THE VOS VOICE

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"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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INSIDE THIS ISSUE

2018 Q3 TAX CALENDAR: KEY DEADLINES FOR BUSINESSES AND OTHER EMPLOYERS

Here are some of the key tax-related deadlines affecting businesses and other employers during the second quarter of 2018. Keep in mind that this list is not all-inclusive, so there may be additional deadlines that apply to you. Contact us to ensure you are meeting all applicable deadlines and to learn more about the filing requirements.

July 31

• Report income tax withholding and FICA taxes for second quarter 2018 (Form 941), and pay any tax due. (See the exception below, under "August 10.")

• File a 2017 calendar-year retirement plan report (Form 5500 or Form 5500-EZ) or request an extension.

August 10

• Report income tax withholding and FICA taxes for second quarter 2018 (Form 941), if you deposited on time and in full all of the associated taxes due.

September 17

• If a calendar-year C corporation, pay the third installment of 2018 estimated income taxes.

• If a calendar-year S corporation or partnership that filed an automatic six-month extension:

• File a 2017 income tax return (Form 1120S, Form 1065 or Form 1065-B) and pay any tax, interest and penalties due.

• Make contributions for 2017 to certain employer-sponsored retirement plans.

A MID-YEAR REVIEW SHOULD GO BEYOND FINANCIALS

Every year is a journey for a business. You begin with a set of objectives for the months ahead, probably encounter a few bumps along the way and, hopefully, reach your destination with some success and a few lessons learned.

The middle of the year is the perfect time to stop for a breather. A midyear review can help you and your management team determine which objectives are still "meetable" and which one's may need tweaking or perhaps even elimination.

Naturally, this will involve looking at your financials. There are various metrics that can tell you whether your cash flow is strong and debt load manageable, and if your profitability goals are within reach. But don't stop there.

(3) KEY AREAS - Here are three other key areas of your business to review at midyear:

1. **HR** - Your people are your most valuable asset. So, how is your employee turnover rate trending compared with last year or previous years? High employee turnover could be a sign of underlying problems, such as poor training, lax management or low employee morale.

Please see *A Mid-Year Review Should Go Beyond Financials* on page 2

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2. **Sales and Marketing** - Are you meeting your monthly goals for new sales, in terms of both sales volume and number of new customers? Are you generating an adequate return on investment (ROI) for your marketing dollars? If you can't answer this last question, enhance your tracking of existing marketing efforts so you can gauge marketing ROI going forward.

3. **Production** - If you manufacture products, what's your unit reject rate so far this year? Or if yours is a service business, how satisfied are your customers with the level of service being provided? Again, you may need to tighten up your methods of tracking product quality or measuring customer satisfaction to meet this year's strategic goals.

NECESSARY ADJUSTMENTS

Don't wait to the end of the year to assess the progress of your 2018 strategic plan. Conduct a midyear review and get the information you need to make any adjustments necessary to help ensure success. Let us know how we can help.

"Though no one can go back and make a brand new start, anyone can start from now and make a brand new ending."

--Carl Bard

COULD A LONG-TERM DEAL EASE YOUR SUCCESSION PLANNING WOES?

Some business owners — particularly those who founded their companies — may find it hard to give up control to a successor. Maybe you just can't identify the right person internally to fill your shoes. While retirement isn't in your immediate future, you know you must eventually step down.

One potential solution is to find an outside buyer for your company and undertake a long-term deal to gradually cede control to them. Going this route can enable a transition to proceed at a more manageable pace.

Time and capital

For privately held businesses, long-term deals typically begin with the business owner selling a minority stake to a potential buyer. This initiates a tryout period to assess the two companies' compatibility. The parties may sign an agreement in which the minority stakeholder has the option to offer a takeover bid after a specified period.

Beyond clearing a path for your succession plan, the deal also may provide needed capital. You can use the cash infusion from selling a minority stake to fund improvements such as:

- Hiring additional staff,
- Paying down debt,
- Conducting research and development, or
- Expanding your facilities.

Any or all of these things can help grow your company's market share and improve profitability. In turn, you'll feel more comfortable in retirement knowing your business is doing well and in good hands.

Benefits for the buyer

You may be wondering what's in it for the buyer. A minority-stake purchase requires less cash than a full acquisition, helping buyers avoid finding outside deal financing. It's also less risky than a full purchase. Buyers can, for example, push for the company to achieve certain performance objectives before committing to buying it.

Integration may also be easier because buyers have time to coordinate with sellers to implement changes — an advantage when their IT, accounting or other major systems are dissimilar. In addition, in a typical M&A transaction, decisions must be made quickly. But under a long-term deal, the parties can debate and negotiate options, which may improve the arrangement for everyone.

What's right for you

There are, of course, a wide variety of other strategies for creating and executing a succession plan. But if you're leaning toward finding a buyer and are in no rush to complete a sale, a long-term deal might be for you. Our firm can provide further information.

7 Ways to prepare your business for sale

For some business owners, succession planning is a complex and delicate matter involving family members and a long, gradual transition out of the company. Others simply sell the business and move on. There are many variations in between, of course, but if you're leaning toward a business sale, here are seven ways to prepare:

1. ***Develop or renew your business plan.*** Identify the challenges and opportunities of your company and explain how and why it's ready for a sale. Address what distinguishes your business from the competition, and include a viable strategy that speaks to sustainable growth.

2. ***Ensure you have a solid management team.*** You should have a management team in place that's, essentially, a redundancy of you. Your leaders should have the vision and know-how to keep the company moving forward without disruption during and after a sale.

3. ***Upgrade your technology.*** Buyers will look much more favorably on a business with up-to-date, reliable and cost-effective IT systems. This may mean investing in upgrades that make your company a "plug and play" proposition for a new owner.

4. ***Estimate the true value of your business.*** Obtaining a realistic, carefully calculated business appraisal will lessen the likelihood that you'll leave money on the table. A professional valuator can calculate a defensible, marketable value estimate.

5. ***Optimize balance sheet structure.*** Value can be added by removing nonoperating assets that aren't part of normal operations, minimizing inventory levels, and evaluating the condition of capital equipment and debt-financing levels.

6. ***Minimize tax liability.*** Seek tax advice early in the sale process — before you make any major changes or investments. Recent tax law changes may significantly affect a business owner's tax position.

7. ***Assemble all applicable paperwork.*** Gather and update all account statements and agreements such as contracts, leases, insurance policies, customer/supplier lists and tax filings. Prospective buyers will request these documents as part of their due diligence.

Succession planning should play a role in every business owner's long-term goals. Selling the business may be the simplest option, though there are many other ways to transition ownership. Please contact our firm for further ideas and information.

IRS Audit Techniques Guide Provides Clues to What May Come Up if your Business is Audited

IRS examiners use Audit Techniques Guides (ATGs) to prepare for audits — and so can small business owners. Many ATGs target specific industries, such as construction. Others address issues that frequently arise in audits, such as executive compensation and fringe benefits. These publications can provide valuable insights into issues that might surface if your business is audited.

What do ATGs cover?

The IRS compiles information obtained from past examinations of taxpayers and publishes its findings in ATGs. Typically, these publications explain:

• The nature of the industry or issue,
• Accounting methods commonly used in an industry,
• Relevant audit examination techniques,
• Common and industry-specific compliance issues,
• Business practices,
• Industry terminology, and
• Sample interview questions.

By using a specific ATG, an examiner may, for example, be able to reconcile discrepancies when reported income or expenses aren't consistent with what's normal for the industry or to identify anomalies within the geographic area in which the taxpayer resides.

What do ATGs advise?

ATGs cover the types of documentation IRS examiners should request from taxpayers and what relevant information

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might be uncovered during a tour of the business premises. These guides are intended in part to help examiners identify potential sources of income that could otherwise slip through the cracks.

OTHER ISSUES THAT ATGS MIGHT INSTRUCT EXAMINERS TO INQUIRE ABOUT INCLUDE:

- Internal controls (or lack of controls),
- The sources of funds used to start the business,
- A list of suppliers and vendors,
- The availability of business records,
- Names of individual(s) responsible for maintaining business records,
- Nature of business operations (for example, hours and days open),
- Names and responsibilities of employees,
- Names of individual(s) with control over inventory, and
- Personal expenses paid with business funds.

For example, one ATG focuses specifically on cash-intensive businesses, such as auto repair shops, check-cashing operations, gas stations, liquor stores, restaurants and bars, and salons. It highlights the importance of reviewing cash receipts and cash register tapes for these types of businesses.

Cash-intensive businesses may be tempted to underreport their cash receipts, but franchised operations may have internal controls in place to deter such "skimming." For instance, a franchisee may be required to purchase products or goods from the franchisor, which provides a paper trail that can be used to verify sales records.

Likewise, for gas stations, examiners must check the methods of determining income, rebates and other incentives. Restaurants and bars should be asked about net profits compared to the industry average, spillage, pouring averages and tipping.

AVOIDING RED FLAGS

Although ATGs were created to enhance IRS examiner proficiency, they also can help small businesses ensure they aren't engaging in practices that could raise red flags with the IRS. To access the complete list of ATGs, visit the IRS website. And for more information on the IRS red flags that may be relevant to your business, contact us.

"The best preparation for tomorrow is doing your best today."

--H. Jackson Brown, Jr.

~I R S Corner

IRS

IR-2018-145, June 28, 2018

WASHINGTON — Taxpayers who owed additional tax when they filed their 2017 federal tax return earlier this year can avoid another unexpected tax bill next year by doing a "paycheck checkup" as soon as possible, according to the Internal Revenue Service.

The Tax Cuts and Jobs Act, the tax reform legislation passed in December, made major changes to the tax law, including increasing the standard deduction, removing personal exemptions, increasing the Child Tax Credit, limiting or discontinuing certain deductions and changing tax rates and brackets.

These far-reaching changes could have a big impact on the tax refund or balance due on the tax return people file next year. The IRS encourages every employee to do a "paycheck checkup" soon to ensure they have the correct amount of tax taken out of their pay.

Checking and adjusting withholding now can prevent an unexpected tax bill and penalties next year at tax time. The IRS Withholding Calculator and Publication 505, Tax Withholding and Estimated Tax, can help.

The IRS encourages taxpayers to be proactive:

Do a 'paycheck checkup' soon

- The Withholding Calculator can help taxpayers apply the new law to their specific financial situation and make an informed decision whether to change their withholding this year.
- Adjust their withholding as soon as possible for an even, consistent amount of withholding throughout the rest of the year.
- Taxpayers with more complex situations may need to use Publication 505. The publication is more effective for employees who owe self-employment tax, the alternative minimum tax or tax on unearned income from dependents. It can also help those who receive non-wage income such as dividends, capital gains, rents and royalties. Publication 505 includes worksheets and examples to guide taxpayers through their particular situations.

Visit www.IRS.gov for further information