

# Business Wellness Checkup



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# Business Wellness Checkup



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 financial health for a business. This booklet explores the various areas which a business must address to stay healthy and competitive in the present economic environment.

# Business Wellness Checkup



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 [www.ASAToday.com](http://www.ASAToday.com)), FIA Services, Inc. (FIA [www.FIAContact.com](http://www.FIAContact.com)), and Suncoast Commercial & Residential Realty, Inc. (Suncoast – [www.Suncoastbroker.com](http://www.Suncoastbroker.com)). ASA is a Certified Public Accounting and Firm, FIA is an Investment Advisory Firm, and Suncoast is a Real Estate 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.

Please feel free to give me a call or send me an e-mail with any questions or comments.

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# Business Wellness Checkup

## TABLE OF CONTENTS

Chapter 1	Taxation
Chapter 2	Accounting
Chapter 3	Cash Flow
Chapter 4	Retirement Planning
Chapter 5	Real Estate
Chapter 6	Insurance
Chapter 7	Succession Planning

# Business Wellness Checkup



## 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 other 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 in 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. Luxury items such as boats and planes are usually disallowed for small businesses (except in certain instances, for example, 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

# Business Wellness Checkup

deductions discussed in this publication. Basically 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 top marginal 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 new 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 being used by your business.

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.

# Business Wellness Checkup



## 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 what you get 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 "farm out" 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.

# Business Wellness Checkup

CPA firms offer small business bookkeeping services starting at about \$95 per month. Compare this to paying a part-time bookkeeper \$700-\$1,000 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 hiring a bookkeeper or accountant, 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.



# Business Wellness Checkup



## 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 can be used to hold cash needed for operations.

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

# Business Wellness Checkup

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.

For assistance with investing excess funds or lines of credit, call FIA and ASA.

# Business Wellness Checkup



## 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.

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.

# Business Wellness Checkup

Part of a Business Wellness Checkup includes reviewing the owner's retirement planning and making sure that the owner is setting aside funds for retirement if possible.

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.

# Business Wellness Checkup



## 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 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 are usually 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 and/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

# Business Wellness Checkup

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).

Unless the owner of the company is well versed in real estate purchases, he or she may want to retain a licensed Real Estate Broker to assist with the purchase. 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 buyer's Broker's commissions. In other words, you can have a professional Real Estate Broker essentially working for you for free!

You should choose a buyer's Broker 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 Broker 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.

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 your real estate purchases and sales.

# Business Wellness Checkup



## 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 it benefits, but is more costly, and is usually used in the estate planning process.

# Business Wellness Checkup

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.



# Business Wellness Checkup



## 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).

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

# Business Wellness Checkup

the policies being owned by and payable to the company. Then the company uses the 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.

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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.

*BR Roberge*

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Bert Roberge

Bert Roberge, CPA, PFS is President of Accounting Solutions & Automation, Inc. (ASA) and is a Florida Certified Public Accountant, Personal Financial Specialist, licensed Financial Adviser, Florida Real Estate Broker, and QuickBooks Pro Advisor. He has over 30 years experience in the fields of accounting, tax, financial planning, and real estate. He is a resident of Gulf Breeze, Florida and enjoys fishing and golfing in his spare time.

# Business Wellness Checkup

Call for a free Business Wellness Checkup:

## Certified Public Accounting and Tax Services:



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