



# Business Wellness Checkup

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Businesses of all sizes need financial “Wellness” checkups. A Business Wellness Checkup encompasses the following items:

- **Taxation:** Business entity form; Tax deductions; Tax planning
- **Accounting:** Recordkeeping systems; Financial reporting; Bookkeeping and Payroll
- **Cash flow:** Operating cash flow needs; Excess cash investments; Lines of credit
- **Retirement planning:** Retirement plan selection; Retirement investments
- **Real estate:** Rent vs. buy decisions; Negotiating and closing real estate purchases
- **Insurance:** Worker’s comp.; Life insurance for business owners
- **Succession planning:** Buy-out agreements; Company life insurance; Valuing the business

As you can see, there are many items to consider when maintaining the financial health of a business. This booklet explores the various areas which a business must address to stay healthy and competitive in the present economic environment.



As these demanding issues facing businesses are addressed, solutions are provided to these issues through services provided by three companies: Accounting Solutions & Automation, Inc. (ASA - [ASAToday.com](http://ASAToday.com)), FIA Services, Inc. (FIA - [FIAContact.com](http://FIAContact.com)), and Suncoast Commercial & Residential Realty, Inc. (Suncoast - [Suncoastbroker.com](http://Suncoastbroker.com)). ASA is a Certified Public Accounting and Tax Firm, FIA is an Investment Advisory Firm, and Suncoast is a Real Estate Brokerage Corporation.

Throughout this booklet information is provided to help you effectively manage some of the most important financial issues facing your company. This booklet was written to assist your company in saving time and money through tax planning, cash flow management, financial planning, retirement planning, investment management, real estate transactions, insurance cost reductions, and succession planning.

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## CHAPTER 1 – TAXATION

Managing taxes is one of the most important aspects of managing a company. The form of business can save a company thousands of dollars in taxes. The main three types of businesses are corporations, LLCs, and partnerships. The choice of business entity depends on many factors including the number and types of owners, the methods used to split profits, losses, and capital, the type of products or services the business provides, and many other important business issues such as tax planning and succession planning. Many companies start out choosing the wrong form of business, and this ends up costing them time and money over the long term. A CPA or Tax Attorney should be consulted to determine the tax ramifications before choosing the form of business for a new company.

Tax deductions are limited to those items that are “ordinary and necessary” for your business to operate. Depreciation on recreational vehicles, boats and planes is usually disallowed unless the owner can prove 100% business use (however, the costs of fuel, meals, etc. may be deductible if business related).

One of the larger small business tax deductions allowed is the “Section 179” deduction. This is the immediate depreciation deduction allowed for new equipment or vehicles purchased and placed in service during the year. The tax laws are always changing, so you must check each year for the new rules for any

tax deductions discussed in this publication. The Section 179 depreciation deduction allows a small business to immediately deduct a large portion of new asset purchases during the year, resulting in tax savings at the taxpayer's marginal (top) tax rates. Also available as of this writing is the special additional depreciation deduction. When combined with the Section 179 deduction, much of the cost newly purchased vehicles or equipment can be deducted in the first year of purchase.

Other significant tax deductions may be available from use of vehicles (either the mileage method or actual costs), home office expenses if the home office is used regularly as a place of business, business meals, travel, entertainment, and other ordinary and necessary business expenses for which the business keeps accurate records (this is very important, and is discussed further in Chapter 2).

To maximize business tax deductions you must adhere to the federal and state tax regulations. The best way for most businesses to ensure that they are complying with the tax laws is to retain a CPA or other tax expert to ensure that the available tax deductions are available and are being deducted on your tax returns.

Taxation issues and year-end tax planning are reviewed during a Business Wellness Checkup. The checkup ensures that your business is taking advantage of the tax deductions available.

ASA can help with all type of taxes including corporate, LLCs, partnerships, individuals, trusts, and estates.



## **CHAPTER 2 – ACCOUNTING**

Accounting, recordkeeping, and financial reporting are very important to the health of any business. The right accounting system allows your company to produce financial statements on demand, and to maintain an annual budget. QuickBooks has the largest market share of small business accounting software, and it is hard to beat for the price.

The options that must be weighed are to either take care of your company's recordkeeping in-house or have an outside firm enter your data from bank statements and prepare your monthly financial statements. For many small businesses, it makes more sense to subcontract the bookkeeping to a CPA or other accounting firm. If you choose to subcontract your recordkeeping, make sure that you choose a firm that has prompt and accurate reporting to ensure that you can obtain an accurate financial statement when needed for profit and loss review, bank loans, tax planning, etc.

The other option is to hire a bookkeeper or accountant to manage your recordkeeping. This can be an expensive proposition unless you have a spouse or other family member that can take care of this vital function.

CPA firms offer small business bookkeeping services starting at about \$95 per month. Compare this to paying a part-time bookkeeper several hundred dollars per month, and you can see that the CPA bookkeeping subcontract can save your company thousands of dollars per year.

Payroll issues must also be addressed. Payroll services can be subcontracted or you can prepare payroll in-house. Again, the cost of preparing payroll in-house must be compared to the costs of subcontracting these services. CPA Firms offer payroll services starting at about \$75 per month. Again, when comparing this cost to the cost of hiring a payroll clerk, it is obvious that cost savings can be achieved by subcontracting the payroll services.

Recordkeeping and payroll functions are reviewed during a Business Wellness Checkup to ensure that your company is getting good service for a reasonable price.

ASA can help with all your recordkeeping and payroll requirements.





### CHAPTER 3 – CASH FLOW

Sufficient cash flow is vital to any business. Day to day operations require a certain amount of cash to run the business efficiently. Excess cash on hand, however, does not provide any benefit to the company. This excess cash should be invested either in company investments, owner investments, or owner retirement plans to obtain a reasonable return on the excess cash funds.

Excess cash can be invested in company investment accounts using a professional Investment Adviser. The Investment Adviser can allocate the funds between stocks and bonds depending on the investment policy of the business. Cash equivalent accounts such as short-term CDs or Treasury ETFs can be used to hold cash needed for short-term operations, and still earn interest or dividends.

Lines of credit can be setup with local banks to ensure enough cash will be available during lean times. Not all businesses will need lines of credit, but usually material intensive businesses have lines of credit to cover their manufacturing turnaround time (the time involved in producing and selling the product, and then collecting the cash due on the sale). Also, businesses that have several employees may need lines of credit to ensure payroll is

funded on time. If lines of credit are needed, then the company's accounting system becomes vital to assure the bank that the company keeps accurate records.

Cash flow is reviewed during a Business Wellness Checkup to ensure that excess cash is being invested, and the accounting system is adequate to obtain a line of credit.

FIA can assist with investment advisory services for your company.



## **CHAPTER 4 – RETIREMENT PLANNING**

Retirement planning is vital to the owners of all companies. Time goes by all too fast as we all come closer and closer to retirement age.

There are various retirement plan options available to small companies including SEP IRAs, Simple Plans, and 401-K plans. The plan your company uses will depend on several factors including how many employees will be covered, the company budget for retirement plans, the business entity form, and the time frame until retirement.

The SEP-IRA can be used in combination with the individual IRA to allow small business owners to “double-dip” in IRA plans. For example, If you have a salary of \$50,000 per year, you can take up to 25% (12,500) in a SEP-IRA through your company plus up to another \$6,500 in an Individual IRA to make the total annual deduction \$19,000. If you are in the 28% bracket, this would be an immediate \$5,320 tax savings, and as an added bonus the earnings on the investments will be tax-free until distributed after retirement.

Individuals must start taking traditional IRA distributions at age 70 ½. The Required Minimum Distribution (RMD) must be calculated annually for each individual, and the distribution made before year-end.

The 401-K plan is also a good retirement vehicle, but has more rules and regulations than the SEP plan. The “Single 401-K” plan can be used by one-owner businesses or husband-wife businesses to take higher retirement deductions without the paperwork burden of the standard 401-K plan.

Part of a Business Wellness Checkup includes reviewing the owner’s retirement planning and making sure that the owner is setting aside sufficient funds for retirement, and assisting with company funded retirement plans if needed.

FIA can help with your retirement plan needs including retirement plan setup, investment management, IRAs, SEP-IRAs, and 401-K plans including retirement plan direct rollovers.



## **CHAPTER 5 – REAL ESTATE**

Most small business owners face the choice of renting or buying the real estate where their business will be located (rent vs. buy). Location, size and cost are the factors that must be addressed in the decision. Many small business owners are not willing to put up the down payment and make the monthly payment commitment to buy real estate for their business. This is usually because there are rental properties available at a reasonable price.

For some businesses, however, rental properties are hard to come by or are pricey (for example, manufacturing facilities, good warehouse space, larger office areas, etc.). For these businesses, purchasing real estate may result in reducing the monthly facility expenses because the interest, taxes, and insurance on the purchased facility may be significantly less than the rental rates available for similar properties.

Once the decision has been made to purchase a property, the business owner must use due diligence to ensure that they do not pay too much for the facility or pay too much for closing costs. Price negotiations are very important when offering to purchase properties listed on MLS or by owner. Once a purchase price has been decided, the purchase offer must be carefully prepared to ensure that the company does not pay too much for closing costs. There can be large variances between the sellers and

buyers closing costs depending on how the purchase contract is written. Then when the actual closing meeting is scheduled, the closing documents (HUD 1 and 2 or other real estate closing documents) must be carefully reviewed to ensure there are no errors in the closing paperwork (which could also be detrimental to the buyer or seller).

Unless the owner of the company is well versed in real estate purchases and sales, he or she may want to retain a licensed Real Estate Brokerage Firm to assist with the purchase or sale. In most instances, any real estate listed on MLS by a realtor will have the commissions paid through the seller's funds, resulting in the buyer not having to pay any of the real estate commissions. In other words, you can have a professional Real Estate Brokerage Firm working for you, as a buyer, for free!

You should choose a buyer's Brokerage Firm that has experience with commercial real estate. Many realtors do not handle commercial real estate because of the complexities involved with the commercial real estate transactions, and also many sellers try to sell the properties "as is". Again, this is why you need the help of a professional Real Estate Brokerage Firm to make sure the price is negotiated down and that the purchase offer is written correctly to reduce your closing costs and avoiding the "as is" purchase contracts if possible.

Part of the Business Wellness Checkup is to determine if the business will benefit from purchasing a facility (rent vs. buy analysis, etc.), and to ensure that the business has proper representation when purchasing real estate.

Suncoast can help with all of your real estate purchases and sales.



## CHAPTER 6 – INSURANCE

Most businesses need workers compensation insurance. This necessary insurance can be hard to obtain for many companies because they are in risky lines of business (i.e.: roofing, mold remediation, tree cutters, etc.).

Usually a company can find the insurance at a price. It is sometime necessary to subcontract payroll to an employee leasing company to obtain the insurance. The employee leasing company pools the leased employees they have under contract by classification to obtain the workers compensation insurance. These firms charge a premium for their services, so it is usually less expensive to find your own workers compensation policy and/or use a payroll service.

If your company is not in a high-risk category, you should be able to obtain workers compensation insurance through local insurance providers or payroll service providers. The best type is “pay as you go” which is offered by many insurance providers.

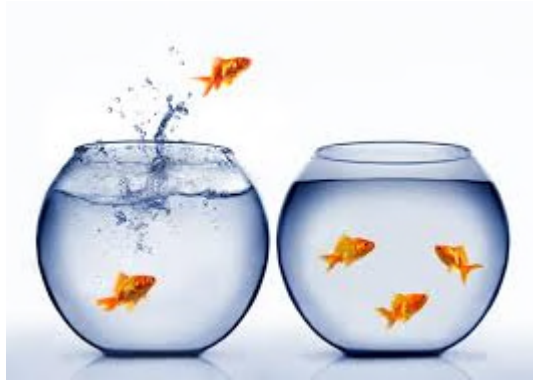
Life insurance may be necessary if the company (or owners of the company) have property mortgages or other debts of the company that would need to be paid off in the event of the passing of the owner(s). There are many types of life insurance available, but usually a term-life insurance policy will be the most affordable for the business owner. Whole life has its

benefits, but is more costly, and is more often used in the estate planning process.

Part of a Business Wellness Checkup is to determine if your company can save money on its workers compensation, and to ensure that the owners have life insurance if it is needed.

ASA and FIA can assist with your payroll, workers compensation insurance, and life insurance needs.





## CHAPTER 7 – SUCCESSION PLANNING

This last chapter is the part of the Business Wellness Checkup and is very important, but many business owners put off succession planning until it may be too late.

For multi-owner businesses, succession planning involves valuing the business at a point in time, and then cross insuring the owners in case of the loss of one of the owners. A business buy-out agreement is necessary if the company has multiple owners to avoid legal actions between the owners in the event one of the owners leaves the company.

A business buy-out agreement is an agreement that is effective upon the loss of one of the owners of the company, and states what the business is worth on this effective date. Each remaining owner must pay the leaving party the amount stated in the agreement, which may be based on a valuation determined on the date the agreement is effective, or may be based on a valuation which is pre-determined from a prior business valuation (usually revised annually), or is to be performed within a certain time frame after one of the owner's leaves the company.

Company purchased life insurance policies are frequently used in case one of the owners passes. The most effective method is to have the company buy a life insurance policy on each business owner with the policies being owned by and payable to the company. Alternatively, the life insurance policies may be owned by the individuals and payable to the company. In the event of one of the owners passing, the company uses the life insurance funds to buy-out the shares from the passing owner's estate.

Succession Planning is part of the Business Wellness Checkup. The review will determine if the business' succession plan is adequate. ASA and FIA can assist you with a business succession plan, business buy-out agreement, business valuations, and obtaining company life insurance.

I hope this booklet has helped you look over these financial issues with a new perspective, and you can be assured that our firms are here to help you with any assistance you may need.

Feel free to give me a call at 850-934-2832 to discuss a free Business Wellness Checkup or any other services that we may assist with.

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Call us for a free Business Wellness Checkup.

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