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Client Information Bulletin

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Six Ways to Improve Cash Flow

Practical ideas to spur business growth

When you are running a small business, the numbers matter. This is especially true when it comes to cash flow. If you have more money going out than you have coming in, your business will not survive for very long.

How can you improve cash flow? There are no absolute guarantees, but these six practical suggestions should help.

1. Review pricing strategies. Finding the "best" price to charge customers or clients is often difficult. However, if you are charging too little, based on what the market will bear, you are effectively hurting your business. If possible, do some testing at various price points to determine where you should be. **Caution:** Going overboard—charging too much—could be equally disastrous.

2. Upgrade equipment. Not only does outmoded equipment take up too much space, but it is probably not as efficient as the latest models. For instance, some companies are moving away from desktops to laptops that are more versatile for the staff. Put newer technology to work for you. While there will be an initial cost for a changeover, you will likely save considerably more over time.

3. Renegotiate contracts. Have you signed deals with vendors or suppliers that are no longer favorable? They may be written in black and white, but not necessarily in stone. If you plan to keep such arrangements for the foreseeable future, the other parties may be amenable to a mutually beneficial restructuring. Of course, not everyone will agree to this, but it cannot hurt to ask.

4. Focus on marketing. The "old ways" of drumming up business may not be working well anymore. Taking another look at your marketing program and making changes when appropriate could trigger more activity and greater revenue. Try to think outside the box. For instance, if you have traditionally relied on direct mail, you might shift to other forms of marketing. Also consider a redesign of your website.

5. Expand the product line. Are you offering only the same products you did a decade ago? It may be time to expand into new areas or at least fine-tune your products to reflect changes in technology or other developments. Similarly, if your company is a service provider, you may start delving into areas on the fringes of your main line of work. The worst thing you can do is become stagnant.

6. Add incentives. Cash flow problems often stem from slow-paying (or nonpaying) customers or clients. Give them a gentle nudge by offering incentives for early payment. Typically, you might discount goods for early payment or offer more attractive deals for larger orders. On the other side of the coin, you may

Inside

find that implementing late-payment penalties encourages some customers to pay on time.

Do not expect to accomplish great things overnight. If you use one or more of these techniques, it may take time to see results on the bottom line, but you must remain dedicated. Eventually, your cash flow should improve, along with your company's fortunes.

Give Us A Call!

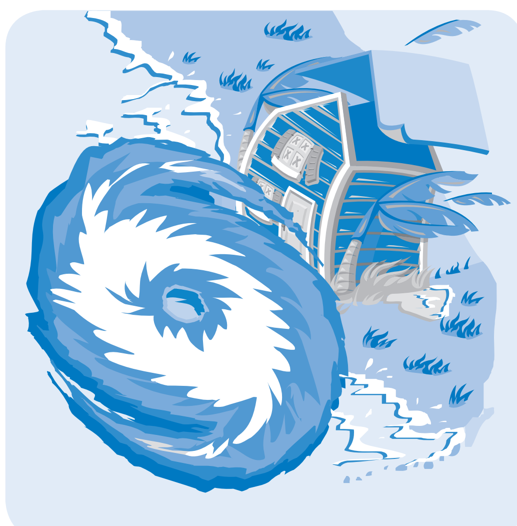
*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

Tax Relief on Tap for Disaster Victims

How to qualify for casualty loss deductions

Catastrophic events, such as hurricanes Harvey and Irma—or tornados, earthquakes, wildfires and the like—can severely damage your personal or business property. **Small consolation:** You may be entitled to deduct a casualty loss on your tax return.

A taxpayer qualifies for a casualty loss deduction if damage is caused by an event that is "sudden, unexpected or unusual." This not only includes the natural disasters already mentioned but also automobile collisions and frozen pipes bursting. The same basic rules apply to theft of property. However, you cannot claim a deduction on damage that occurs over a long period of time, such as that from a drought.



The deductible amount depends on whether the damage affects personal or business property. For personal property, the deduction is limited to the excess above 10% of your annual adjusted gross income (AGI) after subtracting $100 per casualty event.

Example: Your AGI for 2017 is $100,000, and you suffered a loss to your home of $20,100. In that case, your deduction is limited to $10,000 ([$20,100 – $100] – [10% × $100,000]). If your loss amounts to $10,100 or less, you do not get a deduction (absent any other losses).

In contrast, there are no such limits for business property. The full amount of the eligible loss may be deducted on your company's 2017 tax return.

The amount of the loss eligible for the deduction is the lesser of (1) the difference in the property's value before and after the casualty or (2) the adjusted basis in the property. However, you must reduce the deductible amount by any proceeds you receive from your insurance or the government.

Special tax break: If you own damaged property located in an area that is officially declared a "federal disaster area," such as areas devastated by Harvey or Irma, you could be entitled to a quick tax refund. In that case, you can elect to deduct your casualty loss on the tax return for the prior year.

In other words, if you suffered a loss in a federally designated disaster area this year, you do not have to wait until you file your 2017 return in 2018 to obtain tax relief. Instead, you may file an amended return for 2016 and recoup your losses faster.

Be aware, however, that the IRS often challenges casualty loss deductions. The best proof you can offer is photographs or videos of your property prior to damage, so obtain documentation before a casualty occurs. When coupled with snapshots of the property immediately after a casualty occurs, the visual proof can be compelling.

To further support your position, you should obtain an independent appraisal of the damage. The appraisal itself is deductible as a miscellaneous itemized deduction (subject to a 2%-of-AGI floor).

Your professional tax adviser can help you maximize casualty loss deductions. Do not hesitate to ask for assistance.

Making the Most of Year-end Employee Reviews

Consider improvements to the process

Now is the time of year when many employers conduct employee reviews. If you are a longtime manager or business owner, you may know the drill by heart. But are these reviews really doing anybody any good? If the process has become merely rote, with little thought or planning given to it, probably not.

It may be time to rock the boat. Employee reviews may be more meaningful to both you and your employees if certain improvements are made. Of course, developing a better program will take a little extra time and effort at first, but the eventual results may be well worth it. And once you put these extra procedures in place, it should be easy to follow them in succeeding years, until you are ready for another change.

What sort of improvements do you need to make? Here are a few ideas that deserve some consideration:

♦ **Spell out the ground rules.** All too often, employees are not exactly sure what the review is supposed to cover. For that reason, they tend to hold back. If pressed on a particular issue, they might become defensive or belligerent, or both. This is usually a waste of everyone's time. On the other hand, if you establish an agenda before meeting with your employees, you are likely to accomplish a lot more.

Make Your Business New Year's Resolution

Many people from all walks of life make New Year's resolutions. What should a business owner resolve for 2018? It depends.

Think about where you need to improve. Do you need to delegate responsibilities? Operate your business more intelligently? Complain less, and solve problems more? Whatever your resolution, do not hesitate to seek assistance from your trusted business advisers.

♦ **Keep it simple.** Usually, the most effective reviews are the ones that concentrate on a single purpose. The primary goal should be to try to help each employee realize his or her potential. Don't get sidetracked by peripheral issues.

♦ **Encourage an open dialogue.** The review should not be a one-way street. By giving employees a chance to express their opinions, you are more likely to resolve any problems. Instead of dwelling on what has already occurred, focus on ways to resolve problems that have arisen.

♦ **Offer constructive criticism in small doses.** Employees will be turned off if you immediately confront them with a laundry list of complaints. For example, don't wait until the review to tell an employee that he or she is spending too much time on personal business. Those types of problems should be addressed when they occur. Reserve this time for an overall evaluation.

♦ **Be organized and disciplined.** Prior to the review, prepare a list of items you want to go over. Jot down a few notes under each heading. As you proceed, you can check off the items you have discussed to ensure you have covered the most important points on the list.

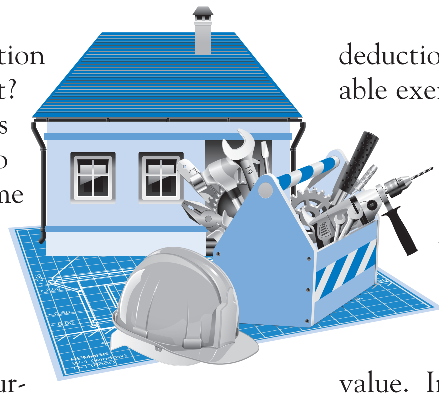
If you merely go item by item on the appraisal form, there is usually little benefit, if any, to be gained. Your employees will quickly recognize the difference between a perfunctory review and a substantive one. Assuming you do this only once a year, make the process really count.

Happy Holidays!

Our firm would like to wish you and your family a happy holiday season, and a healthy and prosperous new year.

Key Tax Rules for Deducting Home Improvements

When you can claim a medical deduction



Can you claim a tax deduction for a home improvement? That question is not as crazy as it sounds. It may be possible to write off part of the cost of a home improvement needed for medical reasons. However, be forewarned that there are significant tax obstacles to overcome.

Main ground rules: Under current law, your annual deduction for medical and dental expenses is limited to the amount of unreimbursed qualified expenses exceeding 10% of your adjusted gross income (AGI). Prior to 2017, the limit was 7.5% of AGI for individuals age 65 or older, but this tax reprieve has been eliminated. **Example:** Suppose your AGI is $100,000 and you have $9,500 in unreimbursed medical expenses for the year. In this case, your medical deduction is zero.

As a result, it is important to count every last medical expense that helps you clear the 10%-of-AGI floor on your 2017 return. Any extra expenses you find will increase your deduction.

To qualify as a deductible medical expense, the cost must be incurred primarily to prevent or alleviate a physical or mental defect or illness. Conversely, an expense that is merely beneficial to your general health or well-being is not deductible. For example, if you build an in-ground pool in your backyard for your children's pleasure, no deduction is allowed, even though they are getting valuable exercise.

However, you can deduct a portion of the cost attributable to a swimming pool if you or your spouse will be using the pool to alleviate arthritis or some other specific illness. For a medically necessary improvement made by a homeowner, the deductible amount is equal to the cost above the resulting increase in the home's value. In addition, annual maintenance costs qualify for the deduction. **Note:** The full cost of any qualified improvements, plus maintenance costs, is deductible if paid by tenants.

Some other common examples of home improvements that may be deductible as medical expenses include air-conditioning installed to alleviate a child's asthma, an elevator constructed for an adult with a heart condition and special modifications made for a disabled person.

It is generally recommended that you obtain a written appraisal from an independent real estate expert establishing the increase in your home's value due to the renovation. Also, if a physician prescribes a home improvement to alleviate a medical condition, be sure to retain a copy of the statement in writing.

Be aware that this is only a general overview of potential medical deductions for home improvements. Tax benefits may be realized in certain other respects. Consult your tax adviser concerning your personal situation.

Facts and Figures

Timely points of particular interest

➡**Parental Guidance—**In a new case, a young girl began competing in beauty pageants at age 9, winning between $1,000 and $2,000 a year. Her parents deposited the money in a college savings account. They also reported the income on their own return and deducted expenses for travel, clothes and so on. But the Tax Court ruled that the income is taxable to the daughter, and only she can deduct the expenses.

➡**Travel Logistics—**Does your company book your long-distance business trips and pay the costs? Or do you plan your own itinerary and seek reimbursement? Having an employer handle things may avoid some hassle, but booking your own flights may give you more flexibility. Also, when the tickets are purchased in your own name, you may qualify for incentives, such as airline points. Consider all the aspects.