ClientLine®

August 2019

WAYS TO STRUCTURE A BUSINESS SALE

If you plan to sell your business within a few years, there are a number of ways to do so. Here are a few scenarios you might consider before selling.

CASH

You can sell your entire business, its assets or an equity share. In any case, cash is king. A cash deal may involve the entire sale price upfront, an initial sum plus annual payments, or only annual payments. No matter how the sale is structured, only cash will change hands.

Seller financing via installment payments is riskiest because it depends on the new owner's continuing success. Combining upfront and annual payments could include an earn-out agreement for after-sale payments, where the seller receives bonuses or consultant fees annually. Full payment in cash upfront eliminates many risks, but could increase your tax liability.

EQUITY OR ASSETS

If you will gradually leave your business, you might give a new partner partial equity in return for payment now and at your agreement's conclusion. This entails some risk — you haven't fully divested yourself, and bringing on another person is always risky — but you could earn more over time. Work with an attorney to create an ironclad agreement.

Selling your business assets could be an option if you will dissolve the company. This typically is least risky, but price the assets fairly and act before you need to have a fire sale.

LAYING THE GROUNDWORK

Valuing your business requires a bit of pre-sale work, which includes comparing your business to peer competitors and creating a succession plan (if applicable). The more work you complete up front, the better your sale prospects will be.

However it's structured, a business sale generally has tax consequences that may include capital gains, gift, generation-skipping and estate taxes. You may want to consult a valuation expert, in addition to working with tax, legal and financial professionals, before you begin the process.

Karen Petrucco
Account Manager

LTM Client Marketing, Inc.
125 Wolf Road, Suite 407
Albany, NY 12205

Tel: 518-870-1082
Toll Free: 800-243-5334 ext.505
Fax: 800-720-0780

kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

Supercharge It

If you turn 50 this year, the federal tax code offers a few ways to contribute more tax-deferred money to your retirement accounts. Here's a look at how much you can save in some popular plans.

Company Plans

Saving in a 401(k) or 403(b) plan just got a whole lot more exciting. At age 50, you can contribute an extra $6,000 annually. That makes a total of $25,000 a year allowed, which can help you catch up more quickly. Or if your company has a SIMPLE plan, you can put in another $3,000 for a total of $16,000 annually.

Individual IRAs

If you meet income qualifications, you can take advantage of a traditional or Roth IRA's tax deferral to the tune of an extra $1,000 annually. That makes the total $7,000 you can contribute each year (as long as you have at least that in earned income).

SAVING FOR COLLEGE

Paying for college or university has become increasingly expensive. Outstanding student loan debt in the fourth quarter of 2018 rose to $1.46 trillion, an increase of $15 billion, according to the New York Federal Reserve. Higher education may be expensive, but even if high school graduation is only two years away, you have five years to save for senior year of college. A 529 plan and Coverdell Education Savings Account (ESA) are two tax-advantaged ways to save.

529 PLAN

States administer 529 plans, and their contribution limits are as high as six figures. Additionally, there are no income restrictions on who can contribute, so anyone can put money into these plans. This combination, plus tax-deferred potential growth, tax-free distributions for qualified expenses and donor ownership of the account, makes a 529 plan ideal for building college savings quickly.

If grandparents or other relatives want to gift money for their grandchildren's college, they can each give up to $15,000 per year (in 2019) free of federal gift tax. Not only that, but any individual can bunch five years' worth of contributions into one year. That's $75,000 in Year 1. In this case, you can't contribute anything else in the subsequent four years.

COVERDELL ESA

Unlike a 529 plan, an ESA has income limits, but they are fairly generous. The income limit is $110,000, or $220,000 for taxpayers filing jointly. Contribution limits, however, are small at $2,000 annually. Still, every little bit adds up over time, and potential growth is tax-deferred and withdrawals for qualified expenses tax-free.

Both a 529 plan and ESA affect potential financial aid differently, so talk to your tax and financial professionals to chart your best course.

Client PROFILE ••••

Jean and Bill are snowbirds who spend half the winter in a Sunbelt state. They heard that they can establish their residency in that state and pay lower taxes because the warmer state has no income tax. How do they establish residency?

Where they live most of the year may be a key requirement of residency, but Jean and Bill should keep a record of where they are each day in case tax authorities question it. In some states, simply spending most of the year there may not be enough.

Jean and Bill may need to complete and sign a declaration of domicile, or residency, in their state of choice. They should also consider changing their address in all areas of their lives, from Social Security and Medicare to life insurance policies, retirement plans and even voting and car registrations.

Before they make a permanent move, they should reconsider how much taxes play a role in where they want to live. Then they should consider what states tax. Retirement income, real estate, estates and even everyday items they buy contribute to a total tax picture.

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

WORKING CAPITAL AND YOUR COMPANY

It's one thing to be thrifty if you own your own business, but you'll need to open your company wallet if you want to grow your business. Here are some ways to find the working capital you'll need.

LOOK AHEAD

You monitor your receivables regularly to make sure you have enough to reimburse for supplies, pay vendors and deliver paychecks on time to your employees. You forecast your costs for rent or a mortgage, insurance, marketing, accounting and employee benefits. Strictly speaking, working capital is simply assets minus liabilities, and it's sometimes hard to find those extra assets.

SEIZE OPPORTUNITIES

Working capital is what's left over after you pay your bills. Having enough of it can help you maximize opportunities and grow your business. One way to increase working capital is by matching inventory to sales more closely, thus lowering inventory costs.

You can do the same by reducing or eliminating debt, reducing expenses, lowering taxes and either increasing sales or raising prices on popular items. If you would rather not take on additional debt, an angel investor or a partner to grow, these and other steps can help your firm increase working capital. Your tax professional can help you identify more ways to increase working capital.

NANNIES, HOUSEKEEPERS AND TAXES

If you hire a nanny, housekeeper or other household worker who will earn at least $2,100 from you in 2019, you will have to pay employment taxes. Here's what you need to know, courtesy of the Internal Revenue Service.

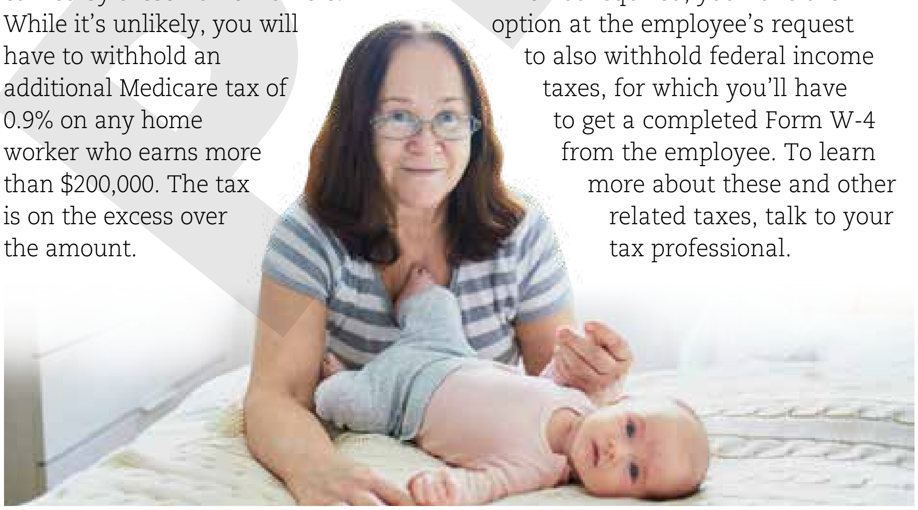
PAYING TAXES

Workers will generally pay 6.2% for social security and 1.45% for Medicare taxes (for a total of 7.65%) from all cash wages, although you have the option to pay these taxes for your nanny, housekeeper or other household employees. You must, however, pay your employer's share, which is another 7.65% for the same taxes on income earned by these home workers. While it's unlikely, you will have to withhold an additional Medicare tax of 0.9% on any home worker who earns more than $200,000. The tax is on the excess over the amount.

OTHER REQUIREMENTS

You also need to complete Form W-2, the Wage and Tax Statement, for each employee, and a Form W-3, the Transmittal of Wage and Tax Statement. You are required to get an employer identification number, which you can do online, and get your employees' social security numbers.

While not required, you have the option at the employee's request to also withhold federal income taxes, for which you'll have to get a completed Form W-4 from the employee. To learn more about these and other related taxes, talk to your tax professional.



Q&A

Q **I'm a small business owner and a storm damaged my home, which included my home business. How do I pay my estimated taxes when my paper records and computer were destroyed?**

A We're sorry to hear about the storm damage. Start, of course, by talking to your tax professional, who may have copies of some records you will need. Most newer computer programs include a cloud backup of word processing and spreadsheet files, so you could find some needed records there. Finally, for a copy of old tax records, go to *www.IRS.gov* and use the *Get Transcript* application.

Q **My home was damaged by severe floods. Where can I learn if I am eligible for financial aid as I begin the recovery process?**

A Start by going to *www.disasterassistance.gov* to learn if your region qualifies for federal disaster assistance. The website has a variety of resources, including contact information for local help.

Your state should also have an emergency management department and your community may have resources to help. Also look toward organizations like the American Red Cross for help, and check with the Federal Emergency Management Agency at *www.fema.gov*, where you may identify emergency shelters and longer-term rentals if you can't return home.

ClientLine SHORT BITS

> HEALTHCARE COSTS UP. Want to know what you may spend a lot of money on in retirement? Health care. Fidelity Benefits Consulting estimates that a couple retiring in 2019, 65 years old, with average healthy life expectancies, will pay more than $280,000, not including long term care. If you can, contribute to a tax-deferred HSA while working and take tax-free contributions for qualified health expenses.

> RETIREMENT CONFIDENCE UP. Retirement confidence is higher than at any time since the early 2000s, according to the 29th Annual Retirement Confidence Survey, conducted by the Employee Benefit Research Institute (EBRI) and independent research firm Greenwald & Associates. Slightly better than two of three people surveyed are confident in their ability to live comfortably in retirement. Some 59% are confident they will have enough money for medical expenses in retirement and 52% believe they will have enough for long-term care.

> GDP UP IN Q1. The economy continued to hum, according to the Bureau of Economic Analysis, whose initial look at real gross domestic product during the first quarter of 2019 found a 3.2% gain. The increase reflected positive contributions from personal consumption expenditures, private inventory investment, exports, state and local government spending, and nonresidential fixed investment. Real GDP is an inflation-adjusted measure showing the value of all goods and services.

> EMPLOYMENT PROSPECTS MOSTLY GOOD. The Federal Reserve Bank of New York recently analyzed labor market outcomes by college major of recent graduates. Theology graduates and medical technicians had the lowest unemployment rates at 1.0%. Chemical, computer and electrical engineers had the highest early-career salaries at between $65,000 and $68,000, and the highest mid-career salaries at around and just over $100,000.