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Tax & Business letter
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Six simple ideas for your small business

If you are like millions of taxpayers trying to make a living running a small business, you know it's tough out there. Here are six ideas to help your business survive and thrive.

Understand your cash flow. One of the biggest causes of business failure is not understanding cash flow. You need enough cash to pay your vendors and employees all year long. If you run a seasonal business you understand this challenge. The peak seasonal sales need to be ample enough to support you during slow non-seasonal periods.

Recommendation: Create a 12-month rolling forecast of revenue and expenses to help understand your cash needs.

Know what drives your success. When looking at your business, there are a few major items that drive your business success. Focus on the top four of these drivers to see increased growth.

Recommendation: Look at last year's tax return and identify the key financial drivers of your business. Do the same thing with your day-to-day operations and staffing.

Manage your inventory. If your business sells physical product, you need an effective inventory management system. This "system" does not have to be complex; it just needs to help you keep control of your inventory. Cash turned into inventory that becomes stuck as inventory can create a major problem.

Recommendation: Develop an inventory system with periodic counts to ensure you do not have theft issues. This system can also help identify when you need to take action to liquidate old inventory.

Know your customers. Who are your current customers? Are there enough of them? Where can you get more of them? How loyal are they? Are they happy? A few large customers can drive a business or create tremendous risk should they decide to go to a competitor.

Recommendation: Know who your target audience is and cater your business to them.

Emphasize what makes your company unique. Once you know who your customers are, understand why they buy your product or service. What makes your product or service different from companies that sell something similar?

Recommendation: If you don't know what makes your business better than others, ask your key customers. Use the information they provide to find new customers.

Maintain an effective support team. Successful small business owners know they cannot do it all themselves. Do you have a good group of support professionals helping you? You will need accounting, tax, legal, insurance and employment help, along with your traditional suppliers.

Recommendation: Conduct an annual review of your resources, and be prepared to review your suppliers and make improvements where necessary.

While libraries are filled with small business advisory books, sometimes focusing on a few basic ideas can improve your business's outlook. Please call if you wish to discuss your situation. ◆

IRS TAX NOTES

How to be sure it's the IRS calling

Each year the IRS warns taxpayers of scams, many of which happen long after the tax season is over. Some scammers impersonate IRS officials in person, over the phone or via email. Here are some ways for you to identify a real IRS employee.

- The IRS makes most contact with taxpayers through regular mail sent via the U.S. Postal Service.
- The IRS does not call to demand immediate payment. If you owe taxes, the IRS will first mail a notice to you.
- The IRS does not threaten to involve law enforcement or immigration officials.
- The IRS will instruct you to make your payment only to the United States Treasury.
- In the rare case that an IRS agent visits you, ask him or her to produce two forms of official credentials: a pocket commission and an HSPD-12 card.

If you receive contact from the IRS, please do not hesitate to call for help.

IRS-approved collection agencies accused of illegal practices

Earlier this year, the IRS announced they would begin using outside collection agencies to collect overdue federal tax debt. One of these agencies, Pioneer Credit Recovery, was accused of suggesting risky strategies to indebted taxpayers, including withdrawing money from their 401(k), requesting a loan from their employer or taking out a second mortgage. While the IRS said it is comfortable with Pioneer Credit Recovery's approach, the four senators who brought the allegations to light and IRS national taxpayer advocate, Nina E. Olson, disagree with such tactics. ◆

Make time for an annual beneficiary checkup

Sometimes federal tax laws make us lax in reviewing the things that matter. Beneficiary designations is one example. Many people believe that because there is a federal estate tax exemption of $5.49 million for themselves and an additional $5.49 million for their spouse, there's little likelihood their death would create an estate tax problem. Seems correct, right? Not so fast. Here are reasons an annual beneficiary review is important.

Beneficiary designation can override a will. There is often the false assumption that a written will or divorce decree always overrides beneficiary designations in other accounts. This is not true. In many cases, the document with the most recent date overrides older designations. In other cases, even though a divorce decree removes a beneficiary in an account, if it is not also done at the account level, the ex-spouse could still receive the funds.

State rules differ. Just because the federal estate exemption is high, it does not mean the state exemption is also high. Many states have lower exemption limits, making a planned beneficiary approach more important for all of us.

The will is still important. Your beneficiary designation review should also include a review of your will. You may wish to add clauses to designate alternative beneficiaries should someone die. The more specific, the more likely your heirs will be able to avoid the time necessary to go through the probate process.

Your beneficiary designation should be reviewed annually or whenever there is a major change in your situation, such as marriage, divorce, a new birth, death, retirement or a move. But a review could also be required when you change your mind, such as a desire to give more (or less) to a beneficiary or to add contingencies to your current beneficiary set-up. Call if you have a change in your situation, so we can go over the details together. ◆

A review of beneficiary designations should include the following:

- Insurance policies
- Annuities
- 529 college savings plans
- Bank accounts
- Investment accounts
- Pension plans
- Retirement savings accounts (SEP IRA, Traditional IRA, SIMPLE IRA, Roth IRA, 401(k), 403(b) plus others)
- Company benefits
- Will

Six home office deduction mistakes

If you operate a business out of your home, you may be able to deduct a wide variety of expenses. These may include part of your rent or mortgage costs, insurance, utilities, repairs, maintenance and cleaning costs related to the space you use.

It can be a tricky area of the tax code that's full of pitfalls for the unwary. Here are some of the top mistakes people make.

1. Not taking it

This is probably the biggest mistake those with home offices make. Some believe the deduction is too complicated, while others believe taking a home office deduction increases your chances of being audited. While the rules can be complicated, there are now simple home office deduction methods available to every business.

2. Not exclusive or regular

The space you use must be used exclusively and regularly for your business.

Exclusively: If you use a spare bedroom as a business office, it can't double as a guest room, a playroom for the kids or a place to store your hockey gear. Any kind of non-business use can invalidate the deduction.

Regularly: It should be the primary place you conduct your regular business activities. That doesn't mean that you have to use it every day, nor does it stop you from doing work outside the office. But it should be the primary place for business activities such as recordkeeping, billing, making appointments, ordering equipment or storing supplies.

3. Mixing up your other work

If you are an employee for someone else in addition to running your own business, be careful in using your home office to do work for your employer. Generally, IRS rules state you can use a home office deduction as an employee only if your employer doesn't provide you with a local office where you can work.

Unfortunately, this means if you run a side business out of your home, you cannot also bring work home from your employer's office and do it in your home office. That would invalidate your use of the home office deduction.

4. The recapture problem

If you have been using your home office deduction, including depreciating part of your home, you could be in for a future tax surprise. If you later sell your home, you will need to account for this depreciation. This depreciation recapture rule creates a possible tax liability for many unsuspecting home office users.

5. Simplified home office deduction

Recognizing the home office deduction complexity, the IRS created a simplified "safe harbor" home office deduction. Simply take the square footage of your office, up to 300 square feet, and multiply it by $5. This gives you a potential $1,500 maximum deduction. However, your savings could be much greater than $1,500, so it's often worth getting help to calculate your full deduction.

6. Not getting help

There are special rules that apply to your use of the home office deduction if:

- You are an employee of someone else.
- You are running a daycare or assisted living facility out of your home.
- You have a business renting out your primary residence or a vacation home.

The home office deduction can be tricky, so be sure to ask for help, especially if you fall under one of these rules. ◆

CASH FLOW CORNER

Understand the statement of cash flow

Most businesses prepare three primary financial statements – the balance sheet, income (profit and loss) statement and statement of cash flows. It's the third of these statements that often provides the most insight into day-to-day operations. Why? The cash flow statement focuses on all transactions that impact a company's cash, whether the transaction is from the balance sheet or the income statement.

The cash flow statement provides information about three types of business activities: operations, investments and financing. The operating section tells you how much cash you've received from sales and services, and how much you've used to cover payroll, vendor invoices, rent, taxes and utilities. This section focuses on routine business transactions. The investing section deals with cash flows for capital expenditures (such as equipment and property purchases), as well as purchases and sales related to stocks and other investments. The financing section presents information about cash proceeds from loans, installment payments and cash transactions with company owners.

By displaying these categories of cash flows, you can tell at a glance the reasons for changes in cash balances from one period to the next. If done correctly, the cash flow statement can help you to budget for future periods and identify potential financial problems before they get out of hand. For example, if cash flows from receivables are declining over time, you may want to revamp your credit policies or increase collection efforts. If substantial cash outflows are being used to finance obsolete equipment, maybe it's time to sell off those assets and build up cash balances.

When used in concert with a company's other financial documents, the cash flow statement can provide insight into a business's current health and long-term viability. If you'd like help analyzing your company's cash flow statement, give us a call. ◆

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Serving clients for more than twenty years, The Mangold Group has the experts with credentials and expertise to assist individuals and growing businesses in complex accounting and tax matters. We serve a variety of clients, with specializations in aviation, oil and gas, architecture, engineering, construction, and technology. Among our services are the following:

- Tax planning, projection, and preparation
- Business valuations
- Litigation consulting
- Financial statements and analysis
- Management Advisory Services
- Accounting Software Consulting and custom QuickBooks add-ons.
- Outsource CFO Services

Know the early warning signs of problem accounts

If you extend credit to your customers, some losses are inevitable. So unless you are willing to forgo selling on credit, you have to figure out ways to control your bad debt losses.

Once you have extended credit to a customer, you have a stake in continuing the relationship even if you suspect there might be trouble brewing. You don't want to crack down on a good customer too hard too soon, yet you don't want to be taken by a debtor who has become unable or unwilling to pay. The solution is to distinguish between slow pay (which is bad enough) and no pay.

Here are some of the telltale signs that point to an account that is turning sour:

- The debtor has begun paying erratically, settling smaller invoices while larger ones just get older. At the same time, he or she disputes specifications or terms.
- The debtor fails to return your phone calls or shows unusual annoyance at your inquiries.
- Your requests for information, such as updated financial statements, are ignored.
- The debtor places large orders and presses you for a higher credit limit.
- Despite the problems you are having, the debtor tries to coax you into providing a good credit report to another supplier.
- You find out the debtor's credit rating has been downgraded.

Any one of these hints of trouble can be the handwriting on the wall. Two or more and it's probably time to crack down on the customer. Setting credit terms, limiting the amount of credit you will extend, checking ratings and requiring down payments can prevent further collection difficulties. If the situation goes beyond this, you may have to decline sales unless the customer can provide cash on delivery. ◆

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 FALL 2017

September 15

- Third installment of 2017 individual estimated tax is due.
- Filing deadline for 2016 calendar-year tax returns for S corporations with extensions of the March due date and partnerships with extensions of the April due date.

October 16

- Filing deadline for 2016 individual tax returns on automatic six-month extensions of the April due date.
- Deadline for filing 2016 calendar-year tax returns for C corporations with extensions of the April due date.
- Deadline for recharacterizing a Roth IRA to a traditional IRA.

During November

- Estimate your 2017 income tax liability and review your options for minimizing your 2017 taxes. Call to schedule a tax planning review.