



## Starting 2014, the Right Way

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### Introduction

So far at least, the consensus is that the economy will be relatively stable in 2014. With an average of 140,000 jobs being created each month last year and most economic indicators showing positives, this year should be better than last. Too often, business people wait until late in the year to do their strategic planning. While there are some actions that can be taken at that point, those who work proactively throughout the year implementing business and tax strategies perform far better than those who put planning off to the last minute. There is plenty of business and tax planning that should be planned and executed throughout the year.

### Business Operations

According to the latest Beige Book report, the overall United States economy is continuing modest or moderate growth. Given this, businesses should work hard to increase revenue and look to hire additional staff. As of late, there has been a trend toward businesses hiring temporary staff

ahead of hiring full time employees. While many businesses have never explored this option, it is worth developing a relationship with temporary labor organizations. It is expected that business will continue to build and stabilize during 2014; it is therefore the appropriate time to ramp up labor and inventories.

### Investments

Instinctively, businesses tend to cut investments when business is slow. Ordinarily, purchasing less in leaner times would be appropriate. However, given Internal Revenue Code Section 179, there is still an incentive to make additional investments. So far in 2014, the deduction has fallen to \$25,000 and Congress has not reenacted the higher amounts. Given the importance of advanced depreciation, it is likely the limit will once again be increased to \$250,000 to \$500,000. We will have to monitor legislation to keep the readers updated.



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## A CASE STUDY

### Alternate Valuation

The IRS has issued proposed regulations regarding the Alternate Valuation Method. Since the last economic downturn began in late 2007, business appraisers have taken the economic downturn into account in order to value businesses. The advantage of an economic downturn in business appraisals is that often times, businesses shows lower values.

The lower values make estate tax planning and estate tax assessments easier on estates as they pay less tax in those situations. Catching on to the situation, the IRS has issued final regulations requiring valuations on the alternate valuation date to disregard changes in ownership as part of the valuation.

Continued on page 3



**Financing**

The past economic down turn has also brought lower financing rates that are currently remaining in the recovery. Financing of buildings and equipment may be eligible for lower refinancing rates. Check with your bank to see if your loans can be refinanced. Just be sure to check the fees and costs before committing to any refinancing.

**Estate Planning**

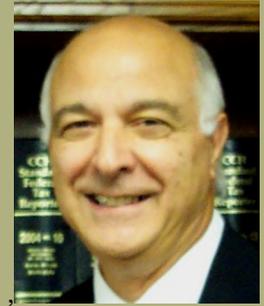
Many business people have complex estates. Along with the complexity, the average net worth of a business person is substantially higher than an employee. The 2014 estate tax exemption is 5,340,000. It is best to begin estate planning early in the year so issues can be resolved throughout the year and the estate plan can have time to be implemented during the year. Please review your total estate value and start the process of a complete estate planning process now.

**Succession Planning**

Along with estate planning, comes business succession planning for those who own businesses. Business succession planning is not as simple as drafting a will. Business succession planning, when done properly, provides a smooth transition for the succeeding generation. The process includes the valuation of the business and the creation of legal documents, such as a buy/sell agreement (the most important legal document a business owner can have.) When succession planning is not done or is done improperly, it usually means the loss of the business and therefore the loss of your lifetime of hard work. Don't procrastinate, start the process now!

**Conclusion**

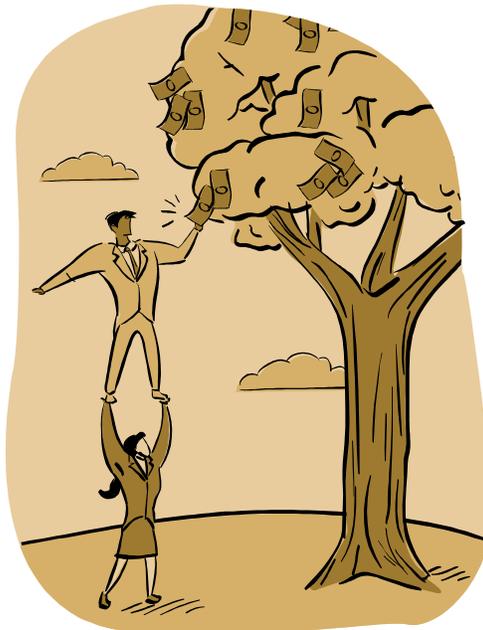
Beyond the items discussed herein, there is plenty that can be done to improve your financial and tax situation throughout the year. Too often people approach financial, tax, and business planning as an after-thought of running the operations of their business. Running a business without a plan to exit and retire is similar to driving a vehicle with no destination in mind. Proper planning and implementation of an exit, succession and tax strategy allows you to keep more of your hard earned wealth and allows you to have a better retirement when the time comes. If you are not sure where to start or how to start, please contact the experts at the Center to assist you.



*Dr. Bart A. Basi is an attorney, CPA, and the Senior Advisor of The Center for Financial, Legal & Tax Planning, Inc, a full service company specializing in financial, legal & tax matters. Basi is a nationally recognized author, lecturer, and advisor on how to structure deals to minimize taxes. Tax structure makes the difference between getting the deal done and watching the deal fall apart. Many of you may be familiar with Basi and the topics he covers in the Financial, Legal & Tax Advisory which may be read in various industry-specific trade publications.*

**Points of Interest**

- Too often, business people wait until late in the year to do their strategic planning.
- Given the importance of advanced depreciation, it is likely the limit [Section 179] will once again be increased to \$250,000 to \$500,000.
- Running a business without a plan to exit and retire is similar to driving a vehicle with no destination in mind.



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## A CASE STUDY CONTINUED:

**Editor's Comment:** Since the economic downturn, many business owners have rightfully taken advantage of this opportunity to contribute higher volumes of stock to their trusts and other estate planning entities. The problem with some of the concept is that some valuers have overlooked the fact that estates will typically disregard the number of shares held on one date to the next and value the stocks held on the alternate valuation date. This is where appraisers get it wrong! You must look at the number of shares held and do a one-apple-to-one-apple valuation each time the number of shares changes.

It is also worthwhile to note that an annual appraisal of a business should be done once each year in order to take advantage of peaks and troughs in the economic cycle. Many times the trough can be used to take advantage of estate planning, while the peaks can be used to attract buyers for the business.



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## How Can You Tell When It's Time To Sell Your Business?

If you are a business owner, you have undoubtedly asked yourself when is the best time - or how will you know when is the right time - to sell your business? There are a number of factors to consider in making such an important decision, but in my experience working with numerous business owners, you can break the decision down into three fundamental areas.

### Are YOU Personally Ready?

Are you really ready to retire to the golf course, or a foreign country, or travel the world, or finally get that boat you've always dreamed of, or simply move on and do something else? This can be influenced by age, health, family circumstances, personal finances, and many other factors, but ultimately only you can know if you're truly ready to sell. In my experience, successful business sellers have a plan for what they will be doing post-sale.

### Is Your Business Ready?

If you're like most business owners, your business might not be totally prepared for a sale. Ensuring that your business is an attractive purchase for a potential buyer takes some planning and preparation - and some time. It can be helpful to work with a business broker or M&A advisor well in advance of your planned exit from the business to find out what buyers are looking for, and what the market value of your business will likely be.

For a free copy of our white paper entitled: "Value Drivers to Maximize the market Value/Selling Price of Your Business" drop me an email at: [mertel@lmaallc.com](mailto:mertel@lmaallc.com).

### What's Happening in the Global Marketplace?

Is the economy on the upswing, or headed into another recession? Are banks lending money for business acquisitions? Are interest rates high or low? Are they rising, falling, or stable? Are critical commodity prices in your business rising, falling, or stable? These and other factors can have a huge impact on the market value - and even the saleability - of your business; and unlike the two previous factors, it is almost entirely out of your control.

The best time to sell a business is when you don't have to, and you need to consider that as you think about when you might ideally like to sell your business.

If you know of someone who's thinking of selling or buying a business and who might benefit from a free, confidential, consultation, have them contact me directly at 813.299.7862, or [mertel@lmaallc.com](mailto:mertel@lmaallc.com)

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## Frequently Asked Questions...



**Q: I own a business that is moderately successful and would like to see it passed on to my wife and children. How and when is the best time to start the process or begin planning the transfer?**

**A:** The best time to begin the business succession process is right now, if it is your desire to keep your business as a going concern after your leaving, or even if you do not plan for the business to stay as a going concern. If you do not plan for the succession (or even non-succession of your business), your estate or heirs can and will be subject with the burden of making decisions that may not be the best for the business or your interests.

**Q: Why is it important to perform estate planning even if you do not intend to pass your business onto the next generation or exit the business?**

**A:** It is always better to have a plan than not have a plan. Even if your business is not intended to be an entity to be passed on, certain issues arise during the process of probate. Debts of the business can be the responsibility of the estate. Another possibility arises that the business may be large enough to warrant estate tax liability. Even though you may not want your business to be a going concern after your passing, your estate may have issues to deal with that can be planned for now.

**Q: Since I have had my last valuation done, the value of my business has dropped considerably. Why might this be?**

**A:** This could be due to a variety of factors. Generally, the slower economy coupled with a depreciating asset base will have a tendency to lower business values, sometimes substantially. While closely-held businesses do not act exactly like widely held corporations on major stock exchanges, closely-held business values will fluctuate just like publically held companies.

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