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Client Information Bulletin

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Five Ideas for a 2018 Business Plan

Practical suggestions for the year

It is 2018 ... do you know where your business plan for this year is?

Developing a business plan for the upcoming year is a laborious task, but it is often critical to the continued success of the operation. Although the details will vary from company to company, the best approach is to confront the challenges expected for the year and address the strengths and weaknesses within the organization. Conversely, if a business has a merely rudimentary plan—or even worse, no plan at all—the likelihood of real progress is diminished.

Generally, a business plan will include a statement of objectives, assets and liabilities, position in the market, future direction, critical issues, and so on. It may be helpful to seek insights from your professional advisers, but there is no “magic formula” for a plan’s creation. It can take whatever form you want.

Keeping that in mind, here are five practical ideas for developing a business plan for 2018:

1. Chart the path. Start by examining where the business is right now, where you expect it to go and how you intend to get there. Of course, the plan should remain flexible enough to be modified when needed. For instance, new developments may require that you deviate from your

initial course, but most business decisions will be fundamentally sound when made within the context of the basic plan.

2. Focus on strategic action. Rather than confronting problems as they arise, be proactive. Although documenting tactics ahead of time requires in-depth analysis, it’s usually time well spent. In contrast, a hastily conceived plan will likely be of little use. Some experts have argued that the process of developing the plan is actually as beneficial as—if not more beneficial than—having the plan itself.

3. Encourage communication. Writing out a business plan will force you to crystallize your vision for the company. At the same time, you should seek input from other key members of your business, such as your top-level managers. A back-and-forth dialogue may be especially useful in a small firm where a strong owner usually takes the lead and rarely heeds the advice of others.

4. Build up a cushion of working capital. First, examine your revenue stream and expenditures. Emphasize ways to increase accounts receivable and reduce accounts payable. If you need to borrow money, know that a lender will likely want to refer to your business plan, featuring key projections, before approving a loan.

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5. Establish greater credibility. A comprehensive business plan may convince customers or clients to use your services or purchase your goods—and persuade lenders to provide you with the capital you need (see page 1). It creates a legitimacy that also may satisfy a psychological need to have the company taken seriously.

As mentioned previously, the written document does not have to be final and absolute. Put it in a computer file. This will enable you to tinker with it and make modifications throughout the year when necessary. Again, your business advisers can provide guidance in areas where you are not experienced.

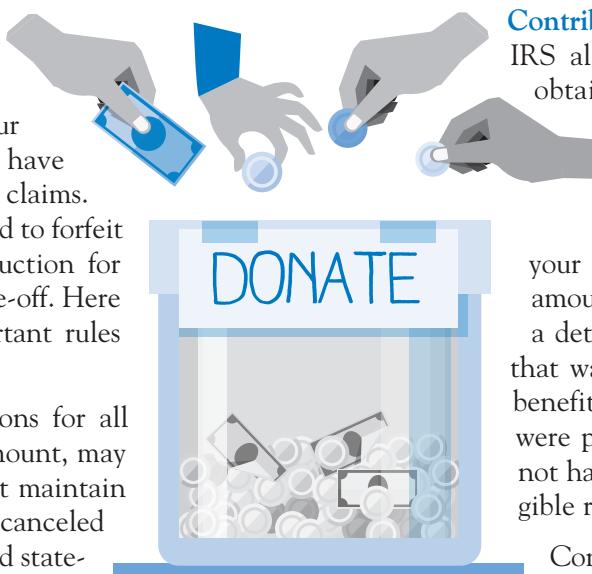
How to Support Your Charitable Deductions

Follow recordkeeping rules for donations

Charitable deductions are often treasured by high-income taxpayers who itemize deductions on their personal returns. But your deductions are at risk if you do not have the requisite proof to back up your claims.

Worst-case scenario: You are forced to forfeit all or part of your charitable deduction for 2017 if the IRS challenges the write-off. Here is an overview of the most important rules under current law.

Monetary contributions: Deductions for all monetary gifts, regardless of the amount, may be disallowed if the donor does not maintain either a bank record—including a canceled check, bank statement or credit card statement—or a written communication from the charity indicating the donor's name, contribution amount and date of the contribution. Technically, this covers everything from million-dollar grants made to a college or hospital to the spare change donated during the holiday season.



Contributions of \$250 or more: The IRS also requires charitable donors to obtain a written acknowledgment from a charitable organization for gifts of \$250 or more. The acknowledgment must be obtained by the time you file your tax return. It should include the amount of the check or cash donated, a detailed description of any property that was donated, and the value of the benefit received if any goods or services were provided. **Key exception:** You do not have to establish a value for "intangible religious benefits."

Contributions made through payroll deductions may be substantiated by pay stubs or a Form W-2. **Note:** Substantiation is not required if the donee organization files a return with the IRS providing the necessary information.

Quid pro quo contributions: If you make a quid pro quo contribution (i.e., a contribution made partially or fully in exchange for goods or services) for an amount above \$75, you must obtain a good faith estimate from the charity detailing the value of the benefit received. For example, say you attend a fundraising dinner where the tickets cost \$100 apiece and the dinner is valued at \$35. The charity must provide a written statement limiting the deductible amount to \$65 per ticket.

However, a written statement from a charity is not required if you receive token goods, minimal services or intangible religious benefits in exchange for your donation.

There are a few other key points to keep in mind. For example, if you gave charitable gifts of property exceeding \$500 in 2017, additional information must be attached to your tax return. If your donation for non-cash property exceeds \$5,000, you are also required to provide an independent appraisal of the property's value.

Straight Talk on Reverse Mortgages

The airways are clogged with ads about reverse mortgages. As the name implies, the money goes in reverse: Essentially, the lender pays you, instead of the other way around.



This may be a way for a qualified individual (i.e., you must be at least 62 years old) to tap into home equity, but it is also fraught with perils, and you could be hit with unexpected fees. Obtain guidance from your professional advisers.



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.

Note: The cost of the appraisal is deductible as a miscellaneous itemized deduction (subject to the usual tax law limits for miscellaneous expenses).

These recordkeeping rules will keep you on your toes. However, as long as you have the proper documentation, you should be able to claim legitimate deductions on your 2017 return. Seek assistance from a tax professional.

Cash In on the Unique NUA Tax Break

Benefits of company stock in retirement plans

One frequent tax reform target is still on the books. It is a unique tax break available to employees, including business owners, who own company stock in their retirement plan. If you handle things right, you can avoid paying tax on the appreciation in the stock's value, called the net unrealized appreciation (NUA) when you receive a distribution, as well as realizing favorable capital gain rates on a sale.

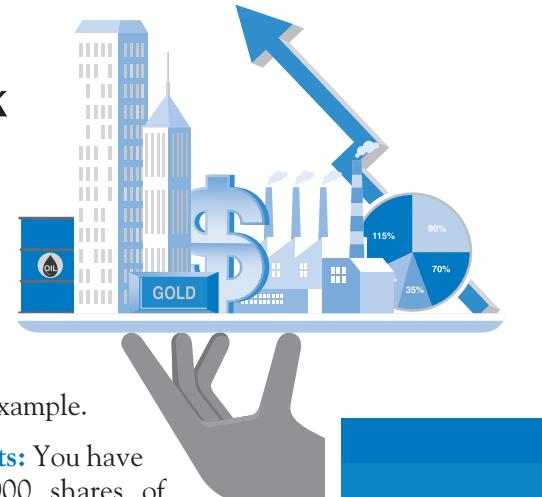
But do not put all your eggs in one basket. Make sure your retirement account is properly diversified, utilizing other assets in addition to stock in your company. Nevertheless, the tax benefits for this technique cannot be disputed.

Background: If you receive a retirement plan payout in the form of company stock, you pay tax only on the original cost of the stock. No tax is due on the NUA. Furthermore, any subsequent gain on the NUA is treated as long-term capital gain if you have held the stock for more than one year.

But this tax treatment is not automatic. To qualify for these breaks, a distribution must meet all of the following three requirements:

- ◆ The distribution must come from a qualified retirement plan, such as a 401(k), pension or profit-sharing, or stock bonus plan.
- ◆ The distribution must be due to your having reached the age of 59½, death or separation from service.
- ◆ The distribution must be made in one tax year.

Currently, the maximum tax rate on long-term capital gain for most taxpayers is 15%, or 20% if you are in the top ordinary tax bracket of 39.6%. At the top tax rate, it is a differential of 19.6%.



Perhaps the best way to illustrate the tax savings is to look at a hypothetical example.

Simplified facts: You have acquired 20,000 shares of company stock in your 401(k) over the years. The shares are currently worth \$1 million. Originally, the stock cost \$5 a share, but now it is valued at \$50 a share.

If you sell the stock inside the plan and then take a cash distribution, you will receive \$1 million. However, the entire distribution will be taxed as ordinary income. If you are in the 39.6% tax bracket in your year of retirement, you will owe federal income tax of \$396,000 (39.6% of \$1 million). Conversely, if you take the distribution in the form of company stock, you are taxed on the original cost of \$100,000 (20,000 shares at \$5 a share). **Result:** Your federal income tax bill is only \$39,600.

Suppose you immediately sell the stock at \$50 a share for a total of \$1 million. Assuming your entire \$900,000 gain is taxed as long-term capital gain at the 20% rate, you must pay \$180,000 in capital gains tax (20% of \$900,000). Therefore, your total federal income tax bill is \$219,600 (\$39,600 + \$180,000), a tax savings of \$176,400 (\$396,000 – \$219,600). Note that other tax factors, including the 3.8% net investment income tax and state and local taxes, may also come into play.

Conclusion: It remains to be seen whether this tax break will survive much longer. This may be an opportune time to take advantage of NUA. Consult your professional advisers.

Caution: Someone Is Watching You Online

How to discourage information tracking



It can certainly feel like “Big Brother” is watching us with the way our online activities are being tracked. Typically, the information

is being gathered for legitimate marketing means, but that will not necessarily make you feel any better. What's more, tracking increases your exposure to potential identity theft.

You may not even notice that this is occurring. How do firms track your Internet activities? There are four primary methods:

1. Direct requests: Surprisingly, some firms do not hide behind the technology. Instead, they may come right out and ask you for your personal information. Unless you are willing to openly share your online habits, you can simply say “no” or obtain further clarification about how the information will be used.

2. Cookies: Briefly stated, a cookie is an encrypted file, stored on your computer or other device, that holds information that may be accessed by the web server. A cookie contains a script, or file, so that the information from a visit is carried forward. Using cookies, firms can paint a picture of your habits, whether you want them to or not.

3. Canvas fingerprints: These are similar to cookies in that online firms can track your use. Essentially, a canvas fingerprint is a script that tells your browser to draw an

invisible image to track your activities on an electronic device. Unlike cookies, canvas fingerprints cannot be deleted from your browser. This technology is being used across a wide spectrum of websites.

4. Research: Certain firms that have a long reach—such as Google, Facebook and other social media sites—are able to collect reams of information about you when you use their services. This data is then sold to advertisers.

What can you do to keep Big Brother at bay? Here are several deterrents to consider:

- ◆ Do not participate in random surveys without knowing all the details.
- ◆ Install a virtual private network (VPN) on your computers. A VPN not only offers protection from hackers but it also makes it difficult for advertisers to track your online activities.
- ◆ Delete cookies from your browser. Alternatively, you might use a cookie-blocking extension for your browser and limit access to certain websites.
- ◆ Use other types of software or privacy browsing technology to discourage tracking.

Finally, you may want to continue to visit the websites and social media sites that compile your personal information, despite some inconveniences and risks. Just be aware: What you do online is being watched.

Facts and Figures

Timely points of particular interest

► **Social Security**—The Social Security Administration (SSA) announced that the Social Security wage base is increasing in 2018, but not by much. It says the 6.2% Social Security tax will apply to \$128,700 of wages in 2018, up from \$127,200 in 2017. That's an increase of slightly more than 1% as compared with the increase of more than 7% the prior year. The 1.45% HI (Hospital Insurance) tax still applies to all wages.

► **Gift-tax Exclusion**—As expected, the annual gift-tax exclusion is finally going up in 2018. The annual exclusion, which is increased only in increments of \$1,000, had been set at \$14,000 per recipient for the past five years. Thus, if you have five grandchildren, you can now give gifts of \$15,000 to each one free of gift tax, for a total of \$75,000. The exclusion is doubled for joint gifts made by a married couple.