Business Matters

FALL 2013

YEAR END TAX PLANNING: PREPARE NOW AND POSSIBLY SAVE LATER

Fall is the ideal time to begin the year end tax planning process. Start gathering income and deduction records now so you'll know where you stand and what actions you might want to take to minimize your 2013 tax bill. (See "Tax record checklist" on page 4.)

ACTION ITEMS

Depending on your circumstances, you may qualify for the following tax-reduction strategies:

Combining medical expenses. Qualified medical expenses are deductible only if they exceed an applicable floor. It's easier to exceed this floor and deduct more expenses by bunching expenses into alternating years. For 2013, unreimbursed medical expenses are deductible only to the extent the annual total exceeds 10% of your adjusted gross income.

First calculate your year-to-date medical expenses. If they exceed or are close to the 10% floor, consider bunching additional expenses into 2013. This might include scheduling dental work and buying new contact lenses in December rather than waiting until January.

Making an IRA contribution. For 2013, you're allowed to make an annual IRA contribution of

$5,500 ($6,500 if you're age 50 or older). Income-based limits may reduce or eliminate the amount of your traditional IRA contribution you can deduct or the amount you can contribute to a Roth IRA. But even nondeductible contributions to a traditional IRA may be worthwhile because the investment grows tax-deferred.

IRA contribution limits don't carry over from year to year. If you don't make the full contribution this year, you can't contribute a larger amount next year to make up for it. So to maximize your tax-advantaged retirement savings, make your full 2013 IRA contributions by April 15, 2014.

Using your annual gift exclusion. Each year, you can gift up to the annual exclusion amount per recipient tax-free without using up any of

Continued on page 4

ESSENTIAL
Financial Management, LLC
Certified Public Accountants

6777 Wadsworth Blvd • Arvada, CO 80003 • 303-469-0012 • efmcpa.com

Alternative financing

WHERE TO GO WHEN YOUR BANK SAYS "NO"

Whether you need money to start a new business, replace aging equipment, expand sales territories or acquire another company, getting a bank loan continues to be challenging. The credit market is slowly improving, but most lenders currently are asking even qualified applicants to jump through hoops — for example, to provide detailed financial projections or adhere to restrictive loan covenants.

If your bank's loan terms are unacceptable — or you are shut out of traditional lending altogether — you're not out of luck. Consider the following alternatives.

CROWDFUNDING

Crowdfunding involves appealing to the general public, typically via the Internet, to sell small amounts of equity in a private company. Kickstarter (kickstarter.com) is the most popular crowdfunding site, but others include Crowdfunder (crowdfunder.com), Wefunder (wefunder.com) and MicroVentures (microventures.com).

Generally, crowdfunding best suits startups and small businesses — particularly those with strong local ties or legacies. A beloved neighborhood restaurant, for example, is likely a prime candidate for a successful run at this type of financing. When it comes to new businesses, a good back story, a strong sense of purpose and social media savvy are beneficial.

ANGEL INVESTORS

An angel investor is an individual or organization that offers equity investments, loans or loan guarantees to businesses in targeted industries — generally those with which the angel investor is familiar. Several websites, including AngelList (angel.co) and Angel Capital Association (angelcapitalassociation.org), offer ready access to a wide variety of potential investors.

This source of capital suits established small to midsize businesses that want a more substantial and long-term financing arrangement. Companies with a track record are in a better position to provide the proven business plans and sophisticated financials that angels want. However, an angel investor may seek an advisory presence in your business to mitigate risk.

SMALL BUSINESS ADMINISTRATION

Although Small Business Administration (SBA) lending declined during the recent recession, the government agency is now taking steps to boost lending to smaller businesses. The SBA recently began waiving the fees it charges banks for guaranteeing loans of less than $150,000, and has streamlined the loan approval process.

However, even with simpler processes in place, you'll need to submit extensive paperwork and be prepared to explain and justify your past business decisions and future plans. Keep in mind that, to apply for an SBA loan, you must first have been turned down by a bank or other financial institution. You must also meet certain size requirements, which vary by industry, and other criteria may apply, depending on the program. Visit sba.gov for more information.

OTHER OPTIONS

Crowdfunding, angel investors and SBA loans are only a few of the alternatives to a traditional bank's loan offerings. Other options include venture capital — where investors take a significant stake in your business in exchange for money and management advice — and asset-based financing. The latter, which is best suited to manufacturing and other hard asset–intensive companies, requires you to offer inventory or equipment as collateral.

Understand that fees and interest rates for some types of alternative financing arrangements are higher than those in traditional lending. Your financial advisor can help you weigh the advantages and drawbacks of each option. ■

FINANCIAL PLANNING FOR BRIDES- AND GROOMS-TO-BE

Congratulations on your forthcoming marriage! While your biggest financial concern these days may be wedding costs, marriage introduces several potential money complications. Be sure to discuss the following subjects, as applicable, with your betrothed *before* you tie the knot.

Credit and debt. Do you know your future spouse's credit score? Or how much consumer debt he or she carries? Once you're married, your spouse's financial history can affect your ability to qualify for a mortgage and make other major joint purchases. So exchange credit reports and come clean on any money-related "secrets" now.

Marriage penalty. If both you and your new spouse work, marriage may bring a tax "penalty." Because the middle and top tax brackets for married couples aren't twice as big as those for singles, you might be pushed into a higher tax bracket. To help avoid this, consider taking additional tax-saving steps before year end. (See "Year end tax planning: Prepare now and possibly save later" on page 1.)

Prenuptial agreement. A prenuptial agreement can be a good idea for individuals with considerable wealth, ownership in a business, children from a previous marriage or family heirlooms they want to keep in the family. In a nutshell, prenups determine which property should remain separate and which should be distributed equitably (or in accordance with the laws of your state) during a divorce.

QTIP trust. If you have children from a previous marriage, you may want to set up a qualified terminable interest property (QTIP) trust. A QTIP trust qualifies for the estate tax marital deduction, so any assets you transfer to it won't be taxed on your death. The trust provides your surviving spouse with income for life, but the principal is maintained for your biological children or any other beneficiaries you name.

Once you're married, your spouse's financial history can affect your ability to qualify for a mortgage and make other major joint purchases.

To head off money-related conflicts, consider meeting with a financial professional to discuss how the two of you plan to combine bank accounts, share assets and investments, manage household finances and make major financial decisions. Some financial professionals specialize in premarital counseling and encourage prospective spouses to discuss such topics as financial ancestry (how their parents handled money), control issues and future wealth expectations. ■

3 TIPS FOR SUCCESSFUL FRANCHISE OWNERSHIP

Franchises can offer entrepreneurs lower-risk, turnkey opportunities for business ownership. But even if you have the funds and have done your research, many challenges await. To be a successful franchise owner, you also need to:

1. Know yourself. Not every entrepreneur is cut out for franchise ownership. Franchises are structured systems, so owners who are willing to follow rules and listen to feedback are more likely to be successful than those who are independent and become stubborn in the face of criticism. Having a background in business operations, marketing or the military may be an advantage.

2. Be realistic about profits. Your franchise is unlikely to be profitable the first year — or even longer. Once established, franchises with higher initial investments tend to be more lucrative. According to the *Franchise Business Review*, the average food franchise owner pays an initial investment of $450,000 and makes $88,000 in annual profits.

3. Get expert advice. Even if you have an extensive business background, enlist the help of professional advisors. A lawyer should review your franchise agreement and a CPA should provide accounting, tax and, possibly, operations guidance.

ESSENTIAL
Financial Management, LLC
Certified Public Accountants
6777 Wadsworth Blvd
Arvada, CO 80003

Continued from page 1

your lifetime gift tax exemption. For 2013, the annual exclusion is generally $14,000 ($28,000 for married couples who split gifts).

Like IRA contribution limits, gift exclusions don't carry over from year to year. If, for example, you forgo an annual exclusion gift to your son this year, you can't add $14,000 to your 2014 exclusion to make a larger tax-free gift to him next year. To qualify for the exclusion, make your annual gift by Dec. 31, 2013.

UNIQUE SITUATIONS

Other tax-minimizing strategies may apply to your situation. To learn more, contact your tax advisor before the end of the year. ■

TAX RECORD CHECKLIST

Don't wait until the last minute to organize your tax records. To ensure you're ready to hand them over to your accountant at the beginning of the year, start gathering the following now:

- Bank account statements,
- Investment account statements, and
- Documents related to additional income (for example, compensation from consulting work, expenses from investment property and gambling winnings).

To support potential deductions and credits, collect:

- Bills,
- Credit card and other receipts,
- Mileage logs, and
- Canceled, imaged or substitute checks.