

# ClientLine®

May 2021

## VALUING YOUR BUSINESS

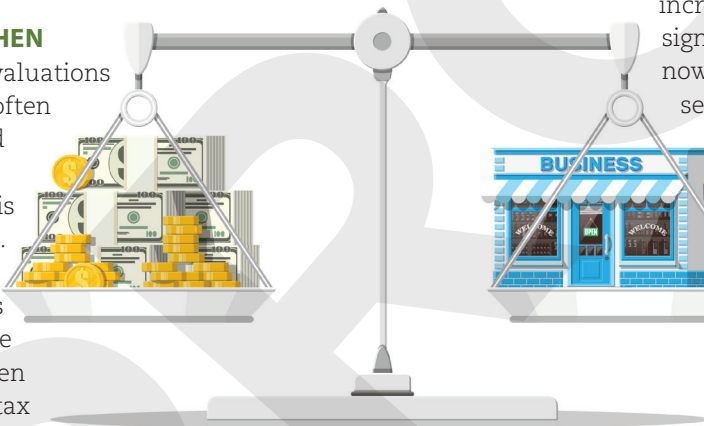
Knowing how much your business is worth can do more than figure out how much money you can get when you sell it. Creating an accurate valuation is part of an ongoing business strategy.

### COMPARING AND PROJECTING

Think of a business valuation as an appraisal, which is generally created by analyzing a company's tangible and intangible assets relative to its liabilities and debts. Some valuation methods will also consider how profitable the company is on an annual basis, and others will compare your business's financial statements with similar companies. There are numerous valuation methodologies and which one is best for you will depend on your business.

### KNOW WHEN

Business valuations are most often completed when a company is being sold. But valuations can also be useful when there are tax disputes with the IRS or when additional owners are brought in, or old partners are cashing out and leaving. And if a business wants to secure a sizable loan or investor funding, a valuation can offer credibility to justify the risk.



Valuations also help owners measure progress, identify hiccups or gaps in company infrastructure, and provide a benchmark as to how your company performs against your peers or industry best practices.

Although hiring a qualified business appraiser isn't cheap, it can be a wise investment. With a recent valuation, you could take advantage of unseen opportunities. Maybe you weren't planning to sell. But if the value of your business has

increased significantly, selling now might make sense.

### MAKE A CHOICE

You can run your own informal valuation at any time. But if you need a

third-party valuation, you'll need an experienced independent appraiser trained to use unbiased methods. And if your company operates in a heavily regulated industry, hiring someone with in-depth regulatory knowledge is a must.



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## Financial Professional Designations

When it comes to managing your personal finances, you need the right financial professional on your team. Knowing the differences between the various professional designations will help.

**CPA (Certified Public Accountant):** One of the more widely recognized certifications. These professionals are tax and accounting specialists who can help with reducing taxes, preparing tax returns, and organizing investments.

**CFP (Certified Financial Planner):** These experts can help with investment, estate and retirement planning. And they have a fiduciary duty to make decisions with their client's best interest in mind.

**IA (Investment Advisers):** They are regulated by either the Securities and Exchange Commission or a state regulator and are able to give advice or recommendations about specific investments. An investment adviser may also be a CFP.



# UNDERSTANDING YOUR BUSINESS INSURANCE BINDER

Whether you're insuring your business against liability or protecting your employees with a workers' compensation policy, your insurance agent will provide a binder that can serve as your temporary proof of insurance before an insurance policy is issued.

## ASK FOR IT BY NAME

When you apply for an insurance policy, you should always ask your agent to provide you with the binder. Sometimes your agent might call this a certificate of insurance or refer to the process as binding coverage. Having this written document gives you the chance to review your coverage and confirm it is correct.

## WHAT'S INCLUDED

Your insurance binder won't be in a physical 3-ring binder. Instead, it is usually two or three pages of legal paperwork that spells out your policy's details. Your business insurance binder should include the following key elements:

- ❖ The type of risk insured.
- ❖ The liability coverage amounts.
- ❖ The deductible amount.
- ❖ The named insured(s).

- ❖ The start and end dates of the policy.
- ❖ The name of the insurance company and insurance agent.

While the binder acts as a temporary policy with an expiration date, it will not cover you once it lapses. Also, it does not guarantee that a policy will be issued. You'll still have to go through the company's underwriting process. So it's always good to follow up with your insurance agent to ensure that the formal policy is issued. As with all critical business documents, be sure to get a complete copy of the policy for your files.

## NOT A DECLARATION

Typically the declaration page is provided with the policy after it has made its way through underwriting and been approved. A declaration page provides a summary of your insurance policy. While it will contain a lot of the same information as the binder, they aren't the same thing.

## Client PROFILE....

**The Roberts family hired a live-in au pair to help care for their children while the parents work. One of their co-workers mentioned something about a "Nanny Tax," and the Roberts aren't sure if it applies to their situation.**

In the IRS's eyes, au pairs and nannies fall into the category of household employees. With a few exceptions, if your au pair is considered an employee because you control when and how they work, you'll need to withhold and pay Social Security and Medicare taxes if they earn at least \$2,300 in 2021. You may also need to pay federal unemployment tax if they earn more than \$1,000 in a calendar quarter. This is on top of any state employment taxes you may be required to withhold or pay.

And while you're not required to withhold federal income tax, your employee may ask you to. You would need to get a Form W-4 from them. If you withhold any taxes from your employees, you'll need to provide a W-2 each January. Incorrectly classifying your au pair as an independent contractor to avoid paying payroll taxes can have harsh consequences.

*Client Profile is based on a hypothetical situation.  
The solutions we discuss may or may not be appropriate for you.*

# MANAGING INFLATION RISK DURING RETIREMENT

Longer retirements mean inflation can put a serious dent in how much you have to spend. That's why it is important to factor in inflation when planning for retirement.

## PLAN FOR THE FUTURE

It's important to set realistic expectations for both how long you may be in retirement and how much income you'll need.

With that as a start, you can review the ways high inflation and low interest rates may affect total rates of return on your investments and your annual income.



as those withdrawals grow, they could represent a large piece of your retirement account over time. This can seriously erode funds. There are some fixed index annuities and index variable annuities that actually offer potential income increases every year to help address the effects of inflation.

These annual

## WITHDRAWAL PLANNING

Maybe you'll try to address inflation risk on your own by withdrawing no more than 4% of an asset and then increasing the withdrawal by the rate of inflation each year. But

increases are available by purchasing optional riders that may be available for an additional charge. Working with your financial professional can help address longevity, inflation risk and rising health care costs in retirement.

# DEFINING COMPANY CULTURE

Company culture is defined as the values, goals, practices and attitudes that represent the personality of an organization. Worker satisfaction is highest when employees' personal views are in sync with a clearly defined company culture.

## WHAT DO YOU VALUE?

Start by establishing the beliefs, philosophies, and principles that will drive business. Do you value individual effort or collaborative approaches? Do you stick with a traditional hierarchy or prefer something more fluid? Dialing in on these foundational views empowers your employees to make the right choices.



naturally develop. If you value employee autonomy, you may allow employees to set their own schedules. Employees will learn that as long as they complete their work on time, it doesn't matter when they get it done.

## SUSTAIN IT

Your business success relies on maintaining your corporate culture. Openly and regularly communicate the

company's values with employees. Celebrate successes and include everyone, not just those who "sealed the deal". Building a community reminds employees what they're working towards.

## LET IT DEVELOP

After you've identified your company values, norms of behavior will

## ... Q & A

Q

**I recently moved. How do I notify the IRS of my new address?**

A

You will need to officially notify them of your new address. Changing your address with the post office won't cut it. You can accomplish this in a few different ways. First, you can complete Form 8822, the change of address form, or write a letter. If your address changes before filing your tax return, you can simply use your new address on your return and the IRS will make the update for you.

Q

**Does providing my customers with an early payment discount make sense for my new business?**

A

Start with asking yourself do you need to have customers pay faster because you need the cash? If you're in a pinch to make payroll or pay rent, then it might make sense. But remember that offering a discount cuts into your profit margin. So ensure your business can afford it. And just because you provide an early payment discount to speed up cash flow doesn't mean your customers will take it. Be sure to have a backup plan to meet any short-term cash flow needs.

Q

**How long should I keep my tax records?**

A

Generally, three years, but up to seven if you're self employed or reported losses.

# ClientLine<sup>®</sup> SHORT BITS....

## > DEDUCTION ERRORS

According to the Treasury Inspector General for Tax Administration, the IRS allowed business owners to claim \$57 million in potentially erroneous qualified business income deductions on 2019 tax returns. It's believed that the way this pass-through deduction is written is very complicated, with exceptions to the exceptions, and it is part of the reason for the deduction errors.

## > SLASHED CONTRIBUTIONS

The COVID-19 pandemic caused many businesses to change how they contribute to employees' 401(k) accounts. It's

estimated that 46,000 401(k) plans were affected with companies foregoing providing discretionary funding to employees' accounts, cutting back on matching contributions, or ditching all matching contributions.

## > ECONOMIC EDUCATION

A new study in the *Journal of Children and Poverty* revealed that youths with a savings account in their name, regardless of the balance, were approximately six times more likely to attend college than those with no account. Additionally, growing up in a family that manages assets well — such as savings and equity in a

home — shows that assets, not income is associated with college success.

## > MOM FACTS

According to a study by the Pew Research Center, the median age that a woman becomes a mother is 26, up from 24 in 1994. And highly educated women are increasingly becoming moms. Eighty percent of women with a Ph.D. or other professional degree have given birth. And a rising share of births to foreign-born mothers is increasing diversity as nearly one-third of all births in California, New York, and New Jersey were to mothers who were born outside the US.

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