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August 2021

The CFO Advisor

Guidance for Small Business Success™

Welcome to the August 2021 edition of **"The CFO Advisor"** Newsletter!

We are entering the home stretch of summer, so hopefully you've had time, or scheduled time, to take a relaxing vacation.

To kick off this month's issue, we have an article about a topic that comes up from time to time with our clients. We mention things to consider before going into business with a friend. Also in this newsletter, you will find great information on forecasting, your retirement, and other great articles aimed at helping you succeed in your business.

Until next month...

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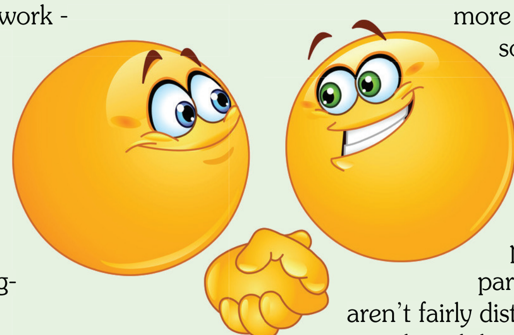
Do Best Friends Make Best Business Partners?

Going into business with a friend can work - sometimes



Childhood buddies Ben Cohen and Jerry Greenfield came from humble beginnings. They invested in a $5 correspondence course in ice cream making from Penn State University and $12,000 in cash and opened their first ice cream shop in a renovated gas station in Burlington, Vermont in 1978.

Twenty-two years later they sold their company, Ben and Jerry's Homemade, to multinational food giant Unilever for $326 million.

Ben and Jerry proved that friends can be successful business partners and build a wildly successful business that boasts a worldwide brand.

But for every Ben and Jerry success story about friends going into business together, there are stories where the opposite occurred with the business going belly-up.

As John D. Rockefeller opined, "A friendship founded on business is a good deal better than a business founded on friendship."

Here are several questions to consider before asking a friend to join your new venture.

What will my friend bring to the business? Does he or she have strengths that will clearly enhance the business — abilities, knowledge, or resources you lack or aren't willing to acquire elsewhere? Say, for example, you're a topnotch salesman but dislike finances and record keeping. If your friend loves details and thrives on spreadsheets, the partnership may work. If, on the other hand, your pal can't offer something that would round out the company or make it more profitable, consider partnering with someone else.

Are we in agreement? To make any business succeed, you and your friend will be working together day after day. Such relationships bring out the best — and worst — in people. Resentment can fester when partners feel that workloads and rewards aren't fairly distributed. So it's crucial to discuss expected work hours, contributions, roles, and responsibilities. Be sure to document your mutual understanding in a well-crafted business plan and partnership contract. Specify ownership breakdown, investment amounts, conflict resolution protocols, and succession plans.

Can we communicate effectively? Like a good marriage, a long-term business partnership requires honest communication to succeed. Ask yourself whether you can handle constructive criticism from your friend/business partner. Even the closest business associates don't see eye to eye on every issue. Take a straightforward look at how you both handle disagreements. Will you work through difficulties for the firm's sake, or bury your head in the sand and hope for the best?

What's most important: our friendship or the business? Developing a profitable business is hard and often unrewarding work. Going into business together may strengthen your connection, but don't overlook the possibility that your friendship may be damaged in the inevitable struggles of running a company. Remove blinders. Assess risks. Agree on priorities from the start.

As always, should you have any questions or concerns regarding your tax situation please feel free to call your tax specialist.

How to Roll with a Continuous 12-Month Forecast

Tax and financial planning is a year-round proposition. In fact, you can benefit personally from a continuous, 12-month rolling forecast, much like a business does.

What is a rolling forecast?

Rolling forecasts let you continuously plan with a constant number of periods 12 months into the future. For example, on January 1, you would plan what your financial picture looks like each month through January 1 of the following year. When February 1 rolls around, you would then drop the beginning month and add a forecast month at the end of the 12-month period. In this case, you add February of the next year into your 12-month forecast.

The month you add at the end of the 12 months uses the finished month as a starting point. You then make adjustments based on what you think might happen one year from now. For example, if you know you are going to get a raise at the end of the year, your next-year February forecast would reflect this change.

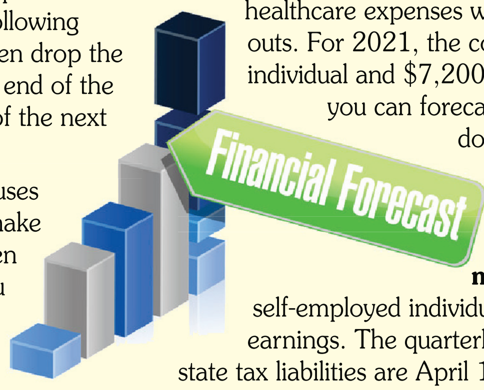
How to take advantage of a rolling forecast.

By doing tax and financial planning in rolling 12-month increments, you may find yourself in position to cash in on tax and money-saving opportunities within the next 12 months. Here are several strategies to consider:

Plan your personal budget. Will you need to put a new roof on your house? How about getting a new vehicle? Do you need to start saving for your kid's college education? A rolling 12-month forecast can help you plan for these expenses throughout the year.

Plan your healthcare expenses. If you have a flexible spending account (FSA) for healthcare or dependent care expenses, forecast the amount you should contribute for the calendar year. Although unused FSA amounts are normally forfeited at year-end, your employer may permit a 12-month grace period (up from 2½ months) for 2021. This means that you could potentially roll over your entire unused FSA balance from 2021 to 2022. Your forecast can help you see the impact of this change.

Plan your contributions to a Health Savings Account (HSA). When an HSA is paired with a high-deductible health insurance plan, you can take distributions to pay qualified healthcare expenses without owing any tax on the payouts. For 2021, the contribution limit is $3,600 for an individual and $7,200 for family coverage. In this case, you can forecast an increase in contributions and double-check to ensure you have enough money on hand to pay future bills.



Plan your estimated tax payments. This is often significant for self-employed individuals and retirees with investment earnings. The quarterly due dates for paying federal and state tax liabilities are April 15, June 15, September 15, and January 15 of the following year (or the next business day if the deadline falls on a holiday or weekend). So if your personal income is seeing a recovery from the pandemic, your rolling forecast will show this and allow you to plan for the estimated tax payments.

Plan your retirement contributions. If you participate in your company's 401(k) plan, you can defer up to $19,500 to your account in 2021 ($26,000 if you're 50 or over). Contributions and earnings compound tax-deferred. As the year winds down, you might boost your deferral to save even more for retirement.

While initially setting up a rolling 12-month forecast can be a bit of a pain, once established, it is pretty easy to keep up-to-date as you are simply rolling forward last month into the future. A well-planned system can often be the first sign of future challenges or potential windfalls!

Sometimes we need to find the **RIGHT ENVIRONMENT** to be creative. When you're trying to come up with a brilliant (or just workable) idea, set up these conditions:

- **Boundaries.** Set clear parameters — time, budget, materials, and/or other resources. When you *know* you have only limited resources to work with, you'll be more open to combining existing ideas in **new** ways.
- **Pressure.** Set a realistic but firm deadline. Knowing you *have to* accomplish your task by a fixed date will focus your thinking.
- **Discomfort.** Don't do only what's easy and familiar. Challenge yourself to step outside of your comfort zone. You'll learn more by stretching yourself and taking new and different paths.

Are You In Need of a Trusted Business Advisor?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As an experienced business advisor, I have worked not only in private and public industries but also across many functional areas and can help you implement best practice solutions to improve profits.

Do You Have A Tough Accounting / Finance Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at 352-450-2880 or email me at dwight@dlhulseconsulting.com. Perhaps I'll feature you in a future issue!

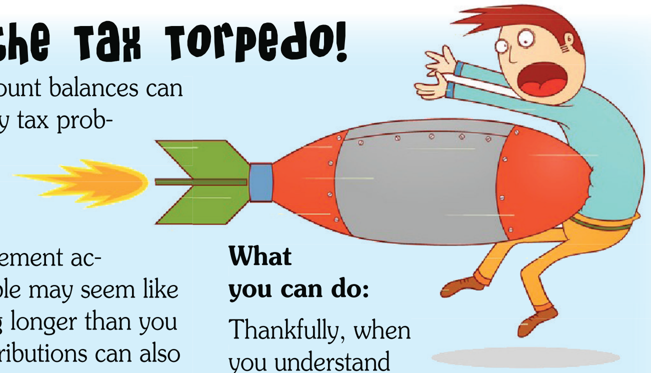
And You Thought Guns Were Dangerous

People use all kinds of items as weapons. Here are some of the stranger weapons culled from actual news reports:

- 21-year-old Lyle Burpo robbed a convenience store in Oklahoma City by threatening the clerk with a live snake.
- Peter Lerat, 33, walked into a donut shop in Toronto carrying a Canada goose and threatened to wring the bird's neck unless he was given money. Three weeks later, Lerat tried holding up several Toronto pedestrians with a raccoon, demanding $50 to prevent him from braining the poor critter with a rock.
- In a bar fight in Rock Island, Ill., one woman hit another on the head with a toilet lid.
- Two North Carolina men were arrested after attempting to rob a gas station with a cup of coffee. When the cashier resisted, one of the men threw the hot coffee on him and tried to steal the cash from the till. They fled empty-handed into a local swamp, where one of the men was arrested.
- Howard Allen, 39, was sent to jail in the U.K. for armed robbery. His weapon? A banana, wrapped in plastic.

"Our accountant puts on a great E-MEETING!"

Beware the Tax Torpedo!



Large retirement account balances can cause Social Security tax problems.

Building a nest egg and holding a majority of your assets in your retirement accounts as long as possible may seem like a good idea, but waiting longer than you need to start taking distributions can also cause a tax problem. When you reach age 72, the trigger is pulled mandating required minimum distributions (RMDs) from qualified retirement accounts. These distributions may cause a tax torpedo to be launched!

RMDs explained:

RMDs apply to traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k)s, 403(b)s, and other defined contribution plans. Required withdrawals must be completed by April 1 following the year you turn age 72, and December 31 every year thereafter. Amounts not distributed on a timely basis can be subrject to a 50% penalty. (Thankfully the RMD rules do not apply to Roth IRAs!)

The RMD rules ensure the tax-deferred benefit you earned during your working years will be taxed during your retirement. The amount you must withdraw as your RMD each year is based on your age, your spouse's age, and your filing status.

The tax torpedo!

If you wait to withdraw money from your retirement accounts until you turn age 72, the balance in those accounts may be extremely high. This will result in an RMD that may push you into a higher tax bracket. If your distribution is large enough, it may apply a higher marginal tax rate on your withdrawals, as well as trigger taxes on your Social Security income. Depending on your income and filing status, up to 85 percent of your Social Security income could now be subject to income tax!

What you can do:

Thankfully, when you understand the risk of the tax torpedo, you can be more tax-efficient with your withdrawals each year. Here are some ideas:

Plan withdrawals. Once you hit age 59½, you may withdraw money from qualified tax-deferred retirement accounts without experiencing an early withdrawal penalty. Manage annual disbursements from your retirement account(s) between the ages of 60 and 72 to effectively utilize your income tax bracket. You may not need the money now, but by being smart, you can lower the tax rate on some of your retirement income.

Decide when to start collecting Social Security income. You may begin taking full Social Security benefits after you reach your minimum retirement age. In 2021, this minimum retirement age is 66 years and 10 months. However, your benefit amount can increase if you delay your start date up until age 70.

See an advisor. Planning for retirement involves many moving parts. These include Social Security income, pension plans, savings, and retirement accounts. Ask for help to create the proper plan for you and your family. One element of the plan should include being tax efficient.

Remember, do not wait until the government tells you how much you MUST withdraw each year from your retirement accounts. A better strategy is to use each year to make tax-efficient withdrawals from these accounts. You might be surprised how much money you can save by avoiding the tax torpedo!

Quotes:

"Books are a uniquely portable magic." — Stephen King

"Grit is living life like it's a marathon, not a sprint." — Angela Duckworth

"I knew that if I failed I wouldn't regret that, but I knew the one thing I might regret is not trying." — Jeff Bezos

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See what's inside...

Three Questions For Self-Improvement In Your Career And Your Life

Success is built on a foundation of self-knowledge. If you find that you're sabotaging your own efforts, try asking these questions to get at the root of the issue:

- **What unproductive patterns keep returning in your life?** Maybe the answer is procrastination, fear of trying something new, or lack of trust. Identify it so you can deal with it directly.
- **What's the impact of these negative patterns?** When you see how your negative habits are harming you and those around you, you'll be more motivated to do something about them.
- **What is the origin of the behavior?** You don't need years of psychoanalysis for this. Just pinpoint when the negative pattern began, and what prompted it. Most of the time you'll be able to adjust your attitude by realizing that circumstances have changed, and that you don't need to keep repeating the unproductive behavior.

Credit Crunch - How to Deal with Customers Who Don't Pay

As any business owner can attest, customers to whom you extend credit don't always pay in full or on time. Cash flow issues, system problems, or simple forgetfulness may be offered for failing to make good on obligations. Despite your best efforts to screen clients, some will prove unreliable when getting cash to you on time.

Here are some tips for managing your risk if you do extend credit to some or all of your customers.

Develop a rating system. Score each customer with a number. The number represents to whom you will sell on credit and how much risk you are willing to take. Also have scores that represent customers you will not bill and those who you will no longer take orders from because of credit risk. Develop a system to objectively assign the score. Payment history and external credit scoring reports are both good indicators of whether a particular customer will be an acceptable credit risk.

Consider credit applications. Create a simple credit application. The application should be signed by the responsible party to pay the bill. If large credit amounts are expected, get a person to take personal responsibility to pay the bill. This will provide an additional means to collect your money should the company fail to pay. You will need this signed document if you wish to use a collection agency to collect delinquent accounts.

Start small to hedge initial risk. Just like credit card companies with consumers, start your customers with a small but reasonable credit limit. After the customer demonstrates they mostly pay on time, you can begin to increase the limit.

Create a notes section on your customer records. Use this to record what a late paying customer tells you. Over time, this will reveal the customers who are honest and the customers who fail that test. This idea also provides continuity of communication for the customer that tries to tell different employees different stories.