Determining retirement income

Use these parameters to determine how much income you'll need when you retire.

› Projected business sale. This factor is challenging, especially if you're looking 10 to 20 years ahead. If the year you plan to retire falls in line with a negative economy, this number may not be what you thought. It may force you to extend your timeline. Working with a good advisor, you should be able to come up with a conservative projection.

› Fixed income sources. From Social Security to pensions, the next step is determining what you have coming in each year and how it will inflate over time. Many sources will provide more income the longer you wait to turn them on, so you most likely will find yourself looking at multiple options for each.

› Investable assets and current savings. Look at all the wealth you've accumulated outside of your business in cash and investment accounts and tie in how much you're adding to these each year and at what rate they're growing. This includes other assets (other things you own that could be used/sold to produce a cash equivalent) and inheritances (these can have a major impact on a retirement planning picture.)

If we assume these three factors will make up most, if not all, of your income streams in retirement, you can begin to project how close you are to hitting the target you want. Don't forget to account for income changes throughout your working years and expense changes in your budget. Thirty years from now, most people will have a different view of the lifestyle they want to live.

getting started. Don't fall into that trap. (See "Determining retirement income," above, for more information.)

6 ▶ ESTATE PLANNING

The last key area of planning ties into the eventual transfer of all your assets—and the documents you may need in place to ensure things happen the way you want. These could include wills, living wills, powers of attorney or any number of different types of trusts.

Many bad things can happen when you don't have a proper estate plan in place, including having monies tied up in probate, paying additional taxes and fees or losing assets all together. Meet with an attorney to understand your options and what makes sense for you and your family. The attorney who drafted your operating agreement or your buy-sell agreement may not be the same person to use when it comes to your personal documents. Find the right person and get the documents done. Once completed, review them as life events happen, or at least every three to five years.

TOTAL INTEGRATION

Now that you know the most important areas to focus on, what's next? The key to effective financial planning is to integrate all of your advisers and strategies. It's the only way I know to help business owners make their plans efficient and coordinated. Typically, a good financial planner also will play the role of a quarterback and help manage each person on the team, including your CPA, attorney, debt specialist and liability specialist. They all should talk to one another, considering they each play a vital role in ensuring you complete your plan. Knowing that all these areas coordinate should create some much-needed peace of mind.

If you aren't following your plan, whose plan are you following? The sooner you start planning, the better off you'll be. What are you waiting for? LM

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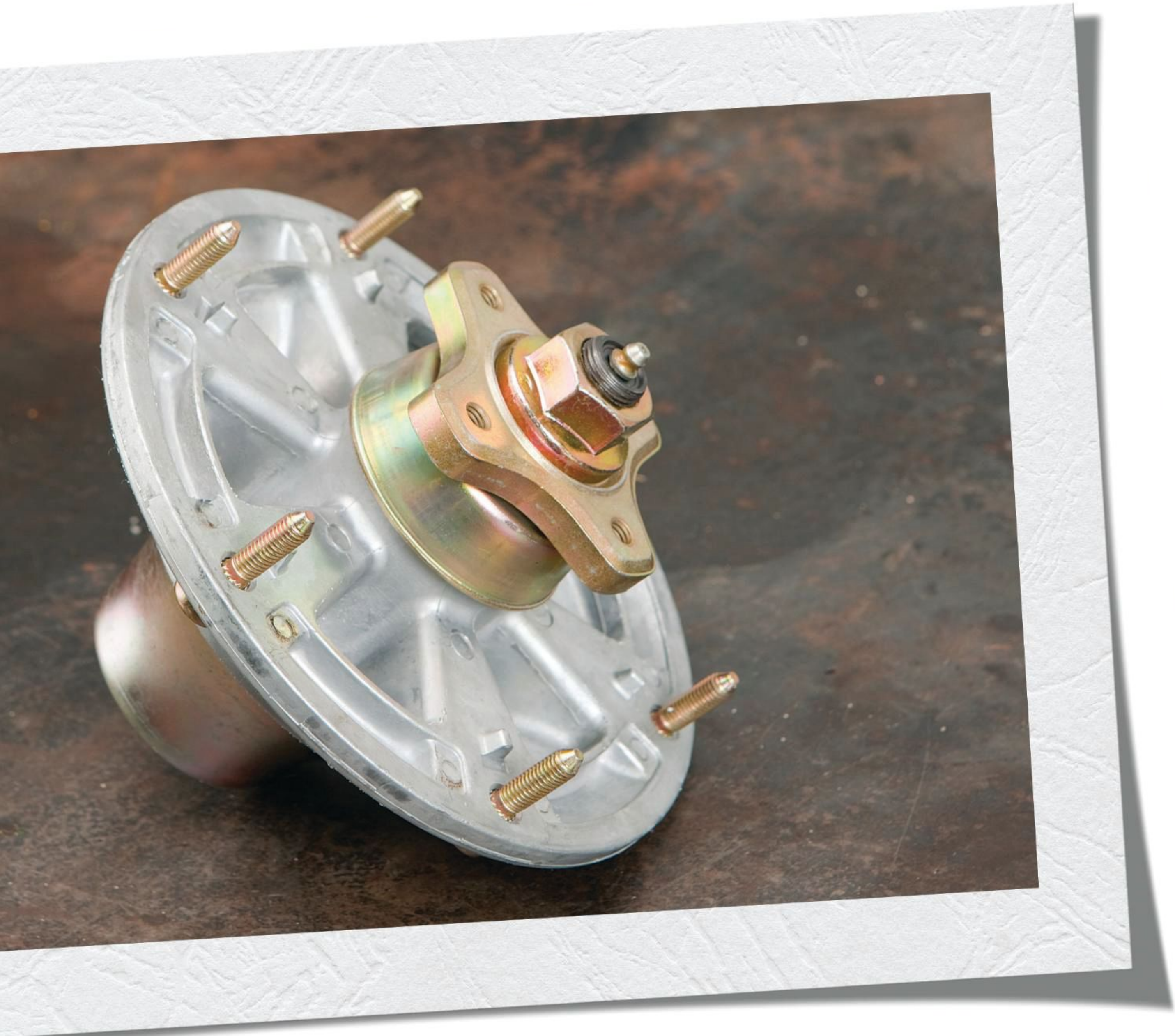

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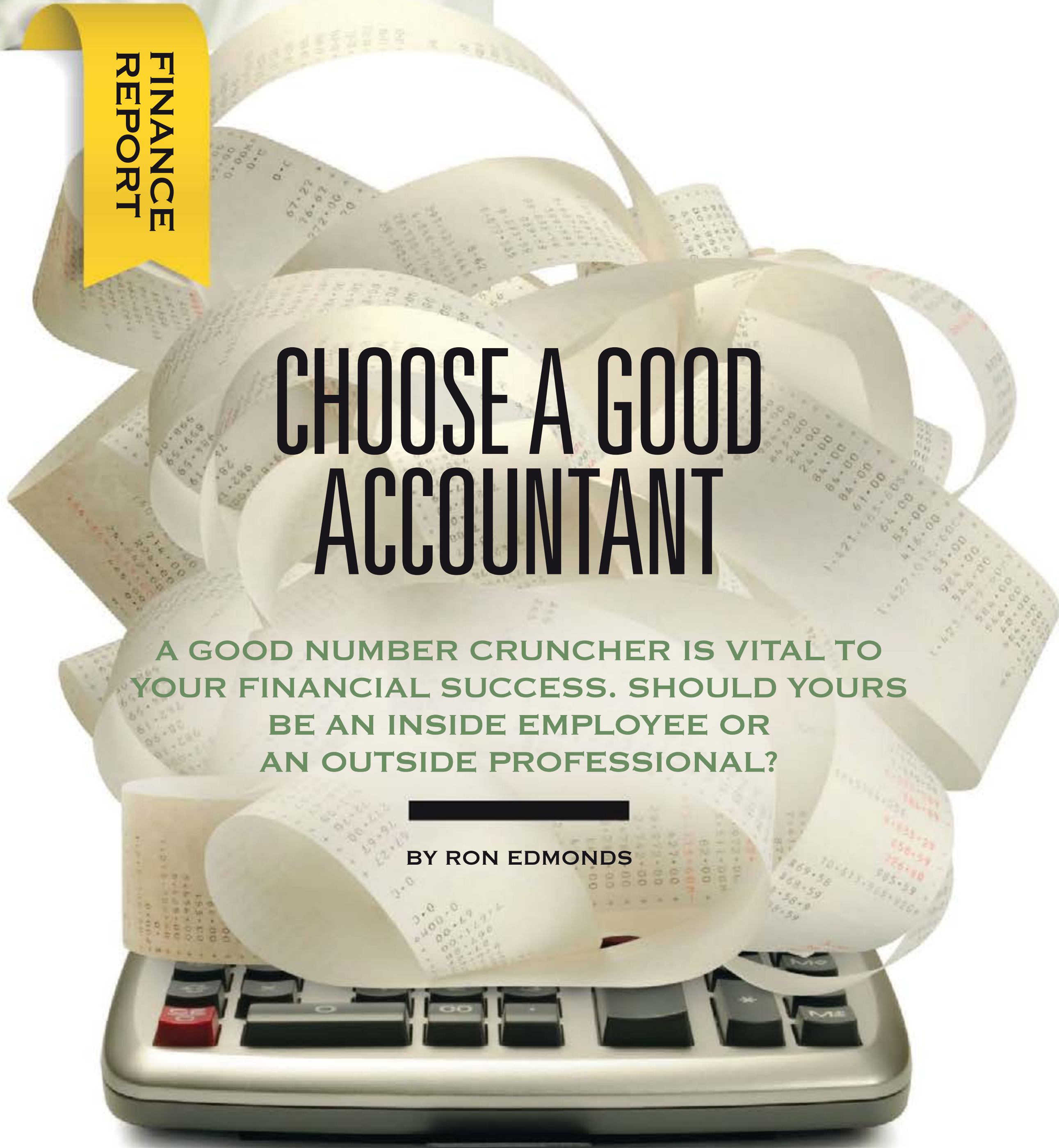

CHOOSE A GOOD ACCOUNTANT

A GOOD NUMBER CRUNCHER IS VITAL TO YOUR FINANCIAL SUCCESS. SHOULD YOURS BE AN INSIDE EMPLOYEE OR AN OUTSIDE PROFESSIONAL?

BY RON EDMONDS

PHOTO: ISTOCK INTERNATIONAL INC.

Many small business owners don't consider selecting an accountant to be a very important business decision. That can be a crucial mistake.

I can tell you many stories in which my clients didn't have the right accountant—and others in which the right accountant made all the difference in the world.

One client with more than $2.5 million in annual revenue used a bookkeeper from a national tax preparation service to prepare his financial statements. The only problem was she got sick and ended up a full year behind in preparing monthly financial statements. (Actually, that wasn't the only problem…) Another client relied on a part-time CFO to fill the need. At one point, he was there one day per week. When times got tough, the client cut the part-time CFO back to a couple days per quarter. That didn't quite work.

Most small businesses have one main advisor they go to for serious business advice. For some, that advisor is their accountant. For others, it's an attorney. For others, it's an industry consultant or a business coach. I've seen each of those possibilities work very well, but you do have to have an accountant, whether it's an inside employee or an outside professional.

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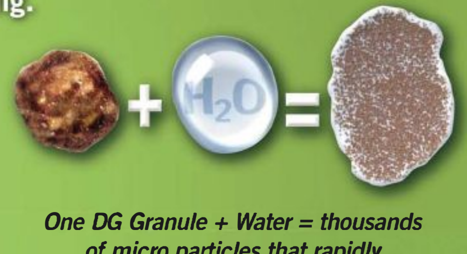

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To determine which set-up works best for you, consider what you need from your accountant. Of course, you must have an accountant or tax professional to prepare your tax returns. That's only the beginning, but sadly, in many cases, that's where the relationship between a small business and its accountant begins and ends.

CONSIDER YOUR NEEDS

What do you need an accountant for beyond tax compliance? Here are a few things that come to mind:

› **Tax planning.** Tax planning is never easy for a business, but it's become extremely challenging in the current political environment. It's hard to plan when taxes and tax rates are uncertain and change frequently. You need an accountant who follows what's going on legislatively and at the Internal Revenue Service (IRS) and other taxing authorities.

› **Tax audits and controversies.** You need an accountant or other tax professional who can help you avoid problems, help resolve issues as they develop and guide you through an audit when necessary.

› **Accounting systems.** You need an accountant to help you set up an appropriate accounting system for your business. The real purpose of that accounting system is to give you the information you need to run your business. Many business owners and some accountants understand that. If you can't get accounting system advice from your accountant, where are you going to get it? There are some alternatives, such as consultants, who may or may not be accountants, who specialize in implementing accounting systems such as QuickBooks for small businesses. Nationally, there are a handful of consultants who specialize in implementing these systems specifically in landscape services businesses.

› **Financial statements.** Your accountant should make sure you have access to accrual-based financial statements (i.e., ones that match revenue to the time period it was earned and expenses to the periods in which they're incurred). Usually, your accountant will compile, review or audit those financial statements. This is a frequent problem area, as tax-oriented accountants often will compile income tax-based financial statements that are cash basis, which are not much help in understanding how the business is performing financially. You also may be getting them very late, probably about the time your extended tax return is due. When it comes to running your business, that's ancient history.

› **Business advice.** Your accountant will develop an in-depth knowledge of your business and has done the same for many other businesses. You should receive value from that experience. Your accountant should be able to advise on such topics as budgeting and working capital management.

IDENTIFYING A WINNER

So how do you find an accountant who meets your needs? Here are some suggestions:

› **Look at qualifications.** You may want a certified public accountant (CPA). A CPA has four to five years of education, passed a challenging comprehensive examination and agreed to follow professional and ethical standards, including continuing education. But not all CPAs are alike. For example, I passed the CPA exam nearly 35 years ago and practiced as a CPA for many years. But I have never prepared a corporate income tax return for a client. Not once.

Your business may not require a CPA. You may find an accountant with credentials, such as a public accountant or an enrolled agent who can serve you well, but make sure their skills extend beyond tax compliance.

› **Look at the range of experience.** Either your accountant or his firm should bring a range of experience, including tax compliance, tax planning, accounting systems and financial statement preparation. Be sure to ask about those qualifications.

› **Check industry experience.** Ideally, your accountant will have specific industry experience or be willing to gain industry knowledge through continuing education or using industry information available from trade groups. You also can share information from trade magazines with your

MANY COMPANIES MAKE THE JUMP TO AN IN-HOUSE ACCOUNTANT WHEN THEY REACH $3 MILLION TO $5 MILLION IN ANNUAL REVENUE.

accountant to inform them of industry developments. Your financial statements should be prepared on a basis similar to other companies in your industry.

› **Ask for referrals.** One of the advantages of participating in trade associations is having a working relationship with your peers, sometimes even your competitors. You may be able to ask for a referral to an accountant with exactly the qualifications and experience you need. Accountants are bound by a high level of ethics, including maintaining client confidentiality, so it's usually not a problem to use an accountant who serves other similar businesses in the area.

› **Check references.** I recommend asking for—and checking—references for any accountant you're considering. They may not be of great value (who would give you an unhappy client as a reference to call?), but you can pick up information about how well an accountant actually performs. Do they meet deadlines? Are they accessible? Are they knowledgeable about issues?

› **Evaluate your accountant from time to time.** Choosing an accountant is not necessarily a one-time proposition. Like most other business relationships, it's a good idea to periodically evaluate whether your accountant is meeting your needs. Your needs now may be different than they were when you were a start-up. The accountant who served you so well in the beginning may not be the best fit for you now. Many companies wait too long to make a change.

At some point, it will become time to consider adding an in-house accountant. There's no magic formula, but many companies make that jump when they reach $3 million to $5 million in annual revenue. After taking the step, many business owners say it was the single best decision they ever made to improve their business and they wish they'd done it years earlier.

When you make that move, you should have the in-house expertise to better manage your business. As we've established, managing the relationship with your outside accountant can be complicated. Most companies still need an outside accountant when they have an inside one, but there's a side benefit: Your inside accountant probably will be responsible for helping you manage your relationship with your outside accountant.

Selecting an accountant carefully is likely to pay dividends for your business—some obvious ones and others less so. It's an important step in the process of building the foundation for business success. LM

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FINANCE REPORT

DEDUCT T&E EXPENSES RIGHT

AVOID EXPOSING YOUR COMPANY TO AN AUDIT.

BY DANIEL S. GORDON

"Is the cost of today's activities tax deductible?" That's the question one of my land care clients recently asked me at a fancy dinner after a Green Industry golf outing.

Having just been through a tax audit for another client where the Internal Revenue Service (IRS) auditor disallowed most of his travel and entertainment deductions on his prior three years of tax returns, I replied, "It might be."

"Are you kidding? This day is absolutely deductible," my client replied with righteous indignation. He's probably correct, but it's because several tests for deductibility had been passed—not just because he was having a great day on the golf course with his buddies.

Many businesses deduct expenses related to travel, meals and entertainment and hope the statute of limitations passes, thereby avoiding disallowance of those expenses upon audit. Take note: New IRS technology makes that a risky strategy.

In fact, the IRS receives millions of tax returns each year and it doesn't have the resources to go through them all, so it uses an automated computer-based scoring system called the Discriminant Inventory Function System (DIF).

According to the IRS website, the DIF score rates the potential for change or irregularities based on past IRS experience with similar returns. Though the calculation of the actual scoring system is a well-kept secret, the purpose behind the programming is likely an attempt to determine which returns would have the most potential of generating additional revenue for the IRS through audit.

Traditionally, travel, meal and entertainment disallowances have been a significant revenue generator for the IRS, and it's likely that if the deductions you take are outside the norm, you will be audited. That does not mean there will be an audit adjustment, just that you will be audited. How well you keep records showing your compliance with the law will determine if there will be an adjustment—and if so, how much.

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T&E DEDUCTION RULES

So what are the rules for deductibility of travel, meals and entertainment? Here are four to consider:

1 **Business purpose.** For travel, meals and entertainment to be deductible, the expenses must meet the "business purpose" requirement. Under this requirement the expenses of attending a convention or meeting, including the cost of travel, meals, lodging and incidental expenses, are deductible as a business expense as long as the professional can prove that his or her attendance primarily benefits or advances the interest of his own employment or business. Generally, travel expenses paid or incurred for a spouse or other family member aren't deductible unless the family member is a company employee, has a bona fide business purpose for the travel and otherwise would be allowed to deduct the travel expenses if not a family member.

2 **50 percent reduction.** Landscape professionals generally may deduct meals and entertainment expenses incurred for business purposes. However, deductions for meals and entertainment must be reduced by 50 percent. Specifically, this reduction applies to any expense for food or beverages and any cost for an entertainment activity.

3 **No club dues.** Another rule related to meals and entertainment relates to membership dues for social or country clubs. The land care professional must remember the dues or initiation fees to such clubs are not deductible, although amounts expended specifically for business meals and entertainment while at these clubs is deductible subject to the 50 percent limitation.

4 **51/49 split for combo trips.** For purposes of travel, the landscape professional can deduct all travel expenses if a trip was entirely business related. If the trip was primarily for business but extended a few days to make a personal side trip, you can only deduct the business-related travel, which includes the cost of getting to and from the business location as well as related expenses. Caveat: When a combination business and personal trip is taken domestically, there's the 51 /49 percent rule, which precludes a travel deduction to and from the business destination if the trip is more than half personal. Therefore, the business purpose should account for more than half the time spent away to deduct the travel.