

ARMAO LLP

CERTIFIED PUBLIC ACCOUNTANTS

100 Quentin Roosevelt Boulevard, Suite 209
Garden City, New York 11530
516-320-7220

Email: info@armaollp.com • www.armaollp.com
www.facebook.com/ArmaoLLP • <https://twitter.com/armaollp>

Client Information Bulletin

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Five Steps to Prepare for a Business Sale *How to improve your position*

If you are a successful business owner, you should prepare for the day when you hand over the reins—perhaps to a younger family member—or sell the business outright. In the event you are predisposed to sell, you could be leaving some money on the table if you do not put your best foot forward. Here are five practical suggestions.

1. Get your house in order. There are some obvious comparisons to selling a home.

Usually, a potential buyer will walk through and conduct a thorough inspection. Therefore, you might make some needed repairs and spruce up the place to make it look more attractive.

This goes beyond the physical premises. Make sure all the paperwork is complete and the financials are up-to-date. You can rely on your professional business advisers to do the legwork.

2. Start the search. Frequently, one of the best ways to drum up interest in your business is to contact business brokers in your area. They can provide insights into your particular profession based on geographic location. Although brokers charge fees for their services, using them should increase the foot traffic.

Think about the type of buyer you want. Do you expect the business to continue, and maybe expand, with

most of your current team, or do you expect the buyer to bring in an entirely new staff? This could affect the way you offer the business opportunity.

3. Crunch the numbers. A broker can also furnish you with ballpark numbers based on valuations of comparable businesses. For instance, different businesses may use different sales models based on profit, revenue or cash flow. Also, you may get a good idea of the value of goodwill.

Of course, your client or customer list is critical, as is the stock and inventory if you typically sell goods. After analyzing all the main factors, you should have a realistic expectation about the price a sale would fetch.

4. Work with your staff. Do not just drop a bombshell about a sale the day the buyer takes over. Before a sale is consummated, inform employees and, when appropriate, involve them in the process. For instance, they may possess specialized knowledge about operations that would otherwise be overlooked.

This type of communication is sensitive and requires careful thought. Balance what employees should know and what they need to know. You do not want to create panic or stress, but you must protect your own interests.

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5. Plan the final sales strategy. Again, a broker can help you assemble a package to present to interested buyers, showcasing the high points and including pertinent information. This might feature samples of marketing materials, overviews of your financials, and particulars on existing contracts and compensation agreements.

Buyers will also want to see an inventory of your assets, equipment and any other physical components. (Selling a business building itself is a long story for another day.)

Your business advisory team can help you avoid problems with proprietary information disclosure and other technicalities. Count on them to steer you in the right direction.

Four Top Retirement Plans for Self-employed

Weigh all retirement plan options

At one time, pension plans and other qualified retirement plans were usually offered only by larger companies, but now, many small companies have caught up. In fact, if you are self-employed with just one or two employees—or maybe just yourself—you still have plenty of retirement plan options at your disposal. Here are four popular choices for self-employed business owners.

1. SEPs: A self-employed individual may adopt a Simplified Employee Pension (SEP) plan, set up in a form similar to a traditional IRA. All other employees must be covered. You generally contribute to the plan based on a percentage of compensation, up to the tax law limits, although annual contributions are not required. For 2017, deductible SEP contributions cannot exceed the lesser of 25% of the employee's compensation

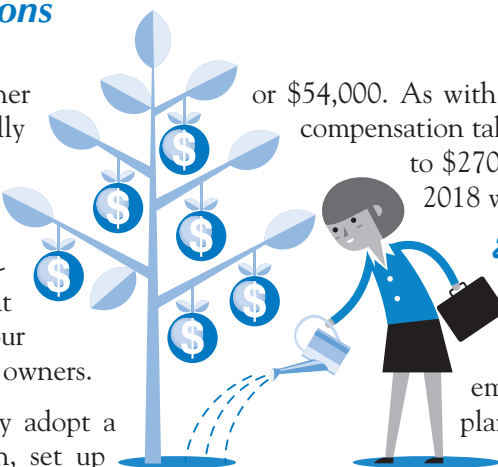
or \$54,000. As with all qualified plans, the maximum compensation taken into account in 2017 is limited to \$270,000. (Limits for qualified plans in 2018 will be announced shortly.)

2. SIMPLEs: A Savings Incentive Match Plan for Employees (SIMPLE) is available only to a business with 100 or fewer employees and no other retirement plan. You must make a matching contribution equal to a certain portion or percentage of an employee's

contribution or a minimum nonelective contribution for all plan participants. With a SIMPLE, you can use an IRA or 401(k) version. For 2017, you can contribute up to \$12,500 to a SIMPLE (\$15,500 if age 50 or older). As a further enticement, you do not have to file an annual return for the plan.

3. Solo 401(k) plans: This plan may cover a business owner having no other employees (not counting your spouse). Generally, the rules and requirements for traditional 401(k)s apply. For instance, a self-employed can defer up to \$18,000 in 2017 (\$24,000 if age 50 or older), while overall deductible contributions for this defined contribution plan, including matching contributions, cannot exceed the lesser of 25% of compensation or \$54,000 (\$60,000 if age 50 or older). **Key advantage:** Because the percentage part of the annual contribution limit does not apply to solo 401(k)s, this vehicle may be preferable to others.

4. Keogh plans: This plan was designed to be the main qualified retirement plan for self-employed individuals and is considered a relic of the past by some, but it is still kicking around. There are two main types: defined contribution Keoghs and defined benefit Keoghs. The basic rules for these types of plans apply, but with a twist: The annual contribution limit is based on "earned income"



Rough Waters for Overtime Pay

Normally, employees must be paid time-and-a-half for working overtime. In a new case, an appeals court ruled that a lower district court did not properly interpret the federal overtime laws when it held that a cruise ship employee was ineligible to receive overtime pay.

The employee sold cruise ship trips and received part of his pay in commissions. The 11th Circuit Court determined that the commissions were not properly allocated for overtime pay purposes, and it has remanded the case back to the district court.





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instead of “compensation” and thus effectively reduces the percentage cap for self-employed individuals. In contrast to defined contribution plans (see page 2), a defined benefit plan in 2017 may provide an annual retirement benefit equal to the lesser of 100% of earned income for the three highest-paid years or \$215,000.

When choosing a plan for your business, investigate all the possibilities. Then you can make a well-informed decision that is suitable for your situation.

Tax Pros and Cons of Municipal Bonds

Balanced view of investment tax aspects

Municipal bonds (often called “munis” for short) may be attractive to high-income taxpayers, but there are a number of potential tax drawbacks as well. Here is a brief look from both sides of the fence.

Tax Pros of Munis

First, and most important, the interest income is exempt from federal income tax. For example, if you earn a 4% return on a taxable investment and you are normally in the 25% bracket, your after-tax return is only 3%. Even worse, it declines to 2.42% for someone in the current top 39.6% bracket. Conversely, a tax-free muni yielding 4% is the equivalent of a taxable bond yielding (not counting other investment characteristics) 6.62% for a top-bracket taxpayer.

Second, for munis issued within your own state, the interest income is generally exempt from state income tax. This extra tax break effectively increases the after-tax return for certain taxpayers.

Third, the interest income does not count toward the calculation of your adjusted gross income (AGI). Therefore, investing in munis can provide other tax savings on your federal return.

Fourth, the interest income does not count in the calculation of the current 3.8% surtax on net investment income (NII). Thus, unlike most income items, it cannot increase or trigger the NII tax.

Tax Cons of Munis

♦ The interest income received from munis issued by an entity in another state may be subject to state income tax. The state tax exemption, when available, applies only to munis issued in your home state.

♦ There is no tax benefit if you sell a muni purchased at a premium. For instance, if you buy a muni for \$10,500 that will be worth \$10,000 if you hold it until maturity, you can’t subsequently claim a \$500 loss on your tax return. The premium must be amortized over time.

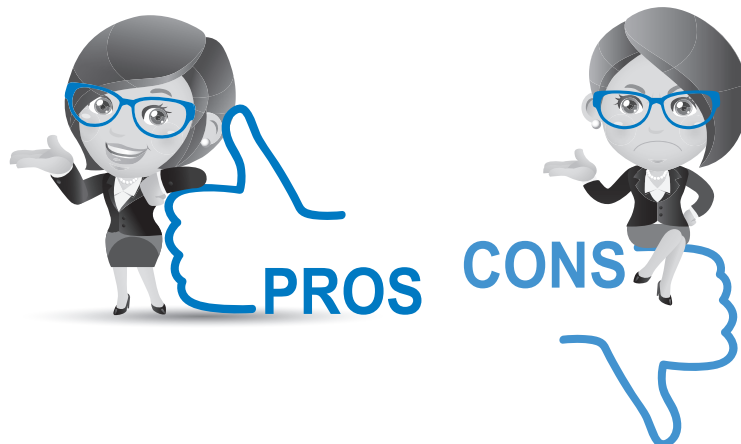
♦ The income from “private activity” bonds is an adjustment item for the alternative minimum tax (AMT). This could force you to pay the AMT instead of regular income tax or increase existing AMT liability.

♦ If you sell a muni at a profit, you pay a capital gains tax on the sale. Say you acquire a muni with a face value of \$10,000 and sell it for \$11,000. The \$1,000 gain is taxable as a capital gain.

♦ The calculation of the tax on Social Security benefits includes tax-free municipal bond income. Depending on your situation, up to 85% of the benefits received may be subject to tax.

♦ If you sell a discounted muni, your profit is taxed as ordinary income to the extent of the accrued discount. The particulars are complicated, so contact your tax adviser.

Although munis can be a good deal for investors, proceed with caution. Weigh all the pros and cons before you invest.



Twists and Turns to Charitable Rollovers

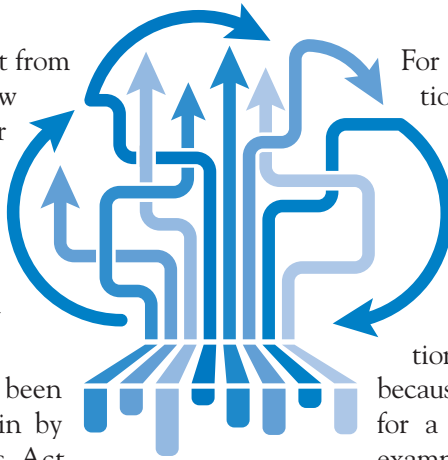
Special tax break for older taxpayers

If you are “of a certain age,” you may benefit from a unique tax break. Under a special tax law provision, an individual age 70½ or older can transfer a significant amount of funds directly from an IRA to a qualified charitable organization without paying any tax on the distribution. This “charitable rollover” counts as a required minimum distribution (RMD) for tax purposes.

This provision, which had expired and has been reinstated several times, was extended again by the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act). What’s more, the PATH Act made it permanent.

Background: Previously, you could not transfer funds tax-free directly from an IRA to a charitable organization. Instead, you were required to pay tax on the distribution, regardless of your charitable intentions. This arrangement also worked against retirees who wanted to use IRA funds for charitable donations but no longer itemized their deductions.

However, beginning with the Pension Protection Act of 2006 (PPA) and subsequent legislation—including the PATH Act—individuals who are age 70½ or older can transfer IRA funds directly to charity, up to an annual limit of \$100,000 (\$200,000 for a married couple). Although no tax deduction is allowed, donors are not taxed on the distribution either.



For these purposes, a qualified distribution is defined as one from either a traditional or Roth IRA that would otherwise be taxable. The distribution must be made directly from the IRA trustee to the charity.

Furthermore, the contribution must otherwise qualify as a charitable donation. If the deductible amount decreases because of a benefit received in return—for a dinner at a fundraising event, for example—or the deduction would not be allowed due to inadequate substantiation, the exclusion is not available for any part of the IRA distribution.

Finally, an IRA participant is generally required to begin receiving RMDs in the year after the year in which he or she turns age 70½. A qualified charitable rollover counts as a distribution toward the requirement.

Note that the same rules also apply to Roth IRAs. Roth IRA distributions to individuals age 59½ years or older are often tax-free. But a portion of a distribution may be taxable for a Roth in existence less than five years. If you have both a traditional IRA and a Roth IRA, it generally makes sense to use the traditional IRA first for charitable distributions.

Be aware that the charitable rollover technique is not for everyone. If you are interested, obtain professional guidance as to how it might benefit your family’s situation.

Facts and Figures

Timely points of particular interest

➔ **Tax Face-off**—In a new case, the Boston Bruins hockey team was allowed to deduct 100% of the cost of pregame meals furnished to its players and personnel at hotels on the road as a “de minimis fringe benefit.” The meals qualified under a special exception for “eating facilities.” Normally, this tax benefit is reserved for cafeterias and similar facilities on the main business premises.

➔ **Late Again?**—Perhaps you can overlook occasional tardiness for legitimate reasons, but it becomes a problem if a worker is habitually late to work. Document both verbal and written warnings, and follow up to see if the behavior improves, stays the same or even worsens. If an improvement is only temporary, or there is no improvement, it may be grounds for dismissal.