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Client Information Bulletin

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What's Your Small Business Worth? *How to value business interests*

It is often difficult to put a price tag on a company that is not publicly traded. For instance, the value of a family-owned business will typically exceed the total value of the hard assets such as equipment and inventory. In addition, assigning a value to intangible assets such as goodwill is a difficult proposition at best.

Frequently, it makes sense to have a business appraisal prepared by a qualified professional. This is especially true if you intend to sell it in the near future.

Background: There are several ways a qualified appraiser can value the key aspects of a business to arrive at a final figure. As part of the process, the appraiser will provide a valuation report, explaining in detail the specific methodology used for the valuation. This will be invaluable when the buyer conducts its own due diligence. The chances of consummating the deal will increase if the buyer knows he or she is dealing with a professional.

However, this is not the be-all and end-all. The appraisal should be viewed as just the starting point for negotiations. For instance, one buyer may have strong reasons for acquiring your company and could be willing to pay more than the amounts offered by other interested parties. Conversely, another buyer might be looking to merely enhance an exist-

ing operation and may not be willing to pay for the company's going-concern value. It's important to analyze the reasons behind the sale before you establish a price.

Some of the key aspects that should be considered in this process are

- ♦ both the primary and secondary factors that influence buyers;
- ♦ the different ways to add value before the sale occurs;
- ♦ the necessary adjustments to financial statements (especially those that portray your company in a favorable light); and
- ♦ the methods and formulas used to put a price tag on a business.

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Note: Other adjustments may be required if you are planning to sell only part of the business. Of course, your plans may change.

After the professional appraiser has established an approximate value for the business, you must use your negotiating skills to come to an agreement. Depending on the situation, you may be able to realize the full value of the business, or you might be willing to accept a slightly lower price if you are looking to sell quickly. Obtain guidance from your

business broker concerning the going rate for a business such as yours. In some cases, a professional may help you negotiate the best deal.

Another option is to not set a listing price at all. Instead, you might contact potential buyers and provide them with the necessary information about your business. Then you can solicit bids from this select group and accept the highest bid. This process may help you realize

a competitive price for your business in a relatively short period of time.

Best approach: Use a professional adviser every step of the way. This can help ensure that you have established a reasonable and accurate value for your business in today's marketplace. Alternatively, you may determine that it is not a good time to sell the business, but now you will have a better idea of its true worth.

Giving the “Right Stock” to Charity

Tax rules may affect your donations



Do you own shares of stock that you want to contribute to charity? Before you pull the trigger on the donation, make sure that you give away the “right kind” of securities instead of the “wrong kind.” It can make a big difference on your tax return.

The conventional wisdom is to donate low-basis stock you've held for a long time. That way, you can avoid tax on the stock's appreciation in value. On the other hand, absent any extenuating factors, you might decide to hold onto high-basis stock you have owned for just a short period of time.

Background: If you donate to charity stock that would have produced a long-term capital gain had you sold it instead of donating it (i.e., you've owned the stock for more than one year), you can deduct the full fair market value (FMV) of the stock on the date of the donation. What's more, the appreciation in value that occurred during the time you held the stock remains untaxed forever. However, if a sale would have resulted in tax at ordinary income rates had it been sold (i.e., you've owned it for one year or less), your charitable deduction is limited to the basis in the stock. Thus, you might as well keep it.

Example 1: The ABC Corporation stock you acquired five years ago for \$3,000 has a current FMV of \$10,000. If you donate the stock to charity, you can deduct the full \$10,000. There is no tax due on the \$7,000 of appreciation in value.

Example 2: The XYZ Corporation stock you acquired 10 months ago for \$3,000 has a current FMV of \$5,000. If

you donate the stock to charity, your deduction is limited to \$3,000. Because you receive no tax benefit from the \$2,000 appreciation in value, you might want to keep the XYZ stock, at least until you have owned it for more than one year. Alternatively, you may sell the stock and donate the proceeds. In that case, you can deduct the full \$5,000, but you must report a \$2,000 short-term gain.

In summary: If you have a choice between donating low-basis stock held more than one year and high-basis stock held a year or less, the low-basis stock is usually the better choice. Of course, other factors may affect your situation.

What should you do with stock that has declined in value? If you will benefit from a tax loss at the end of

Is Your State Tax-friendly to Business?

The Tax Foundation, an independent research group, recently released its 2016 State Business Tax Climate Index (SBTCI). It said the 10 states with the lowest taxes for business are: (1) Wyoming, (2) South Dakota, (3) Alaska, (4) Florida, (5) Nevada, (6) Montana, (7) New Hampshire, (8) Indiana, (9) Utah and (10) Texas.

Conversely, the states bringing up the rear are (48) California, (49) New York and (50) New Jersey. These three states are perennially at the bottom of the SBTCI.



the year, you might sell the stock and then donate the proceeds to charity. Otherwise, if you simply donate the stock, your deduction is limited to its FMV.

Note that there are other possible reasons for selling or holding a particular stock. For instance, if you hold low-basis, long-term stock that you think is about to skyrocket in value, you may want to keep it for the time being. Conversely, if you own stock that you think has reached its peak, you might donate it now. Use some common sense.

Give Us A Call!

Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.

Tackle Age-old Problems at Work

Be aware of laws for age discrimination

Employees often raise allegations of age discrimination, so employers should remain on high alert for such claims. But there are a number of common misperceptions about the main rules. It is important to not jump to any conclusions one way or another.

Background: The Age Discrimination in Employment Act of 1967 (ADEA), with certain modifications, remains the controlling federal law in this area. Protection under the ADEA is available to both employees and job applicants. This law applies to employers with 20 or more employees, as well as to state and local governments.

Essentially, it is unlawful to discriminate against a person because of his or her age with respect to any term, condition or privilege of employment, including hiring, firing, promotion, layoff, compensation, benefits, job assignments and training. But the ADEA permits employers to favor older workers based on age—even if this adversely affects a younger worker who is 40 or older.

Keeping that in mind, here is an overview of several key aspects of the law.

Apprenticeship programs: It is generally unlawful for apprenticeship programs to discriminate on the basis of an individual's age. Age limitations in apprenticeship programs are valid only if they meet a specific ADEA exception or the Equal Employment Opportunity Commission (EEOC) grants an exemption.

Job notices and advertisements: Generally, age preferences, limitations or specifications cannot be made in

job notices or advertisements, other than rare instances when age is shown to be a “bona fide occupational qualification” (BFOQ). The BFOQ must be reasonably necessary to the normal operation of the business.

Pre-employment inquiries: The ADEA does not specifically prohibit an employer from asking an applicant's age or date of birth. Nevertheless, such inquiries may deter older workers from applying for employment or might otherwise indicate possible age discrimination, so employers must be careful to limit requests to lawful purposes.



Benefits: The Older Workers Benefit Protection Act of 1990 (OWBPA) amended the ADEA to specifically prohibit employers from denying benefits to older employees. In limited circumstances, an employer may be permitted to reduce benefits based on age if the cost of providing the reduced benefits to older workers is the same as the cost of providing benefits to younger workers.

Waivers of ADEA rights: An employer may ask an employee to waive his or her ADEA rights in a settlement of an ADEA administrative or court claim, or in connection with an exit incentive program or other employment termination program. However, the ADEA, as amended by OWBPA, establishes specific minimum standards that must be met in order for a waiver to be considered “knowing and voluntary” and therefore valid.

Reminder: This is just a general overview of employer responsibilities as to age discrimination. Seek professional guidance pertaining to an actual claim.

Lowdown on Transportation Fringe Benefits

PATH Act equalizes tax-free amounts



Employers may provide ways to make it easier for employees to commute back and forth from work. Now the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) has equalized the three main tax-free benefits for transportation, beginning in 2016. This relates to mass transit passes, commuter highway vehicle expenses and qualified parking fees.

1. Mass transit passes: A transit pass is any pass, token, fare card, voucher or similar item entitling a person to ride free of charge or at a reduced rate on mass transit, or in a vehicle seating at least six adults (not including the driver) if a person in the business of transporting persons for pay or hire operates it. Mass transit may be publicly or privately operated and includes transportation aboard buses, trains and ferries.

Pushing Pedals Tax-free

What about biking to work? An employer may reimburse employees tax-free at a rate of up to \$20 per month for bicycle commuting expenses, including the costs of the bicycle, related equipment, repairs and storage.



However, if an employee uses this tax break, he or she cannot receive any of the other three tax-free transportation benefits. They will be left flat.

2. Commuter highway vehicles: A commuter highway vehicle is any highway vehicle that seats at least six adults (not including the driver). To qualify, it must be reasonably expected that at least 80% of the vehicle mileage will be for transporting employees between their homes and workplaces, with employees occupying at least one-half the vehicle's seats (not including the driver's).

3. Qualified parking fees: This category includes parking benefits that an employer provides to its employees on or near the business premises. It includes parking on or near the location from which employees commute to work using mass transit, commuter highway vehicles or carpools. However, the tax exclusion does not apply to parking at or near the employee's home.

Prior to the PATH Act, the maximum tax-free monthly benefit was scheduled to be cut from \$250 to \$130, or almost half of the previous amount, for transit passes and commuter highway vehicle expenses. The maximum tax exclusion for qualified parking fees was to remain at \$250 per month. But the new law puts the benefits for transit passes and commuter highway vehicles on the same level as qualified parking fees. The maximum \$250 tax-free monthly benefit was restored for 2015 and made permanent.

Furthermore, the PATH Act includes a provision for indexing the amounts for 2016 and thereafter. The IRS recently announced that the maximum monthly tax-free benefit for 2016 is \$255.

Consider implementing one or more of these benefits for employees. Your professional advisers can help with the details.

Facts and Figures

Timely points of particular interest

► **Business Acumen**—People with business acumen learn to react quickly and decisively in various business situations. Yet they are smart enough to ensure flexibility for future occurrences. To strengthen business acumen, you must (1) focus on your thought processes, (2) develop business knowledge and (3) exhibit leadership and management skills.

► **Get Transcripts**—After a highly publicized hack last year, the IRS finally restored functionality of its Get Transcript application on June 7. The application was locked down while the IRS strengthened its security measures. Now taxpayers can once again print out their tax return transcripts this way. Just be prepared to jump through a few more hoops to access the data.