Legacy M&A Advisors LLC

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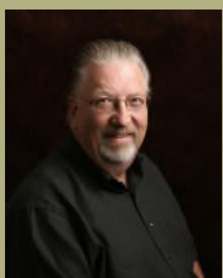

Mike Ertel is a Certified M & A Advisor and a Principal Broker with Legacy M&A Advisors, LLC, a full-service M & A Advisory firm with an office in Tampa, Florida specializing in representing sellers and buyers of small- to mid-sized companies. Prior to joining Legacy M&A Advisors, LLC, Mike's business career spanned 30+ years with Fortune 500 and Fortune 1000 Companies, with senior management roles in Marketing, Operations and Logistics. Mike also served as President, COO of a mid-sized Manufacturing company headquartered in Tampa. Mike also holds a BS in Electrical Engineering and an MS in Industrial Administration, both from Purdue.

Year End Tax Planning

Bart A. Basi, CPA/Attorney at Law
The Center for Financial, Legal & Tax Planning, Inc.

Introduction

The election is over. As a result, we have a Republican lead Congress. Now, maybe our politicians can get some stuff done! Additionally, it is that time of year again! Many people don't want to think about it, but (if you plan properly) the happiest time of the year is just around the corner. The actions you take in these final months of 2014 can have a big effect on your taxes. This advisory will identify some key strategies to be implemented prior to the end of the year to effectively limit your tax liability.

BUT HANG ON THERE EVERYONE!

Of most importance is Section 179, advanced depreciation. In 2013, the maximum Section 179 deduction was $500,000. In 2014, the deduction dropped to $25,000. $25,000 isn't much if you have income of $300,000. Now that the election is over, everyone in the tax community suspects there will be a new tax law containing improved (think 2013) Section 179 deductions.

AND HANG ON AGAIN!

In January 2013, bonus depreciation became limited to 50% of the qualifying, original use property. On January 1, 2014, bonus depreciation largely disappeared. What remains for 2014 are items of long production property only. We do not expect to see bonus depreciation soon, but there is that possibility for 2014 and even 2015.

Deferring Income

As with most other tax years, the more taxable income your company earns in 2014, the more taxes you and your company will pay. Therefore, it is logical to defer any ordinary income you can until next year. This is especially true if you or your business will be in a lower tax bracket this year as a result of your tax planning.

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A CASE STUDY

Qualified Appraisal

The Tax Court ruled for the taxpayer in a case where the taxpayer failed to get a qualified appraisal when one was needed.

In this case the taxpayer donated and sold 65 acres to a local government and took a charitable deduction to reflect the "part gift" status of the transaction. Within the correspondence, the city administrator reflected that the property had recently been appraised for nearly $3 million. The taxpayer sold the property to the city for $1.55 million and took a charitable deduction for $1.4 million. The IRS saw this transaction and pursued according to statute.

Within the Internal Revenue Code, any time a taxpayer claims a charitable deduction for property donated above $500,000, a qualified appraisal must be attached to the income tax return. In this case, it was not. The IRS claimed the deduction could not be taken because no qualified appraisal was attached and furthermore, the land was worth a mere $600,000. The taxpayer countered that this had been done in good faith because the taxpayer's accountant gave the taxpayer the advice that the city appraisal was fair enough and needed nothing more. The Tax Court was satisfied with this answer and ruled that the deduction was allowed due to reasonable cause.

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For business tax planning, send out monthly billing later in the month of December. Because it takes, on average, 25 days to receive payment, any payments received after January 1, 2015 are credited and recognized as income in 2015, provided your business is on the cash method of accounting. This is not true for those using the accrual method of accounting.

For individuals, if you are to receive a bonus, defer it until next year. (BE CAREFUL – if you have a retirement plan that is based on a percentage of your gross pay for the year, you do not want to reduce your retirement contribution because of your deferred bonus.) Finally, you may decide to defer income using more traditional means, by participating in a deferred compensation plan, buying tax deferred treasury securities, or some specific certificates of deposit that allow for deferral of interest income.

Accelerating Deductions

We all hate paying bills, but now is the best time to pay them. Even if you wait to pay a given bill on December 31, you can still deduct the payment in 2014. For business tax planning, buy supplies in December and stock up for the next few months. In addition, the IRS will allow you to deduct the expense in 2014 if you have charged the item and not yet paid for it as long as you are on the accrual method of reporting. For example, use your company credit card to purchase supplies for January, deduct the expense now, and pay the bill in January of 2015.

Individuals, remember to recognize any capital losses that you may have before year end. You are allowed to offset capital gains each year with any losses you incurred; and if the loss isn't fully utilized this year, it can be carried forward to offset future gains to the extent of $3,000 per year. Pay your investment expenses early, including any mortgage interest, real estate taxes, and any state and local taxes.

Conclusion

By utilizing these year-end tax strategies, you can reduce your tax liability for the year. Lowering taxable income by deferring income, accelerating deductions, and utilizing tax credits results in lower tax liability. These methods work not only this year, but also year-to-year. The Center routinely examines tax situations and engages in tax planning, business succession, and estate planning. If you are considering beginning estate planning, keep in mind that you have until December 31 to take advantage of 2014's gift exemption of $14,000. If you wait until 2015, you will forfeit the opportunity to take advantage of the 2014 gift exemption amount. Act now!

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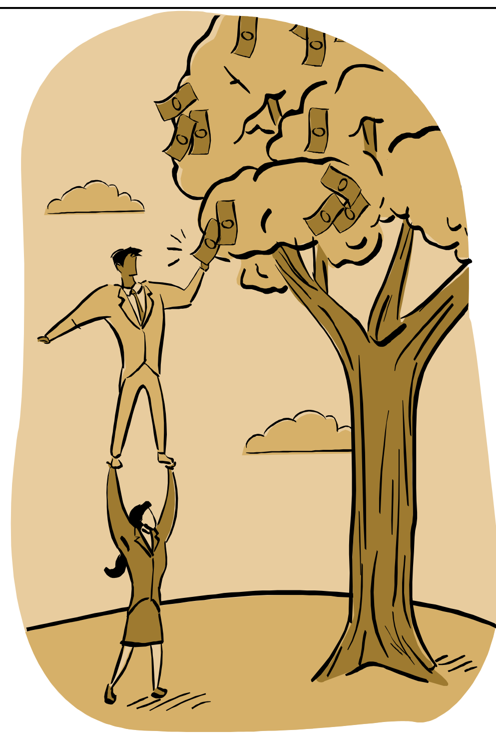
Dr. Bart A. Basi is an attorney, CPA, and the Senior Advisor of The Center for Financial, Legal & Tax Planning, Inc, a full service company specializing in financial, legal & tax matters. Basi is a nationally recognized author, lecturer, and advisor on how to structure deals to minimize taxes. Tax structure 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

- **The election is over. As a result, we have a Republican lead Congress.**
- **Now that the election is over, everyone in the tax community suspects there will be a new tax law containing improved (think 2013) Section 179 deductions.**
- **We do not expect to see bonus depreciation soon, but there is that possibility for 2014 and even 2015.**



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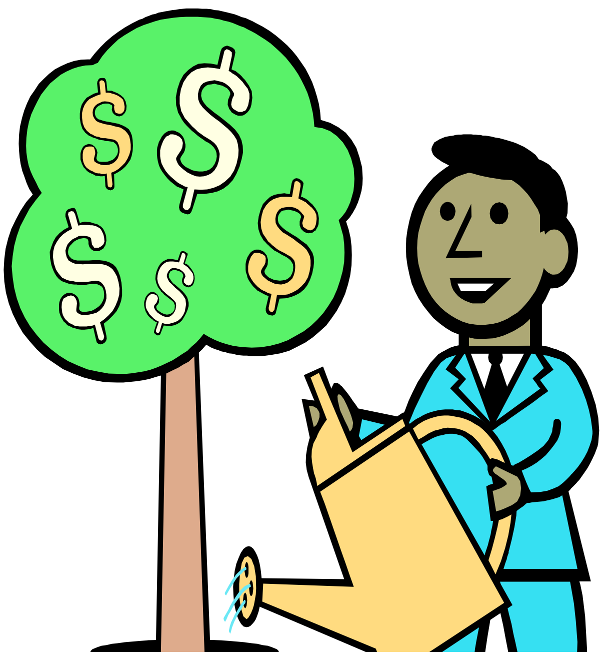
A CASE STUDY CONTINUED:

Editor's Comment: This case is important not because the taxpayer got the deduction, but to reflect the peril the taxpayer had placed himself into in not getting a qualified appraisal. Whenever donations of property are made (not cash donations), an appraisal should be done exactly according to statute. Here, had the taxpayer spent $2500 on an appraisal, he would have avoided $20,000 in legal expenses and a lot of unneeded heartache. Had the taxpayer lost, it would have been potentially a life altering event. Get a qualified appraisal where needed and for the benefit of your estate and business.



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Baby Boomers Nearing Retirement Should Prepare To Successfully Exit Their Business

Waiting until the last minute is almost never a good strategy if you're planning to successfully sell or transfer your business one day.

The oldest baby boomers, people born between 1946 and 1964, turned 65 in 2011. Over the next 15 years, experts expect this group will transfer over $10 trillion of business assets to the next generation of owners.
When business owners think about exiting their business, they basically have four options: transferring it to a relative, selling to a manager or group of managers, selling to an outside party, or selling to employees through an Employee Stock Ownership Plan, or ESOP.

To maximize the economic value of their business when transferred, experts agree that business owners shouldn't wait until they don't have many options, such as being forced to exit because of illness or just not being able to keep up. Owners should plan ahead and prepare their business for an eventual transfer and keep as many options open as possible.

It just makes sense for a business owner who is nearing retirement to not only look at his company's sellability, but also consider external factors such as the economy, industry trends, tax rates, and the availability of affordable financing for the buyer. The best time to sell/transfer might be before the owner initially planned to retire, rather than missing out on a favorable market, and having to wait 5 - 10 years for the next favorable market.

Experts agree that most business owners underestimate the time it takes to successfully transfer a business. Frequently, it can take a year or more to prepare a company for sale/transfer to optimize the sale/transfer price. The process of confidentially marketing and selling the business, and getting that deal financed and closed, can frequently take a year or longer. Lastly, a business owner needs to be prepared to stay on for a six-month to three-year transition period after the sale because this is usually a requirement.

It's estimated that most owners of privately held businesses have 70% to 90% of their personal net worth tied up in their business, or pledged in personal guarantees for the business' debts. Yet it seems that most business owners spend more time planning their annual vacation than planning for the successful transfer of their business – and many business owners don't take an annual vacation!

As ever, if you know of a business owner who's thinking of selling or buying a business and who might benefit from a ***free***, ***confidential***, consultation with us, have them contact me directly.

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Frequently Asked Questions…

Q: Where is the best place to store estate plan documents?

A: The best place to store estate plan documents is in a secure location that others know of and that is easily accessible. Storing the documents in a safe deposit box that a friend knows of can be a good place as long as that friend knows where to get the keys. Hiding documents in a book or in a safe that no one has the combination for renders the documents useless to both you and those that are trying to help you.

Q: My wife and I run a business together, how must we file our taxes?

A: If only one spouse owns the business and the other works as an employee, then you may file as a sole proprietorship under Schedule C on your Form 1040. If the both of you materially participate in the company and you divide income according to ownership status, then a Form 1065, Partnership Return would be appropriate.

Q: How do you determine whether a worker is an employee or independent contractor?

A: Primarily, you look to the control that you have over the employee. If you generally control the worker and methods the worker uses to perform their task, they tend to be classified as an employee. If the worker has a fair degree of autonomy on the job, autonomy with finances, and less relationship with the principal, generally these workers can be classified as independent contractors.