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Mueller Prost CPAs + Business Advisors

Advising with Vision®

Business Owner's Perspectives

Trends and Strategies for Owners of Closely Held and Family Businesses

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Exit Planning Strategies

The Role of Nonqualified Retirement Plans

In his groundbreaking book The 7 *Habits of Highly Effective People*, Dr. Steven R. Covey encourages readers to "begin with the end in mind." If you're the owner of a closely held business, you'd do well to keep this advice in mind as you think about exiting your business.

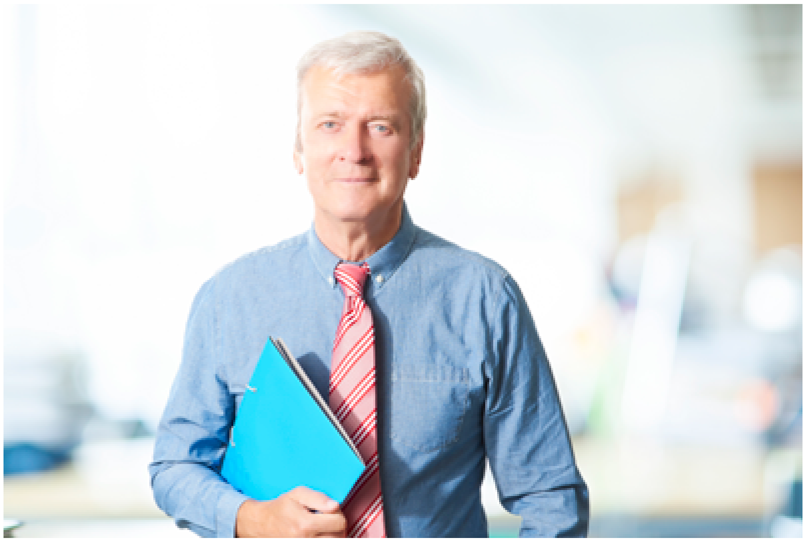
Unfortunately, many owners give little thought to their exit plan. Or if they do think about it, they wait until it's too late to execute a plan that helps them realize their post-business objectives—whether this is retirement or starting a new business venture.

Think About Your "Business End"

Ideally, you should start thinking about your exit plan as soon as you start your business. In other words, you should begin your business with the end—or your eventual exit—in mind.

One effective but often overlooked tool that can be part of your exit planning strategy is the use of nonqualified retirement plans. These include deferred compensation, executive bonus, cross-tested, cash balance, and split-dollar life insurance plans.

Nonqualified plans fall outside of ERISA guidelines, so they are exempt from the nondiscrimination and top-heavy testing rules that qualified plans like 401(k)s must follow. Businesses use these to maximize benefits for owners, key executives, and other highly compensated employees.



Employee Retention … and Acquisition Funding

Incorporating nonqualified plans into your exit strategy can accomplish two key objectives:

1. It can help retain key employees for the long term. This is critical in boosting the value of the business over time—because buyers will pay more for a company with long-term, experienced managers and executives than they will for one without them.

For this reason, nonqualified plans are sometimes referred to as "golden handcuffs." They are structured in such a way that key employees are incented financially to remain with the business until (and preferably after) it is sold.

2. It can help fund the business acquisition if you eventually sell your business to key employees via a management buyout (MBO). Funding is often the biggest challenge that keeps otherwise qualified managers and executives from being able to acquire the company they work for and keep the owner's legacy alive.

For example, suppose you want to sell your business to a group of executives for $5 million. A nonqualified plan could provide 30 percent of the price (or $1.65 million) that can be used as a down payment for the purchase, with the remainder financed by the bank or yourself.

A wide variety of funding mechanisms can be used to fund a nonqualified plan, including permanent life insurance. Importantly, the plan doesn't have to be funded until the

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Word to the Wise

How to Work Best with Your CPA

Discussions between CPAs and their clients cover many intimate topics, from the inner workings of a business to creating a family's legacy. Because of the implications these discussions can have on a client's future and financial position, it's imperative that the lines of communication remain open—not just at tax time, but all year round.

Here are several best practices for how to work best with your CPA:

Ask about big decisions. If you are considering expanding your business, selling your business, or buying or selling a significant asset, call your CPA to discuss how to proceed in the most tax-efficient manner. Your CPA is aware of ways to structure purchases or sales to take advantage of current tax law. Making such decisions without the advisor's input can result in lost opportunities for savings, either now or in the future.

The same is true for family decisions. If you are getting married or divorced, having or adopting children, hiring or firing relatives, or making philanthropic decisions, talk things over with your CPA. He or she can serve as a sounding board, assist with planning, and help guide these decisions in a financially responsible manner. As always, the earlier you get your trusted advisor involved in these decisions, the better.

Ask about not-so-big decisions. Your team is eager to help you—even if it's not specifically in the accounting or finance arena. Because your CPA serves many clients in different industries, he or she is exposed to expertise in a variety of disciplines, from technology to cybersecurity to personnel and marketing.

Your CPA might know the answer you're seeking, but if not, he or she can likely refer you to just the right person to address your concern or curiosity.

Ask about tax and regulatory issues. Tax law and regulatory changes can have a major impact on your business, compensation structure, and estate planning. Your tax advisor is the best resource for the latest information about how tax and regulatory updates affect you—and what you can do to mitigate any negative impact.

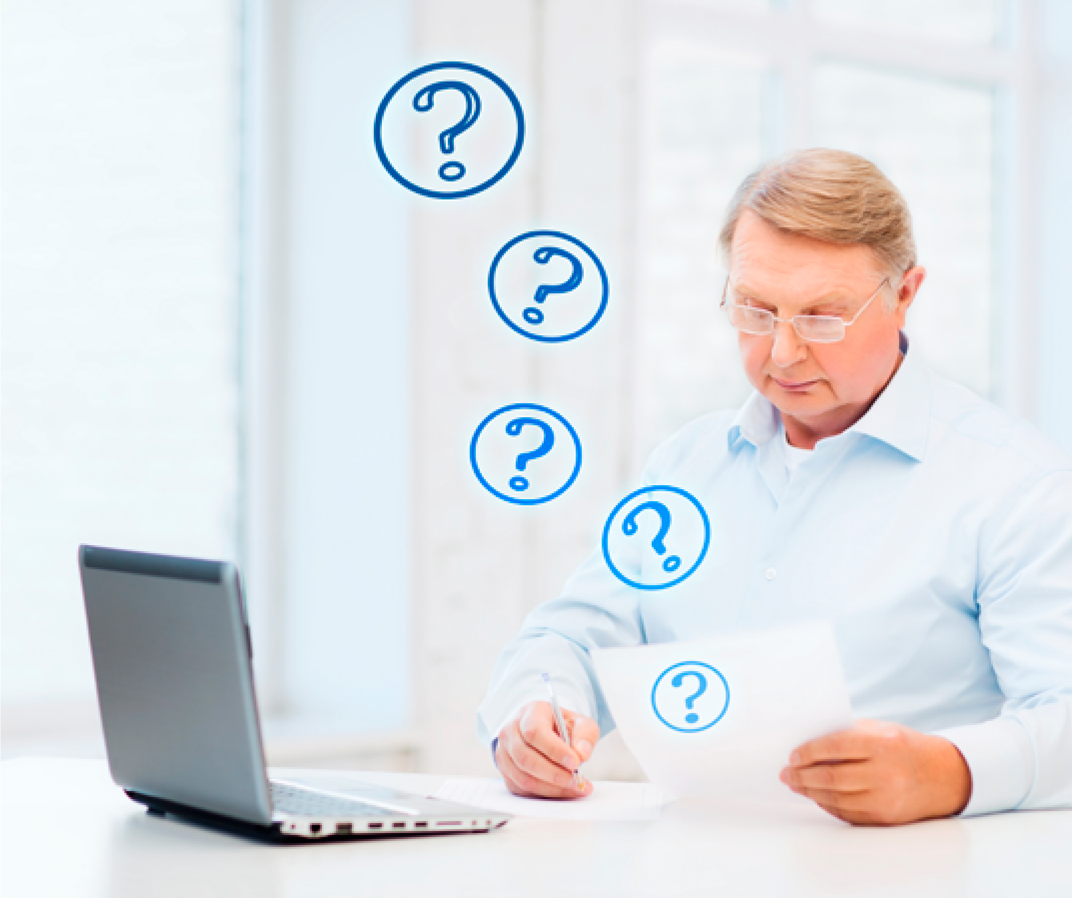
Review important documents. In addition to having your attorney draft and review important documents, have your CPA review them, too. These documents include such items as corporate bylaws and insurance policies, as well as non-compete, equity compensation, employee, and prenuptial agreements. Your CPA can weigh in on how these agreements and policies can be best structured in light of your specific business and family financial circumstances.

Don't hide. To paraphrase the iconic Las Vegas slogan, "What happens in your CPA's office stays in your CPA's office." He or she has seen and heard it all, so don't be afraid to share what you might consider to be silly questions, questionable decisions, or difficult circumstances.

For example, if you or a family member has substance abuse or addiction problems that might affect your business or estate, tell your CPA. If you've generated unwanted debt, made a bad business deal, or created a problematic family situation, tell your CPA. He or she will not be surprised or judgmental. In fact, your advisor can likely assist you in managing the fallout of these circumstances and perhaps provide insight and guidance as to how to handle them in the future.

Remember, your CPA is your ally. Working closely with him or her is the best way to protect your assets and plan for your financial future.

Have questions that we can address? Let's set up a time to talk.



Boost Efficiency and Profitability

Are You Using These Treasury Management Tools?

When it comes to increasing profitability in today's competitive environment, efficiency is the name of the game. And one of the best ways to boost efficiency is by utilizing treasury management tools that your bank offers.

In addition to helping increase operational efficiency, using treasury management tools can lead to a host of other benefits, including the following:

- Better cash flow
- Improved financial forecasting
- Lower fraud risk
- Increased automation
- Enhanced integration of internal data with data stored at the bank

Top Treasury Management Tools

Here are five popular treasury management tools that can help you improve efficiency at your business:

1. ACH electronic funds transfers—Sending and receiving funds electronically via the Automated Clearing House (ACH) is becoming more common. Each year, banks process approximately 25 billion ACH transactions totaling about $43 trillion.

Most ACH fund transfers are in the form of payroll direct deposits, tax payments (both federal and state), and electronic credits and debits. Using the ACH instead of mailing paper checks increases efficiency and control while also lowering payment processing costs. For example, it costs about $1.22 on average to process a paper check, but less than half this using the ACH.

2. Wholesale lockbox—This helpful tool improves receivables collection, which boosts cash flow. Instead of mailing checks directly to your business, your customers mail them to a special post office box that's monitored continuously by the bank, which processes them immediately.

Using wholesale lockbox reduces mail and check processing float and accelerates cash availability. It also eliminates the need for an accounting employee to have to make trips to the bank to deposit checks, which increases productivity.

3. Wire transfers—This is another form of electronic funds transfer similar to the ACH except that wire transfers are made on a same-day basis (ACH transfers typically take two to three business days). Wire transfers are typically used for high-dollar payments that need to be transferred without delay, such as funds to close a real estate deal.

4. Remote Deposit Capture (RDC)—Like wholesale lockbox, this service also speeds up check processing and posting and accelerates cash flow. You can use software and a special scanner from your bank to deposit checks remotely from your office. RDC also eliminates employee trips to the bank, thus boosting employee productivity.

5. Positive Pay and ACH Positive Pay—The growing threat of check fraud that many businesses are facing today makes this service almost essential. With Positive Pay, you provide the bank with a check-issued file that the bank compares to all checks presented for payment. You are then alerted to any checks presented that don't match the file and can make a pay or no-pay decision.

ACH Positive Pay works similarly for electronic payments. You give the bank a list of all vendors that are paid electronically. If any ACH payments are initiated to vendors that aren't on the list, you'll be alerted and can deny or approve the payment.

Missed Opportunities

If you're not using tools like these to increase efficiency, boost cash flow, and reduce fraud risk, you could be missing out on tremendous opportunities. Plan to sit down with your banker soon to discuss how your business could benefit by using treasury management tools.

A Deeper Look at Nonqualified Plans

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payments are due to the executives, which provides you with additional financial flexibility.

Don't Forget Qualified Plans

In addition to incorporating nonqualified plans into your exit strategy, you should also take maximum advantage of qualified retirement plans like a 401(k) or a Simplified Employee Pension plan (SEP). This way, you won't be totally dependent on the sale of your business to meet your retirement income needs in case you can't sell your business for some reason when you want to.

In 2018, you can contribute up to $18,500 to a 401(k) if you're under the age of 50 or $24,500 if you're 50 years of age or over. The contribution limit for SEPs is much higher: This year, you can contribute up to $55,000 or 25 percent of your compensation (whichever is less) to an SEP.

Start Planning Now

If you haven't yet planned for your business exit, now is the time to get started. As you do, think about the role that both qualified and nonqualified plans can play in helping you realize your exit planning goals.

Please contact us for more guidance in creating a business exit plan that helps you meet your long-term objectives.

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Is Outsourced Accounting Right for You?

As businesses grow and change, their needs for expertise change too. Many companies benefit from outsourced accounting services at different stages. Depending on the company's needs, outsourced accounting can be a cost-effective way to get expertise without hiring employees.

Often, owners and executives like the idea of outsourcing the entire finance, accounting, or bookkeeping function. Outsourcing allows management to focus on the core business, reduces personnel management and space needs, and lets the company scale to adjust to business cycles.

Other scenarios may involve shorter-term outsourcing, such as:

Start-ups: If successful, virtually all start-ups reach a point where they outgrow their existing accounting resources. They need "real" financial statements for funding or require more sophisticated reporting and forecasting than the bookkeeper can provide.

Workforce changes: Maybe a CFO is retiring or a change in leadership has resulted in a personnel shift. These events can trigger a need for finance assistance.

Merger or acquisition: The sale of the company—or purchase of other enterprises—can strain the finance and accounting team. Short-term help can provide relief.

International business: For foreign companies establishing themselves in the U.S., domestic accounting expertise may be necessary.

Outsourced accounting can be structured to meet your specific business needs. For example, basic services include general bookkeeping—accounts payable and accounts receivable—plus transaction and payroll processing and month-end reporting.

Intermediate services include basic bookkeeping services, plus inventory and fixed asset accounting and more in-depth reconciliation and balance sheet activity.

Full-service outsourcing includes all of the services mentioned previously, plus revenue recognition, debt and capital lease accounting, cash management, forecasting, and advanced reporting.

Consider outsourced accounting as a flexible way to add expertise as your business grows.