

ClientLine®

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ALL IN THE FAMILY

Running a business is tough enough without the challenge of working with loved ones, but that is what family businesses deal with every day. If you are a family business owner, how do you keep the business and personal sides of your life separate while also grooming family members to succeed you? Start by communicating with your work/life partners.

MAKING IT WORK TODAY

The leader of a family business should clearly define and communicate the responsibilities of family members. As hard as it might be, you'll need to hold family accountable for their work performance. Put job descriptions, expectations and periodic reviews in writing, just as you would for any employee.

Also communicate firm boundaries. To prevent business disagreements from spilling over into family life, consider setting times when you'll discuss each. Talk about work at work and leave personal concerns for when you're all on your own time.

MAKING IT WORK TOMORROW

If you hope to have the next generation succeed you in business, put together a formal succession plan. Include timelines, expected progression in

the business and duties involving every aspect of your company.

One way to ensure family successors become experienced in every facet of your business is to rotate assignments, perhaps not only with them but with other up-and-comers in your business. Some Fortune 500 companies do this because it gives rotating employees a good overview of what's involved with the business, not to mention flexibility when they can do more than one job.

You'll want to enlist the help of tax, legal and banking professionals to put everything you need for business succession in writing while addressing both tax and legal issues. Finally, it's important to tackle how to fund the business transfer. Look for a discussion about this topic in the next issue of *ClientLine*.



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Planning for Tomorrow

When business owners want to sell their companies to nonfamily purchasers, they have a number of ways to achieve this goal. First, get a current business valuation so you know the market value of your concern. Make sure your company's books are in order, as well as contracts that involve future business and income.

Inside or Out?

If you have partners who want to remain in the business after you leave, work with an attorney to draft a buy-sell arrangement. Another way you might keep the business in familiar hands is to explore the use of an Employee Stock Option Plan. Your tax and legal professionals can provide the details for each approach.

Then, if you want to still sell your business on the open market, work with your tax and legal professionals to establish the optimal price and purchase agreement.



A FLEXIBLE LINE OF CREDIT

Need to manage cash flow or inventory levels? Cover an unexpected repair? Then a business line of credit probably makes sense. If you're looking to open your first business line of credit, you should understand what it is and your choices.

LINE OF CREDIT

A business line of credit is similar to a credit card because both offer an available amount, or limit, you can spend. Both charge interest on the credit you use.

Depending on how old your company is and its demonstrated sales and profits, a lending institution may offer you a secured or an unsecured line of credit. Having a secured line means the lender can take possession of collateral named in the contract in the event of non-payment.

HOW IT WORKS

Your business may have already prequalified for a line of credit, in which case the lender has no doubt already notified you of this status. As with a credit card, you may make a lump sum payment or monthly installments, with the latter paid off at variable interest rates that can be hefty, depending on your business' credit rating.

Your company's creditworthiness may be determined, in part, by a credit report drawn on the business and/or a credit report on your personal finances, depending on the legal structure of your business. There are also some online lenders that will offer short-term lines of credit and loans that demand repayment within a few weeks to a few months, usually at higher interest rates than a bank or similar institution.

ASK AROUND

When comparing lines of credit, shop not only by interest rates, but also by examining total fees that lenders charge for account maintenance and withdrawals. Don't forget to ask other business owners and your accounting professional for recommendations.



Client PROFILE

Lucy and Bill regularly give to charity and have benefitted from tax deductions on their donations in the past. Now, with the new tax changes, can they still claim a charitable deduction if they don't itemize on their tax return?

Yes, they can if they make what's known as a qualified charitable distribution. Both Lucy and Bill can do this if they are at least age 70½ and they make the donation directly from the IRA to the charity. Because individuals with a traditional IRA must begin qualified minimum distributions at age 70½, those not needing the distributions for living expenses may opt to elect this type of distribution to meet minimum requirements while gaining a deduction from taxable income of up to \$100,000 of the gift.

They are eligible to make a qualified charitable distribution without itemizing other deductions if their deductions, including the charitable donation, don't exceed the standard deduction of \$24,000 for joint filers, \$18,000 for heads of household and \$12,000 for singles. Lucy and Bill should consult their tax and financial professionals to learn more.

Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.

EDUCATIONAL GIFT IDEAS

As the holiday season approaches, you could buy your children a cell phone or video game controller. Or you can celebrate the season while teaching loved ones the value of a dollar by giving them a financial gift that lasts for years and helps establish good money habits. Consider the following age-appropriate ideas:

- Buy a small Certificate of Deposit (CD) and watch with your child as interest grows. With attention spans in mind, consider a six-month CD for younger children and a CD one-year or longer for older ones;
- Buy a real piggy bank and match a portion of what your young child contributes from an allowance;
- Introduce your child to stocks and then buy a few shares of a company that makes a favorite meal or game;
- Open an IRA for your children with part-time jobs and match their contributions. Don't forget to illustrate how a dollar (or more) can grow over many years.

LIFE HAPPENS

As unpleasant as it is to think about, there is a chance that the need to provide for your family could last longer than your ability to do so. If you understand the value of life insurance but find the choices challenging, the following introduction may help:

TERM INSURANCE

Life insurance falls into two basic categories: term and permanent. Term insurance lasts, as its name implies, for a specified term and offers only a death benefit. It works well as a temporary solution if, for example, you want coverage only while you pay off a short-term loan. It is also less expensive for younger people, but can become prohibitively expensive with age. Whether you buy an annual renewable or a level-term policy, the premiums will likely be higher when you renew coverage.

PERMANENT LIFE INSURANCE

On the other hand, permanent insurance offers both a death benefit *and* cash value, and you can keep it for as long as you make premium payments. It also can function as a vehicle to force savings, as the policy can typically build cash value. Although its premium is typically higher than that of a term policy early on, permanent life insurance premium payments remain the same for as long as you own the policy and make premium payments on time.

Work with an insurance professional to choose the policy and insurance company that's right for you.



.... Q&A

Q The IRS informed me it's auditing my company. What should I do?

A Your first step should involve talking to your accounting professional, who can offer advice that fits your situation. If you keep good records and receipts of expenses and income, the audit should go smoothly. It may involve nothing more than receiving a notice by mail and answering concerns by mail within 30 days. Be aware that the first notice of an audit happens *only* by mail, not by phone. In-person meetings, if required, may be held in your business, an IRS office or your accountant's office.

Q Do the new tax laws give me more time to repay my 401(k) plan loan?

A Yes, they do. A new provision that flew under the radar during the recent federal tax overhaul is one that changes the deadline for repaying a 401(k) loan. When a 401(k) loan term expires, often after five years, the IRS typically treats the unpaid loan amount as a distribution for tax purposes. Additionally, the deadline for paying these loans in full is only 60 days if you left the company. But for loans treated as distributions due to employment termination in 2018 and later, the repayment period is now the due date of your federal income tax return, including any extensions.

ClientLine® SHORT BITS...

> **BUSINESS COSTS UP** – The Producer Price Index (PPI) increased 3.3% for the 12 months ending July 2018. The PPI measures the average change over time in the prices received by domestic producers, or wholesalers, for their output. Movement in this indicator could prove an early sign of increasing (or falling) consumer prices.

> **EMPLOYEE COMPENSATION UP** – Compensation costs for private industry workers increased 2.9% in the year ending June 2018. Over the same period, wages and salaries increased 2.9% and benefits

costs increased 2.8%. Employment costs have risen steadily during the past two years.

> **COLLEGE MAJORS OFFERING THE BEST START** – According to research released by the Federal Reserve Bank of New York this year, it pays to major in engineering. Practitioners in aerospace, chemical, computer and electrical engineering all earn a median of \$100,000 or more mid-career. Mechanical engineers just missed, with a median income of \$98,000. Pharmacy majors topped the list with a median income of \$115,000. Biochemistry

and physics majors had the highest percentage of graduate school degrees at 71% and 70.6%, respectively.

> **UP IN SMOKE** – A Gallup Poll shows the lowest rate of smoking (16%) since the question was first asked in a 1944 poll, when smoking rates were in the 40%-and-higher range. This drop is not only good health news but also good financial news for individuals who buy and companies that offer health insurance, as smoking is one of the leading causes of runaway healthcare costs.

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