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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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Going Global

How to Grow by Expanding Internationally

When they hear about exporting and doing business internationally, many business owners mistakenly think this is a realm reserved only for large corporations. In reality, this couldn't be further from the truth.

You might be surprised to learn that 98 percent of all U.S. exporting is done by small and medium-sized enterprises (SMEs), according to the International Trade Administration. That's the good news. The bad news is that only about one percent of all SMEs are exporting their products overseas.

Plenty of Potential

Also consider the fact that more than nine out of every 10 consumers in the world live *outside* of our country's borders. Given this, there's plenty of potential right now for U.S. small businesses to take advantage of the many benefits that exporting can bring to their companies. These benefits include:

- A larger and more diversified customer base.
- Greater economies of scale.
- Some insulation from downturns in the U.S. economy, as the economies of some foreign nations may be strong while ours is weak.
- A broader business perspective for you and your management team as you learn about business practices and customs in other countries.

Risks and Rewards

Of course, there are also risks involved in exporting. Foreign exchange and geopolitical risk are two of the biggest, along with possible payment delays from overseas customers and the potential for goods to be damaged or lost while in transit. Launching an exporting initiative will also require a significant investment on your part of both money and time.

Therefore, it's important to perform a detailed analysis of both the costs and opportunities of exporting before diving in headfirst. Here are five areas to examine:

1) Funding – How will you fund your exporting initiative? Try to determine all of the costs involved, including primary and secondary research, and then create an exporting budget so you have a clear picture of the potential costs before committing.

2) Financing – If you don't have enough liquid funds on hand to fund exporting, you may need to turn to a bank for export financing. In fact, banks can provide a wide range of helpful services for exporters, including foreign exchange, letters of credit, currency management and foreign deposit accounts.

3) Management – Does anyone on your management team have exporting experience that could prove helpful to your initiative? Or more importantly, will your managers be able to keep your existing operations running smoothly if you have to devote most

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Word to the Wise

Is Your Business Healthy?

As a business owner, your goal is to nurture and grow a successful company. But maybe a successful and *healthy* company is really what you should be aiming for. Unfortunately, "successful" doesn't always equal "healthy."

Yes, a healthy business is profitable, and a healthy business is growing. But a healthy business is also well managed, sustainable and resilient.

Looking Behind the Scenes

Here is what's going on behind the scenes at healthy companies today:

- **Management strength:** A healthy business isn't overly dependent on its owner, and it doesn't rely on the skills, talents, connections and drive of one individual. Instead, it has a well-defined management team in place, with each member doing his or her part in concert with others to form a flexible and cohesive unit that seeks excellence and continuous improvement.

- **A future focus:** Healthy businesses are ready for the future. Younger employees have a clear career path and are mentored by more seasoned executives. Middle managers are given the opportunity to lead important initiatives, make decisions and learn from their successes and failures. And senior executives help to shape industry affairs by serving on boards and sharing their experience with others.

> *A healthy business is profitable, and a healthy business is growing. But a healthy business is also well managed, sustainable and resilient.*

- **Succession strategy:** If you were suddenly taken out of the picture, what would happen to your company? Leaders of healthy companies think about succession and pave the way for future leadership. Whether the succession strategy involves the next generation of the family, an employee buy-out or a third-party sale, a plan is in place to secure the company's future.

- **Defined goals:** Healthy companies know where they're going. A mission statement guides big-picture decisions, while each team knows and can articulate its goals, and measures its progress using key performance indicators (KPIs). Management regularly shares dashboard numbers so employees know how their effort and decisions impact the company's position.

- **Information flow:** A company's communication patterns are an excellent indictor of health. In short, healthy companies deal with the truth. They encourage employee input and idea sharing, recognizing that executives may be too far from the front lines to know what's really happening "out there." They accept new ideas and encourage innovation.

- **Conflict resolution:** Healthy businesses recognize that problems usually have several possible solutions. Executives don't shy away from differences of opinion, but they also don't allow those differences to blow up into battles of will. Instead, they address conflict head on without blaming or shaming. They foster respectful debate and demand mature behavior and discourse in the workplace.

- **Good housekeeping:** A healthy business has key legal documents and insurance policies in place and up to date. Its books are clean, with no personal expenses muddying the accounting picture. Internal controls rule, and top executives set the ethical tone of the company.

> *Healthy businesses are ready for the future. Younger employees have a clear career path and are mentored by more seasoned executives.*

What About Your Business?

Do these practices describe your business? If so, your company should be destined for a long, healthy life. If not, take steps now to improve the health of your company.

Remember, a truly healthy business will endure and self-perpetuate. A merely "successful" business — one that's profitable today, but not set up for ongoing high performance — will eventually wither. ■

We can help you shape the future of your company. Contact us today to make a plan.

Tax Tips

Be on the Lookout for Tax Identity Theft

It's the biggest and most prevalent tax scam going right now — and the peak season is just around the corner. We're talking about tax identity theft and refund fraud.

This scam has become a big problem due primarily to its simplicity. Identity thieves steal their victims' sensitive personal information — primarily Social Security numbers and birthdates — and then file fake tax returns requesting refunds in their name. If thieves file bogus returns before victims file their legitimate tax returns, the IRS will usually send a refund check to the thief.

Victims, meanwhile, are left with the task of having to demonstrate to the IRS that the first return filed was fraudulent. Doing so can take weeks or months and countless hours on the phone or at an IRS office. And until the problem is resolved, no legitimate refund check will be issued to the victim.

An Exploding Problem

Tax identity theft and refund fraud first surfaced in 2008, but the problem has exploded in recent years. It's estimated by the IRS that more than 3 million fraudulent tax refunds were sent to tax identity thieves last year alone, up from just 51,000 a few years ago. The total cost to taxpayers is estimated to be more than $5.2 billion.

Tax identity theft is now the largest category of identity theft complaints by far, according to the FTC. It accounted for 43 percent of all identity theft complaints in 2012, up from just 15 percent in 2010.

One of the biggest challenges when it comes to dealing with tax identity theft is the fact that most people don't find out they are victims until it's too late. Typically, taxpayers get a notice from the IRS after they have filed informing them that a tax return has already been filed using their Social Security number.

This makes *now* the time to be especially diligent when it comes to guarding your Social Security number and other sensitive personal information. Most tax identity thieves strike early in the tax-filing season so they can file bogus returns before victims file their legitimate returns.

For example, if you receive an email, text or social media message supposedly from the IRS asking for your Social Security number or other personal information, *don't* reply to it. The IRS will not use these communication methods to ask for your sensitive personal information. Instead, forward such messages to phishing@irs.gov for further investigation.

What If You're Victimized?

If you do receive a notice from the IRS informing you that a bogus tax return has been filed in your name, contact the IRS Identity Protection Specialized Unit right away by phone at (800) 908-4490. At this time, you may be asked to complete IRS Form 14309, which is an *IRS Identity Theft Affidavit*. You must then send this and some kind of proof of your identity (like a copy of your Social Security card or driver's license) to the IRS.

In addition, you might also want to file an identity theft complaint with the FTC and your local authorities, as well as contact your CPA or tax preparer. Also consider putting a fraud alert on your credit reports by contacting TransUnion, Equifax or Experian. Whichever credit reporting company you contact will then let the other two know about your fraud alert.

Tax identity theft is a problem that probably isn't going away any time soon. So be extra diligent this upcoming tax season — first to protect your identity, and second to be on the lookout in case you've been victimized. ■

Contact us if you have more questions about tax identity theft.

Expanding Internationally

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of your attention to your exporting initiative for several months or longer?

4) Taxes – There are unique tax implications involved in doing business overseas that you need to be aware of. For example, both your company and employees residing overseas must pay taxes to the foreign government if your business activities result in the creation of a permanent establishment in a particular country.

5) Markets – Which overseas market or markets should you tap first? Visit the federal government's export trade portal (www.export.gov) for detailed information about overseas markets. The U.S. Commercial Service can also provide guidance through a network of trade professionals who are on the ground in many different countries.

Remember that your CPA or accounting professional can be an invaluable resource in your exporting initiative. Be sure to contact him or her early in your exporting due diligence process. ■

Please give us a call if you would like to discuss the potential benefits of exporting in more detail.

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Dealing with Complicated Families

Large or small, family businesses have one thing in common: *family*. As the generations grow, managing the "family" part of the business becomes more complex.

Once the family reaches a certain size, some family members will get married and maybe divorced, some might have serious health issues, and some will undoubtedly make bad decisions. Family problems then become family *business* problems, so it's wise to have agreements in place to handle these inevitable events. These include:

- **Shareholders agreement** – This agreement dictates what will happen in the event of the death, disability or departure of a shareholder. Families can write language into a shareholders agreement to prevent the possibility of non-family "in-laws" becoming voting partners if a shareholder dies.

- **Prenuptial agreement** – Some families insist: For a family member to remain a voting shareholder, he or she must have a prenuptial agreement with his or her spouse. Making a prenup agreement a precondition of marriage removes emotion from the discussion. The prenup can mesh with the shareholders agreement to prohibit non-family partners.

- **Will** – Wills become especially helpful in the case of second or subsequent marriages. If a shareholder has children, marries a spouse with children of his or her own, and the couple then has more children together, the estate can get messy. A will can alleviate any question about what happens to company shares.

- **Trusts** – For family members with special needs, trusts can protect assets, including company stock. A frank discussion with your financial advisors will yield options for taking care of relatives with disabilities, addiction problems or other issues.

These decisions can be difficult, but it's better to have agreements in place — even if they're not perfect — than to have a court decide what happens to shares of the family business. ■