights

TL'DR

Insights

Sellers are unaware if their Square account reflects their business entity.

Some sellers were unaware of whether these changes were reflected in their Square accounts, indicating a potential knowledge gap about how Square supports business structure transitions.

Business structure transitions often happen "reactively."

Sellers typically don't plan for these changes; they keep it in the back of their minds but are primarily driven by advice from a tax professional or a review of their past tax situation.

Sellers expressed challenges with updating business information in Square.

Sellers are cautious about making decisions without consulting a tax professional.

Tax optimization, liability reduction, business growth and operational efficiency are driving factors for switching business structures.

Sellers also heavily rely on tax professionals to handle the logistics of registering their businesses.

Sellers appreciate the Graduation Path concept.

Sellers seek more detailed and personalized information on legal entities. The Graduation Dashboard concept presents an opportunity for Square to support sellers in taking a more proactive role.

Exploring graduation paths for sellers: Three key opportunities.

01

Encourage and facilitate accurate business information updates.

02

Empower sellers to make informed decisions as they transition legal entities.

03

Give sellers the right tools to proactively manage legal entity changes.

Legal Entity Alignment Perceptions

OBJECTIVE 1

Do sellers know if their Square account is reflective of their actual legal business entity?

SURVEY RESPONSES

Sellers who onboard to Square with an SSN may forget they used it.

Although the sellers surveyed in our screener signed up for Square using an SSN, they may not remember this and assume their Square account reflects their current legal entity.

Surveyed sellers who currently describe their business as an **LLC**.



63%

Surveyed sellers who say they **have not changed their business structure** since starting with Square.



73%

Sellers typically don't consider how their business's legal entity is reflected within Square. They assume Square already has their up to date legal entity without needing any input or action from them.

"So I am 99.9% sure it is an S-Corp on Square, but I don't think it changes the structure of how Square provides their service to me."

Redacted

| S-Corp

OBSERVATION

Sellers are only concerned with legal entity changes if it affects how Square operates.

- Disrupting payment processing or ability to use banking products.
- They only consider updating their EIN if it affects taxes or payroll.

"When I look at the tax forms and everything, it seems to be aligned. I haven't heard anything different from my tax person, so I feel like I'm aware of how it's structured and how I'm filing—it's also the same with Square. Especially with running payroll, I would assume that it is set up properly."

Redacted

bering Co.
|S-Corp

OBSERVATION

Sellers prioritize getting started with Square quickly over perfecting details, such as their EIN, upfront.

Sellers expect to update their information later as needed. When making this trade-off, they focus on getting started with Square quickly to begin processing sales, rather than addressing tax implications or EIN details upfront.

"Yeah, just knowing myself, I want the onboarding to be faster, and I'll worry about the details later.

Not that it's always the best approach, but that's how I tend to do it. If I remember correctly, I did some research—like Ivy and a few other payment processors—and Square was really popular at that time. When I compared them, Square seemed easier, or at least the easiest of the three or four I looked into. As far as getting signed up, getting started, and being able to take payments with the little card swiper—Square made that process simple."

Redacted

LLC

OBSERVATION

Sellers usually put off updating their business info until a problem comes up, often realizing too late that it needed to be accurate.

"I started with a regular account, but later updated it to an LLC and got a new EIN. When I tried to update my EIN on Square, I kept getting errors. I contacted Square Services, but it took one or two months to resolve the issue. It was complicated, and I almost gave up. I considered switching from Square because I needed my EIN to match for tax purposes. Fortunately, by the end of the year, the EIN finally matched on the annual report..so I did not follow up."

Redacted

s | LLC

- Huo grew frustrated with Square and considered switching when it wasn't clear how to update his EIN. when he noticed his tax information was correct at the year-end, his concerns faded, and he no longer cared whether the EIN was actually updated.

Opportunity 1: Encourage and facilitate accurate information updates.

HOW MIGHT WE

Help sellers understand why it's important to keep their business information up to date with Square so that they don't encounter interruptions later?

RECOMMENDATION

Proactively educate sellers on the importance of keeping their business and personal information up-to-date, highlighting how it ensures uninterrupted service and compliance, without waiting for disruptions to prompt action.

HOW MIGHT WE

Create a common schedule for when sellers should update their legal information in their Square account, so that it is predictable and plannable?

RECOMMENDATION

Enable sellers to seamlessly update their business entity without creating a new account, **potentially around tax filing dates**. Simplifying this process would reduce friction and help prevent churn caused by account disruptions.

OBJECTIVE 2

What are the motivations and decision-making factors behind sellers' changes to their business structures (e.g., tax ID or legal entity)?

Sellers typically make changes to their business structure **reactively**, following advice from a tax specialist or accountant.

Key motivators for legal entity changes:

ADVICE FROM TAX PROFESSIONALS

Motivated by factors that help them run their business more efficiently.

TAX OPTIMIZATION

Sellers often change their legal entity to minimize tax liabilities and leverage tax benefits, such as moving from a sole proprietorship to an LLC or S-Corp for more favorable tax treatment.

LIABILITY PROTECTION

To shield personal assets from business-related risks, especially in higher-risk industries, sellers form entities like LLCs or corporations that legally separate personal and business liabilities.

BUSINESS GROWTH

As sellers grow by hiring employees, expanding operations, or scaling their offerings, they adjust their legal structure to accommodate that growth and to handle the complexities.

OPERATIONAL FLEXIBILITY

Sellers change their business structure to streamline processes such as payroll, accounting, and financial management, allowing them to operate more smoothly.

TAX OPTIMIZATION

Many sellers change their legal entity to take advantage of tax benefits and reduce their overall tax burden.

These changes are typically **reactive**, especially around tax season. They take advantage of more favorable tax treatments that come with specific business structures.

→ For example, switching from a sole proprietorship to an LLC or S-Corp can offer sellers more flexibility in how they are taxed.

*"Yeah, it's all about the bottom line at the end of the year. I really left it up to my tax guy to guide me on when it was the right time to start the S-Corp. I don't remember the exact numbers, but in the first year, I didn't make enough. By the second year, I had made too much, if you want to put it that way. So, yeah, it all came down to the **end-of-year numbers and what made the most sense from a tax perspective.**"*

Redacted

| LLC

TAX OPTIMIZATION

Sellers consider tax benefits not only for their business but for their personal taxes.

Beyond the business itself, a seller's ability to pay themselves and receive a W-2 is crucial for personal tax benefits, improving their credit, and achieving personal goals like buying a home.

"With an LLC, you pay \$100 in the first year, regardless of profit, and you don't have to put yourself on payroll. With a corporation, you have to be on payroll, but if the year wasn't profitable, you don't need to pay the \$800. As a small business owner, paying myself allowed me to show proof of income, get a W-2, improve my credit, and eventually buy a house. It made sense for me to do it that way."

Redacted

x | S-Corp

LIABILITY PROTECTION

Sellers often change their legal entities to reduce personal liability and protect their business assets.

LLCs or corporation can offer more formal separation between personal and business liabilities

*"I switched because; one it was for my tax benefit and two is to **protect the restaurant.***

*An LLC is worth it because you only pay a one-time fee, and it's helped with a lot of things. People kept telling me—my customers, my cousin, my tax advisor—but I didn't really care until I realized I needed to do it. It's **helped a lot with my taxes and has provided protection for the business.**"*

Redacted

\$ | LLC

BUSINESS GROWTH

Growth triggers like hiring employees or expanding operations lead sellers to switch from sole proprietorships to other business structures, helping them better manage the complexity.

*"Yeah, I think it's definitely made me more mindful about paying myself. Before, it was easy to just think, 'I'll take whatever from the business.' I would keep just enough to make sure the bills were paid, and whatever was left, I'd take. But this process—because I'm running payroll and things like that—**has made me more aware of how much I'm paying myself and those types of things.**"*

Redacted

ring Co.
S-Corp

OPERATIONAL FLEXIBILITY

Sellers consider how business entity switches enable financial flexibility and access to credit.

→Switching business entities may enable sellers to access business loans and credit more efficiently.

→Some sellers also consider the future flexibility the business entity may provide.

"It was mostly about the flexibility of where we wanted to go and what we wanted to do. If we wanted to sell the business or bring in investors, we didn't necessarily know our path forward at that time. So, we thought it made sense, especially since our accountant recommended it."

Redacted

Corporation

ADVICE FROM TAX PROFESSIONALS

Most sellers rely on professionals to help them with the logistics associated with registering their business.

Simplifying the process for sellers to update their business information directly within Square can reduce their reliance on external professionals and improve their overall experience.

"I honestly don't remember. I mean, she did a lot of the work. I think I just had to sign some papers...that's why I hire people because I'm only good at massages."

Redacted

LLC

"I mean, it was easy. I just called my accountant and said, ok, well, Mike's out, we need to set up the business."

Redacted

li| LLC

"I just trusted my accountant. I didn't really understand the details, but they said switching to an S Corp would help with taxes, so I went with it."

Redacted

ah|

Opportunity 2: Empower sellers to make informed decisions.

HOW MIGHT WE

Integrate tax workflows into business management and verification and make taxes a seamless part of how sellers manage their businesses?

RECOMMENDATIONS

Ensure taxes are seamlessly incorporated into how sellers run their businesses. By providing automated prompts and guidance based on their business structure, Square can simplify compliance and filing while serving as a **catalyst** for conversations with tax professionals, enhancing those relationships rather than replacing them

HOW MIGHT WE

Facilitate the connection between sellers and their accountant or tax professionals?

RECOMMENDATIONS

A feature that gives a limited view/access to someone's account for financial advisors.

Graduation Dashboard

Value Fit

OBJECTIVE 3



KEY OPPORTUNITY


To empower busy sellers who delegate most of the transition to professionals, how can Square offer better guidance and help them take a more proactive role?

Participants evaluated 2 early concepts


Identity dashboard


Account Overview


Action items


 **Verify your account and business information.** Due 10/1
To keep your account safe and active, check if the details below are correct. If your details are not reviewed and updated by the due date, your account will be frozen. [Review now](#)

Personal information ⋮


 **Carolina Diaz**
Legal name

 **1991/03/07**
Date of birth


 **356 Main St Suite 500**
Dallas, TX 75001
Home address

 **(416) 596-2231**
Personal phone number

Business information ⋮

 **Sun & Star Cafe**
Individual / Sole proprietorship
Food and Drink / Dessert Shop

Business owner ⋮


 **Carolina Diaz**

Focuses on updating business and account information.


Graduation path


Account Overview


Action items


 **Your business could benefit from registering**
We noticed your business has been doing well and could benefit from changing your business structure. Registered businesses may be eligible for tax benefits, such as only being taxed on salaries and additional compensation. [Dismiss](#) [Review now](#)

Personal information ⋮


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 **Carolina Diaz**

Highlights the benefits of registering their business.

Identity dashboard

OBSERVATIONS

Many sellers find the Identity Dashboard **helpful** for keeping their business information up to date.

Sellers vary in how often they expect to review their business information (ranging from monthly to bi-annually).

Some sellers **assume verification prompts are related to a “current” security login issue** rather than legal compliance.

The screenshot displays an 'Account Overview' dashboard. At the top, there is a section for 'Action items' with a red warning icon and a 'Review now' button. Below this are two columns of information: 'Personal information' and 'Business information'. The 'Personal information' section includes fields for legal name, date of birth, home address, and personal phone number. The 'Business information' section includes fields for business name, ownership type, and business type.

Account Overview

Action items

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[Review now](#)

Personal information

Legal name: Carolina Diaz

Date of birth: 1991/03/07

Home address: 356 Main St Suite 500, Dallas, TX 75001

Personal phone number: (416) 596-2231

Business information

Sun & Star Cafe

Individual / Sole proprietorship

Food and Drink / Dessert Shop

Business owner

Carolina Diaz

Identity dashboard

INSIGHTS

There's a need for greater clarity about what information should be updated on the Identity Dashboard and why.

Sellers' misunderstanding of the necessity of verification prompts reinforces **a reactive approach to account management**.

Sellers are not proactively managing their business information and instead **wait for prompts** (such as red alerts) to take action.



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Personal information



Ca
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Edit



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Date of birth



356 Main St Suite 500

Dallas, TX 75001

Home address



(416) 596-2231

Personal phone number

Business

Sun
Indiv
Food

Business

Car

Preferences

Language

USA English



SCENARIO

"Let's assume you're still a sole prop and you see this on your Square dashboard."

01

Home

Account Overview

Action Items

Your business could benefit from registering. Registering your business has been going well and could benefit from changing your business structure. Registered businesses may be eligible for tax benefits, such as being able to deduct expenses and additional compensation. [Review now](#)

Personal Information

Carolina Diaz
carolindiaz@square.com

1992-03-07
Date of birth

364 Main St Suite 500
Dallas, TX 75205
Home address

(469) 599-3333
Personal phone number

Business Information

Sun & Star Cafe
1000 Main St Suite 100
Portland, OR 97201
Food and Drink | Dessert Shop

Business owner

Carolina Diaz

Preferences

Language: USA English

Time Zone: Central Time Zone

02

Square

Your business

Registering your business

Registering your business is a smart move for many small businesses. Registration gives your business a unique identity and can offer tax benefits, legal benefits, protection from personal liability and better access to banking, loans and capital.

From simply registering your business name to registering with various state and federal agencies, you will discover the advantages as you navigate the requirements.

Potential benefits to registering your business

Tax benefits

Registered businesses may be eligible for tax benefits, such as only being taxed on income and additional compensation.

Liability benefits

Registering a business can provide limited liability protection, which separates your personal assets from your business assets.

Access to funds

Registering a business can provide access to banking, loans, and capital.

Steps to register your business

[I'll do this later](#) [Register my business](#)

03

Square

Your business

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Potential benefits to registering your business

Steps to register your business

Choose a business structure

Choosing the right business structure is the first step in registering a business in the US. The structure you choose will impact your business's legal liability, tax obligations, and management structure. There are several types of business structures to choose from, each with its own advantages and disadvantages. If you're not sure, see our [Support article](#).

Apply for an EIN

The next step to register your business in the US is to apply for an Employer Identification Number (EIN). An EIN is a unique nine-digit number assigned by the IRS, and receiving one helps to establish its legal identity. It's like a social security number for your business. An EIN is often required for tax and banking purposes, and it can also help protect your personal assets from business debts and liabilities.

Apply for business licenses

Depending on your industry and location, you may need to obtain various permits and licenses in order to legally operate your business. The process of identifying and applying for business licenses might look slightly different based on location, but it's mostly similar throughout the US.

[I'll do this later](#) [Register my business](#)

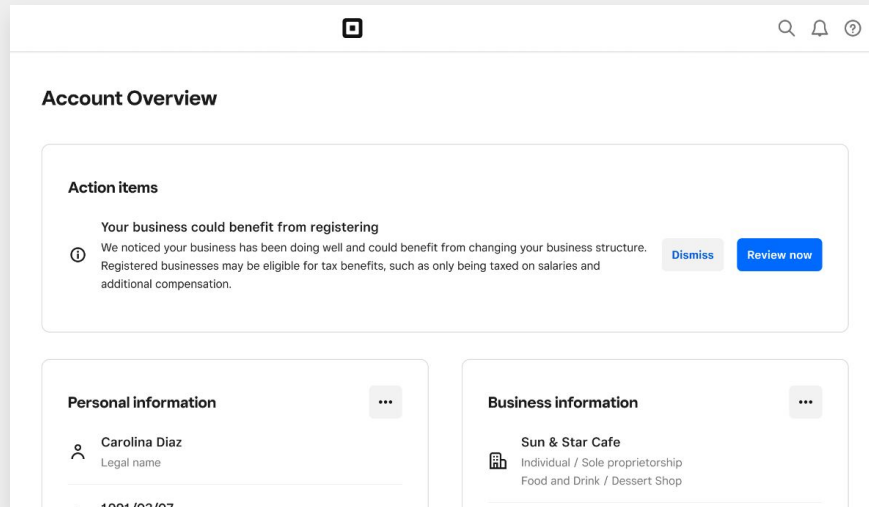
Graduation Path

INSIGHT

Displaying business structure benefits directly on the dashboard **helps sellers understand the value of switching** without initiation from a tax professional.

INSIGHT

Even if Square highlights a recommendation to change their business structure, sellers still express that they would **consult their tax specialist first**.



Graduation Path

PAIN POINT

Sellers seek **clarity** on Square's role in updating their account information. Sellers expect to be directed to an **external government website** for information on how to make the transition.

PAIN POINT

Not all sellers are native English speakers and **often sought advice** from other sellers on how to manage their business.

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I'll do this later

Register my business

Graduation Path

PREFERENCE

Some sellers **assume Square will provide** curated business structure recommendations for their individual business needs.

PREFERENCE

Some sellers **want more granular comparisons** between different business entities.

Sole proprietorship

One-person business that isn't registered with the IRS or the state

Limited Liability Company (LLC)

Corporation

S Corp, C Corp, Inc., Private Company or Public Company (Unlisted)

Partnership

General Partnership, Limited Partnership, or Limited Liability Partnership

Charities and Nonprofits

501(c)(3) or 501(c)(4) organization

Opportunity 3: Support sellers to be more proactive with legal entity management through Square.

HOW MIGHT WE

Present legal structure suggestions in a trustable and relatable manner so that sellers recognize the value?

RECOMMENDATIONS

Prioritize content design to present clear, legal structure information in the Identity Dashboard. Effective messaging will empower sellers to make informed business decisions and recognize the value of proactively managing their business information.

HOW MIGHT WE

Leverage our data on sellers to support their business decisions? E.g., when to register their business?

RECOMMENDATIONS

Help sellers recognize the value of timely business registration and entity updates, before tax professionals prompt them.

Next Steps

NEXT STEPS

1. Define MVP and prioritization for **Graduation Path.**
2. Iterate and test higher fidelity designs of **Graduation path and identity dashboard.**
3. Expand research to explore challenges faced by sellers with **"Multi legal entities."**
 - a. Build on existing findings to investigate the complexities faced by sellers managing multiple legal entities.



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Insights

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Sellers seek more detailed and personalized information on legal entities. The Graduation Dashboard concept presents an opportunity for Square to support sellers in taking a more proactive role.

Questions?

Appendix

Transfer of Account

OBSERVATIONS

Some sellers view account credentials **as a shared business account** rather than personal login information.

Some sellers **share their account passwords** with business partners, seeing the login information as a "business password" rather than something tied to their personal identity.

Sellers who do not share account information typically do so because they are the only individuals involved in their business.

Transfer account ownership

Transfer account ownership

This transfers the account ownership to a different person within your organization. This feature is not supported when selling a business. [Learn more.](#)

To complete the transfer, we need to verify you and the new account owner's identity. If the new owner doesn't start the final steps within 24 hours, the ownership transfer request will expire and must be initiated again by the current owner.

Don't worry — you'll still be able to process payments during the transfer process.

Please note the following changes to your account

Subscriptions

Any subscriptions you have will continue to process on the credit card associated with this account. If you don't wish to be charged on the current credit card, make sure you update before transferring ownership.

Square loans

By proceeding with this transfer of account ownership, any Square Loan offers will be disabled for 30 days.

Tap to Pay on iPhone

Your Apple ID is currently being used for Tap to Pay on iPhone. We suggest you remove it through Apple Business Registry before completing your transfer. Note that Tap to Pay on iPhone will be disabled until a new Apple ID is linked again. If you choose not to remove your Apple ID, the new owner can continue using Tap to Pay on iPhone but will be unable to change or remove the Apple ID associated with the account in the future.

Transfer of Account

INSIGHTS

Sellers' perception of account credentials as a business "account" rather than a personal login contributes to the confusion around the "transfer of account" feature.

In addition, the confusion around the "transfer of account" feature may stem from sellers interpreting it as a **tool for selling the business**, not just transferring account ownership.

Transfer account ownership

Transfer account ownership

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