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Tax & Business letter

SUMMER 2013

Six major mistakes to avoid in selling your business

Most entrepreneurs eventually think about selling their businesses, whether as a prelude to retirement or to pursue other activities. In doing so, they often underestimate the effort required for a satisfactory outcome and overestimate the value and salability of their enterprises. If you're contemplating selling, here are some common mistakes to avoid.

1 Overestimating the value of your business.

Your price should be based on the fair market value of the business in its current form. Buyers won't care about the work you've put into building your business or your unique vision for its future.

2 Failing to account for the nature and make-up of your business.

The values of most businesses proceed from a mixture of variables. If your business includes significant equipment, real estate, intellectual property, or other such assets, their values should be separately established before being factored into the overall price. If you're selling a service or professional firm, much of its value may depend on the experience and skills of your managers and employees. In such a case, the price may vary according to the expected retention of key individuals.

3 Failing to base your sale price upon independent appraisals.

Even if you think you know the value of your business, you should obtain two or more outside appraisals from professionals familiar with your industry. If the appraisals conflict with your opinion, they'll provide a much-needed reality check. If they confirm your opinion, they'll become a useful sales tool.

4 Not hiring a professional business broker to handle the sale.

Owners are often too personally invested (and/or eager to sell) to effectively negotiate sales of their businesses. A broker familiar with your type of business will know what issues are important to buyers and what characteristics to emphasize or de-emphasize, without becoming emotionally involved.

5 Neglecting to work with the buyer to ensure a smooth transition.

Nobody likes being thrust into unfamiliar circumstances without preparation. Notifying your managers, employees, and customers in advance and doing all you can to allay their concerns will serve your own best interests, as well as being the honorable thing to do. Discontent on the part of any of the affected parties could result in conflicts, reduced revenue for the buyer, withheld sale payments, and litigation.

6 Being unwilling to help finance the sale.

If you're unwilling to take back a note, your sale price is limited to the buyer's cash and ability to obtain outside financing. At best this could limit the number of potential buyers, and at worst it could limit your sale proceeds. (Conversely, if you finance too much of the sale price, you'll increase the risk of default.)

Selling your business is too important to attempt without professional help. If you're considering selling, call us for an appointment to help formulate your plan. ◆

IRS TAX NOTES

Check your withholding

If you have a sizable refund of your 2012 taxes, it may be time for you to check your withholding. After all, when you overpay your taxes, you're making an interest-free loan to the government.

Reducing your withholding is as simple as filing a new Form W-4 with your employer. The form comes with a worksheet to figure out how many allowances you should claim. Don't forget to allow for other taxable income besides wages, such as dividends or investment gains.

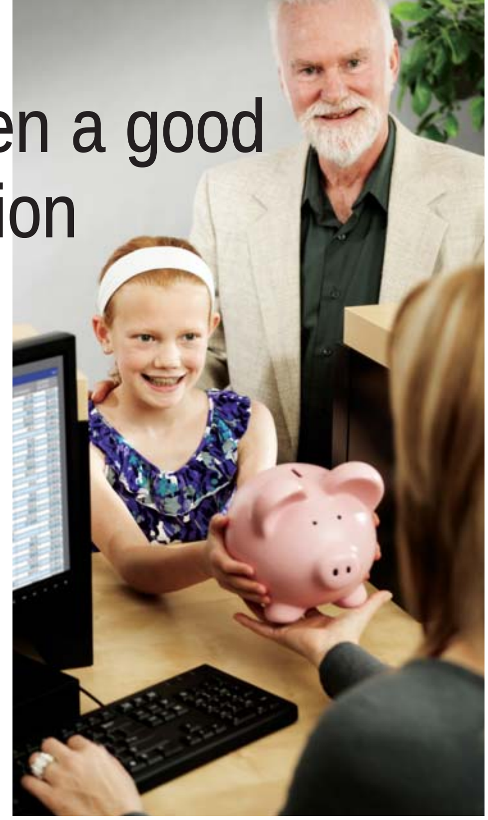
If you're concerned about underpaying taxes and exposing yourself to penalties, there are a few rules you should know. Generally, you won't face a penalty if you pay for 2013, through withholding or quarterly estimated payments, at least 100% of your 2012 taxes (110% if your adjusted gross income is over $150,000), or if you pay at least 90% of what you'll owe for 2013.

Don't fall for bogus IRS e-mails

Crooks wanting to steal your identity are using bogus e-mails and websites designed to look like genuine IRS communications. You might expect the April 15 filing deadline to mark the end of these scams, but they, in fact, are expected to continue for months.

An example of these bogus e-mails: You receive a message confirming IRS receipt of your tax return, but the IRS needs more information to process your return. The e-mail looks official and completely legitimate. But it isn't. The IRS does NOT contact taxpayers asking for personal and financial information. These e-mails should be deleted immediately. Fake IRS websites are also created by scammers to lure victims into filling out forms providing information that results in identity theft. ◆

Give your children a good financial education



Financial illiteracy appears to be rampant in the younger generation. The same kid who is adept at using a smartphone or iPad may have trouble with basic math skills, balancing a checkbook, or managing money.

Knowing about money – how to earn it, use it, invest it, and share it – is a critical life skill. Unfortunately, such skills are often given short shrift in our education system and homes. Recent surveys have highlighted an astonishing level of ignorance in today's teenagers when questions about simple financial concepts are raised. For example, one survey found that only 26% of teens understood credit card interest, and only one in three could read a bank statement or balance a checkbook.

If you haven't already started teaching your children about money and finances, you're neglecting an important part of their education. But where do you start? Perhaps begin with the following benchmarks of financial literacy.

- **Time value of money.** One of the most essential of all financial concepts is the time value of money. Children should be shown the benefits of saving money, watching it grow, and patiently deferring purchases until a future time. When children grow a little older, they can learn the reverse lesson: how debt today results in accumulated interest costs down the road. To illustrate the point, show them a loan amortization schedule for a typical car or home loan. That should get their attention.
- **Transactional skills.** In today's cashless society, your children will someday need to know how to write a check, how to use a debit or credit card, and how to bank online. When they are ready, consider taking them to the bank, introduce them to a representative, and set up their first checking account and bank card. Children will appreciate this rite of passage to adulthood, and they will learn how to use an ATM or bank website correctly.
- **Good records.** You might feel a little hypocritical when pointing out your children's recordkeeping shortcomings, but they probably need your help more than you think. Knowing how to reconcile a checkbook and track where they spend their money is a valuable life skill. Developing a system for safely storing receipts, warranties, and other valuable papers is also important. When your child begins driving, point out the location and importance of the vehicle proof of insurance and registration.
- **Investment concepts.** Introduce your child to investment basics by having him or her acquire shares of one or more stocks or mutual funds. Your child can learn a lot by charting the investment's progress on a regular basis.
- **Borrowing money.** Even if you act as the lender, your child can learn valuable lessons by borrowing a small amount of money. Again, an online calculator will indicate how compounded interest piles up. Your child will likely be encouraged to avoid debt.
- **Taxes.** It's not what you earn, but what you keep that matters. Show how taxes can erode earnings and why they must be factored into financial decisions.
- **Set a good example.** The way you handle your money may be the most powerful lesson of all for your children. For your child's sake, as well as your own financial well-being, it's important to practice what you preach. ◆

Can happy employees lead to an increase in profits?

Many believe that living by the Golden Rule – treating others as you would like to be treated – pays dividends. Can this be true in a small business work environment, too? Business owners are increasingly finding that treating employees well can boost profits.

Creating a contented workforce is simply a matter of maintaining your most precious business asset. This can benefit your company in three ways. First, it lowers employee turnover, which in turn lowers new-hire training expenses and flattens learning curves. Second, an employee who is treated well will be more apt to work harder and be willing to put in additional hours when needed. This extra effort can also help cement relationships with your customers as they discover that your employees will do whatever it takes to get the job done. And finally, gaining a reputation as a good place to work will naturally draw higher-quality job prospects.

So how can a small business with limited resources become an attractive place to work? The first step might be to just show employees you care. Offer your workers as many tax-favored benefits as is feasible. The rules keep changing, so you will need to stay current on the latest employment perks. Our office can help you with that.

Also, monitor company morale and routinely ask for employee feedback. When good ideas come from your rank and file, give them the proper credit. And as you become aware of special situations affecting the personal lives of your employees, consider helping them beyond what is required.

Another method for retaining good employees is regular investment in training. A solid core of well-trained employees not only maximizes company effectiveness and profitability, it sends an unmistakable message that your employees have a future with your company.

Fundamental to a contented workplace is a set of fair and consistent employment policies. Establish an employee handbook of rules to work by, and apply those rules to everyone in an even-handed manner. Create written job descriptions and strive to communicate expectations clearly. And when your company is headed for big changes, keep everyone as informed as possible. An old business axiom, "never create more change than you can communicate" still holds true today.

Becoming a great place to work is not just the domain of Wall Street companies. Small businesses can also create favorable work environments. It just takes a little application of the Golden Rule. ◆

Recordkeeping: *How to get all that paper under control*

It's spring cleaning time, and that includes your tax paperwork. While it can get a bit confusing, there are some general guidelines that you can follow.

■ **Income tax returns.** These should be kept indefinitely. You would be amazed how many times the IRS will "lose" a tax return, and this is your only way to prove original filing. You should also keep the various back-up documents associated with the return, such as W-2 forms, mortgage interest statements, year-end brokerage statements, interest/dividend income statements, etc.

■ **Supporting documents.** These are things like cancelled checks, receipts, expense and travel diaries. With respect to retaining these items: three years minimum, five years is better, and seven years is best. How long you keep these records depends on your storage area and/or tolerance for potential audit.

■ **Stock/bond/mutual fund purchase confirmations.** These are documents that you need to retain during the time that you own the stock or mutual fund. They can be destroyed 3/5/7 years after the date of the sale of these assets. While many brokers are now reporting your fund purchase price, many records are still unavailable to them, so they cannot report your cost basis. It's ultimately up to you to prove your basis.

■ **Real property escrow/title statements.** This is the document that you receive when you purchase property. Generally called a HUD-1, closing statement, or settlement statement, they are provided to you at your property closing by your title agent, escrow agent, or attorney. These are also documents that you need to retain during the time that you own the property in order to prove your purchase price at the time that you sell the property. The ultimate purging of these documents also follows the 3/5/7 year provisions after the date of the sale.

And when you do finally decide to get rid of those old documents, do so carefully. Many documents will carry your social security number, bank/brokerage account number, and other bits of information that could lead to theft of your identity. So make sure that any documents that you get rid of are properly shredded or otherwise completely destroyed. ◆

Foreign assets may require two filings

Do you know where your money is? If some of it is offshore, you might have tax reporting responsibilities. Here are two.

#1. FBAR. Unless you qualify for an exception, you must file the *Foreign Bank Account Report* (FBAR). That's the form you fill out when you control assets in a foreign financial account and the total value of your account exceeds $10,000 at any time during the calendar year.

The FBAR is an annual information form, filed separately from your federal income tax return. Your 2012 FBAR must be received by the Treasury Department no later than June 28, 2013. No extension is available. You can also file electronically.

#2. Form 8938. The requirement to file *Form 8938 – Statement of Specified Foreign Financial Assets* began in 2011. Whether you have to complete Form 8938 depends on your federal income tax filing status, and if you're living in the U.S. or abroad. For example, say you're married filing a joint return and live in the U.S. You may be required to file Form 8938 if the total value of your reportable foreign assets is more than $100,000 on December 31, or more than $150,000 at any time during the year.

Reportable foreign assets include accounts at foreign banks and financial institutions, as well as certain stocks, bonds, and foreign investments.

Form 8938 is filed with your federal income tax return. Depending on the amount and type of your foreign accounts and other assets, you might need to file both the FBAR and Form 8938.

Please call if you need details or assistance with these filing responsibilities. ◆

***NOTE:** This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.*

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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Tax CALENDAR

SUMMER 2013

June 17 – Second quarter 2013 individual estimated tax is due.

June 17 – Second quarter 2013 estimated tax is due for calendar-year corporations.

June 28 – Report on foreign financial assets and accounts (FBAR) must be received by the Treasury Department.

July 31 – 2012 retirement and employee benefit plan returns are due for calendar-year plans.

September 16 – Third quarter 2013 individual estimated tax is due.

September 16 – Third quarter 2013 estimated tax is due for calendar-year corporations.

September 16 – Deadline for filing 2012 calendar-year tax returns for corporations with extensions of the March 15 deadline.

September 16 – Deadline for filing 2012 partnership returns with extensions of the April 15 deadline. ◆