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THE VOS VOICE

"Because Accounting Matters And We Know It"

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Make Budgeting Part of your New Year's Resolution

It is important to resist the temptation to rely on gut instinct or take shortcuts when budgeting for 2018. Creating a solid budget that is based on the three components of your company's financial statements will help you manage profits, cash flow and debt.

1. Income statement

Start the budgeting process with your income statement: Analyze revenues, margins, operating expenses, and profits or losses. If times have been tough, you may not even want to know how little income you are pulling in, but it is important to be aware of the specifics.

From an overall budgetary standpoint, gross profit margin is a critical metric. If your margin is declining, you may need to pivot quickly to increase your revenues or lower your costs. For example, you might plan to hire a new sales person, launch a new marketing campaign, discontinue an unprofitable segment or negotiate lower prices with a supplier.

It is easy to get hung up on analyzing your income statement — particularly if your company is profitable. Yet bear in mind that this part of your budget does not reflect cash-related activities such as buying new equipment or borrowing money from the bank. Today's profitability may diminish in the face of tomorrow's risks and threats. In addition, the money you have earned may be dangerously tied up in working capital and other financial assets or obligations.

2. Statement of cash flow

Though gross margin is important, the center point of an effective budget is the statement of cash flow. It begins where the income statement leaves off — with your net income. From there, the statement is typically divided into three subsections:

a) Operating cash flow (activities associated with running the business),
b) Investing cash flow (activities associated with growing the business), and
c) Financing cash flow (activities associated with obtaining money).

For many companies, cash ebbs and flows throughout the year. If you have large contracts or experience seasonal fluctuations, it can be hard to stay fiscally responsible when cash balances are high. Predicting exactly when cash will come in (or dry up) is tricky — but your CPA can help you make reasonable assumptions based on your historical payment data.

3. Balance sheet

Think of your balance sheet as a snapshot of your company's financial condition on a given date. The balance sheet lists assets, liabilities and shareholders' equity. Elements such as these can help you realistically shape your budget going forward.

For instance, budgeted balances for certain working capital accounts (such as accounts receivable, inventory and accounts payable) are typically driven by revenue and cost of sales. Loans will be repaid in accordance with their amortization schedules. Therefore, the "plug" figure in a budgeted balance sheet is often a line of credit or shareholder loan. That is, if cash goes below a certain threshold, you are likely to take on debt to make up for the shortfall.

Getting help

Companies that operate without a budget can quickly become cash poor and debt heavy. We can help review your financial statements and establish a feasible budget that puts you on the road to success in 2018 and beyond.

Find Time For Strategic Planning

As a business owner, you know that it's easy to spend nearly every working hour on the multitude of day-to-day tasks and crises that never seem to end. It's essential to your company's survival, however, to find time for strategic planning.

Lost in the weeds

Business owners put off strategic planning for many reasons. New initiatives, for example, usually don't begin to show tangible results for some time, which can prove frustrating. But perhaps the most significant hurdle is the view that strategic planning is a time-sucking luxury that takes one's focus off of the challenges directly in front of you.

Although operational activities are obviously essential to keeping your company running, they're not enough to keep it moving forward and evolving. Accomplishing the latter requires strategic planning. Without it, you can get lost in the weeds, working constantly yet blindly, only to look up one day to find your business teetering on the edge of a cliff — whether because of a tough new competitor, imminent product or service obsolescence, or some other development that you didn't see coming.

Quality vs. Quantity

So how much time should you and your management team devote to strategic planning? There's no universal answer. Some experts say a CEO should spend only 50% of his or her time on daily operations, with the other half going to strategy — a breakdown that could be unrealistic for some.

The emphasis is better put on quality rather than quantity. However many hours you decide to spend on strategic planning, use that time solely for plotting the future of your company. Block off your schedule, choose a designated and private place (such as a conference room), and give it your undivided attention. Make time for strategic planning just as you would for tending to an important customer relationship.

Time well spent

Effective strategic planning calls for not only identifying the right business-growing initiatives, but also regularly re-evaluating and adjusting them as circumstances change. Thus, strategizing should be part of your weekly or monthly routine — not just a "once in a while, as is convenient" activity. You may need to delegate some of your current operational tasks to make that happen but, in the long run, it will be time well spent. Please let us know how we can help.

New Tax Law Gives Pass-Through Businesses A Valuable Tax Deduction

Although the drop of the corporate tax rate from a top rate of 35% to a flat rate of 21% may be one of the most talked about provisions of the Tax Cuts and Jobs Act (TCJA), C corporations aren't the only type of entity significantly benefiting from the new law. Owners of non-corporate "pass-through" entities may see some major — albeit temporary — relief in the form of a new deduction for a portion of qualified business income (QBI).

A 20% deduction

For tax years beginning after December 31, 2017, and before January 1, 2026, the new deduction is available to individuals, estates and trusts that own interests in pass-through business entities. Such entities include sole proprietorships, partnerships, S corporations and, typically, limited liability companies (LLCs). The deduction generally equals 20% of QBI, subject to restrictions that can apply if taxable income exceeds the applicable threshold — $157,500 or, if married filing jointly, $315,000.

QBI is generally defined as the net amount of qualified items of income, gain, deduction and loss from any qualified business of the non-corporate owner. For this purpose, qualified items are income, gain, deduction and loss that are effectively connected with the conduct of a U.S. business. QBI doesn't include certain investment items, reasonable compensation paid to an owner for services rendered to the business or any guaranteed payments to a partner or LLC member treated as a partner for services rendered to the partnership or LLC.

The QBI deduction isn't allowed in calculating the owner's adjusted gross income (AGI), but it reduces taxable income. In effect, it's treated the same as an allowable itemized deduction.

The Limitations

For pass-through entities other than sole proprietorships, the QBI deduction generally can't exceed the greater of the owner's share of:

50% of the amount of W-2 wages paid to employees by the qualified business during the tax year, or

The sum of 25% of W-2 wages plus 2.5% of the cost of qualified property.

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Qualified property is the depreciable tangible property (including real estate) owned by a qualified business as of year-end and used by the business at any point during the tax year for the production of qualified business income.

Another restriction is that the QBI deduction generally isn't available for income from specified service businesses. Examples include businesses that involve investment-type services and most professional practices (other than engineering and architecture).

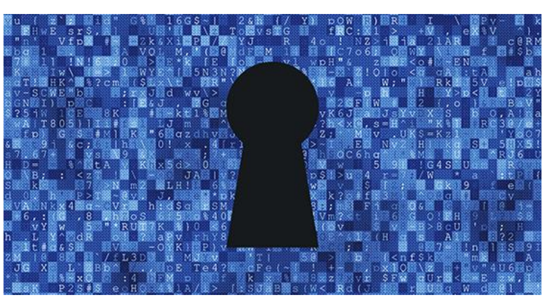
The W-2 wage limitation and the service business limitation don't apply as long as your taxable income is under the applicable threshold. In that case, you should qualify for the full 20% QBI deduction.

Careful Planning Required

Additional rules and limits apply to the QBI deduction, and careful planning will be necessary to gain maximum benefit. Please contact us for more details.

"The Road to Success Is Always Under Construction"

~Lily Tomlin



Unlock Hidden Cash From Your Balance Sheet

Need cash in a hurry? Here's how business owners can look to their financial statements to improve cash flow.

Receivables

Many businesses turn first to their receivables when trying to drum up extra cash. For example, you could take a carrot-and-stick approach to your accounts receivable — offering early bird discounts to new or trustworthy customers while tightening credit policies or employing in-house collections staff to "talk money in the door."
But be careful: Using too much stick could result in a loss of customers, which would obviously do more harm than good. So don't rely on amped up collections alone for help. Also consider refining your collection process through measures such as electronic invoicing, requesting upfront payments from customers with questionable credit and using a bank lockbox to speed up cash deposits.

Inventory

The next place to find extra cash is inventory. Keep this account to a minimum to reduce storage, pilferage and security costs. This also helps you keep a closer, more analytical eye on what's in stock.

Have you upgraded your inventory tracking and ordering systems recently? Newer ones can enable you to forecast demand and keep overstocking to a minimum. In appropriate cases, you can even share data with customers and suppliers to make supply and demand estimates more accurate.

Payables

With payables, the approach is generally the opposite of how to get cash from receivables. That is, you want to delay the payment process to keep yourself in the best possible cash position.

But there's a possible downside to this strategy: Establishing a reputation as a slow payer can lead to unfavorable payment terms and a compromised credit standing. If this sounds familiar, see whether you need to rebuild your vendors' trust. The goal is to, indeed, take advantage of deferred payments as a form of interest-free financing while still making those payments within an acceptable period.

Is your balance sheet lean?

Smooth day-to-day operations require a steady influx of cash. By cutting the "fat" from your working capital accounts, you can generate and deploy liquid cash to maintain your company's competitive edge and keep it in good standing with stakeholders. For more ideas on how to manage balance sheet items more efficiently, contact us.

~ *I R S Corner*

2018 Income Tax Withholding

WASHINGTON — The Internal Revenue Service today released Notice 1036, which updates the income-tax withholding tables for 2018 reflecting changes made by the tax reform legislation enacted last month. This is the first in a series of steps that IRS will take to help improve the accuracy of withholding following major changes made by the new tax law.

The updated withholding information, posted today on IRS.gov, shows the new rates for employers to use during 2018. Employers should begin using the 2018 withholding tables as soon as possible, but not later than Feb. 15, 2018. They should continue to use the 2017 withholding tables until implementing the 2018 withholding tables.

Many employees will begin to see increases in their paychecks to reflect the new law in February. The time it will take for employees to see the changes in their paychecks will vary depending on how quickly the new tables are implemented by their employers and how often they are paid — generally weekly, biweekly or monthly.

The new withholding tables are designed to work with the Forms W-4 that workers have already filed with their employers to claim withholding allowances. This will minimize burden on taxpayers and employers. Employees do not have to do anything at this time.

"The IRS appreciates the help from the payroll community working with us on these important changes," said Acting IRS Commissioner David Kautter. "Payroll withholding can be complicated, and the needs of taxpayers vary based on their personal financial situation. In the weeks ahead, the IRS will be providing more information to help people understand and review these changes."

The new law makes a number of changes for 2018 that affect individual taxpayers. The new tables reflect the increase in the standard deduction, repeal of personal exemptions and changes in tax rates and brackets.

For people with simpler tax situations, the new tables are designed to produce the correct amount of tax withholding. The revisions are also aimed at avoiding over- and under-withholding of tax as much as possible.

To help people determine their withholding, the IRS is revising the withholding tax calculator on IRS.gov. The IRS anticipates this calculator should be available by the end of February. Taxpayers are encouraged to use the calculator to adjust their withholding once it is released.

The IRS is also working on revising the Form W-4. Form W-4 and the revised calculator will reflect additional changes in the new law, such as changes in available itemized deductions, increases in the child tax credit, the new dependent credit and repeal of dependent exemptions.

The calculator and new Form W-4 can be used by employees who wish to update their withholding in response to the new law or changes in their personal circumstances in 2018, and by workers starting a new job. Until a new Form W-4 is issued, employees and employers should continue to use the 2017 Form W-4.

In addition, the IRS will help educate taxpayers about the new withholding guidelines and the calculator. The effort will be designed to help workers ensure that they are not having too much or too little withholding taken out of their pay.

For 2019, the IRS anticipates making further changes involving withholding. The IRS will work with the business and payroll community to encourage workers to file new Forms W-4 next year and share information on changes in the new tax law that impact withholding.

"Success is the Sum of Small Efforts - Repeated Day In and Day Out"

~Robert Collier