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A tax, business, and financial planning newsletter for our clients and friends

Improve Your Cash Flow By Speeding Up Your Billing

Cash - the money that flows through a business - is the lifeblood of every company. The skill with which a business owner manages this cash is critical to the success of the company.

Too often, inefficient billing systems delay the flow of cash. It is obvious that the sooner a company bills its customers, the sooner it will get paid. Likewise, the longer a company delays invoicing, the longer it will wait for its payment.

Some business executives tend to take their billing procedures for granted, but if you will review them periodically, you might be able to speed them up. Remember, the faster you bill, the sooner you'll get paid.

Here are a few ideas to think about:

- Prepare invoices before you ship the goods. Some companies don't prepare invoices until after they have shipped orders. In many cases, this causes an unnecessary delay. If your company is in a position to ship most of its orders promptly,

you should consider preparing invoices before shipment is made.

In many companies, this is frequently the first step taken when an order is received. It is usually done by preparing the invoice and the packing slip on a single set of forms which, in addition to speeding up billing, also saves work.

- Invoice more frequently. Many companies treat invoicing as a time consuming and burdensome task and delay their invoicing to the end or beginning of the month. Some delay their invoicing until they can build up a quantity of invoices to justify the time needed to invoice. The time and effort needed for invoicing can be greatly reduced by the use of computerized billing



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Loophole: Interest paid on margin loans is treated for tax purposes as investment interest. Where personal interest is no longer tax deductible, investment interest can be deducted to the extent of interest, dividends, and other investment income.

Shift income to other family members through family limited partnerships. To retain control designate yourself as the general and limited partner. Fund the partnership with income producing property, marketable securities, or a percentage interest of a family business.

Loopholes: Exceptions to the 10% early withdrawal payments from retirement plans are... withdrawals after the employee reaches the age of 59 1/2...payments to a beneficiary or estate after the death of the individual...withdrawals that are due to the employee being disabled...annual equal periodic payments over the life expectancy of the employee...payments after age 55 to an employee who has separated from service.

Tax planning: Invest in tax shelter annuities which provide for guaranteed minimum death benefits and allow you to funnel money to your beneficiaries without going through probate. **Added benefit:** Earnings grow tax free until you begin taking withdrawals at age 59 1/2 or later. Early withdrawals are subject to a 10% penalty.



Understanding Your Office Workers

A recent national survey shows that there is a serious communication gap between business executives and office workers. The study indicates that employers who make an effort to understand the attitudes and opinions of office workers can be rewarded with greater office worker involvement in their work and, therefore, with higher productivity. Here's what the survey showed:

Opinion	% of Office Workers Who Agree	% of Executives Who Agree
"Office workers do as much as they can during their workday"	46%	16%
"A challenging job is very important to office workers"	81%	51%
"Freedom to decide how they do their own work is very important to office workers"	71%	23%
"Office workers think it is very important for executives to schedule meetings with them"	62%	31%

Tax Tips

It's time to update your will

Since Tax Reform, many estate plans have become outdated. If you don't review your estate plan and update your will, your heirs could lose many important benefits and might be forced to pay unnecessary estate taxes. Regardless of changes in the tax law, you should review your will regularly because your financial and personal situation might change.

SEP: An Easier, Less Expensive Employee Pension Plan

For smaller companies that can't offer their employees pension plans because of the cost and complexities involved, the answer may be a Simplified Employee Pension plan known as a SEP.

A SEP is as easy to start and to administer as an individual IRA. In essence, an employer-sponsored SEP consists of separate retirement accounts which are set up for individual employees. Within certain rules, the cost can be controlled by the employer.

Under the tax laws, all eligible employees must participate in an employer-funded SEP and the plan must not favor highly compensated employees. Employer contributions are deductible to the employer.

Employer contributions to a SEP have the added benefit of not being included in employee's wages or taxable income. Therefore, the contributions are not subject to payroll taxes.

Use Your Parent's Home As A Tax Shelter

Real estate is still one of the best ways to shelter your income from taxes. One of the most productive real estate tax shelter strategies to consider is buying your retired parents' home on a monthly installment payment basis and then renting it back to them.

You can set your installment payments at a level that best satisfies your needs. If the installment payments are greater than your parents' rent, your parents will have additional cash each month. If the payments are less than the rent, you will have additional cash each month. And, if the payments are equal to the rent, neither you nor your parents will experience a monthly cash outflow.

This strategy benefits your parents in three ways. First, they get cash for their retirement from the installment payments and from the down payment. Second, their home is no longer part of their taxable estate. And, finally, if your parents owned and occupied the home as their principal residence for at least two of the last five years, they can elect a \$500,000 exclusion from gain on the sale.

You get extra benefits, too. If your Adjusted Gross Income is within certain limits, you can deduct rental property expenses such as repairs, maintenance, and insurance as well as property taxes and depreciation.

Family-owned real estate transactions are closely watched by the IRS and it's important that you pay a fair market price for your parents' home. It's equally important that you set their rent at a reasonable level. However, keep in mind that because family members are low-risk tenants, a Tax Court had ruled that a reasonable family member rent can be up to 20% lower than general market rents.



The Real Cost of Mortgage Points

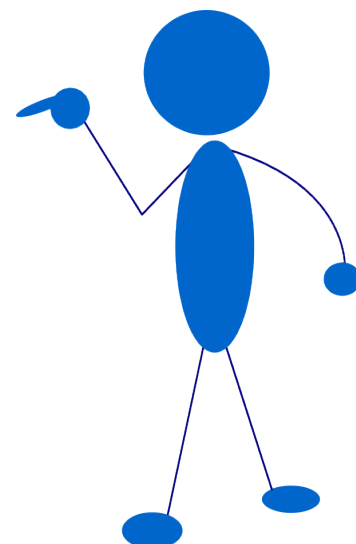
If you've shopped for a mortgage, you've probably noticed a considerable difference among the "points" charged by different mortgage originators. On the surface, a point seems simple enough: it's 1% of the face value of the mortgage. Points are charged as an up-front fee that may or may not be deducted from the proceeds of the loan. But comparing the combination of differing rates and points can be confusing. How do you compare, for instance, a 20-year mortgage with three points against a 30-year mortgage with two points?

The number you need to make the comparison is actually the "effective" rate of interest you'll pay for the face value of the mortgage plus points.

For a typical 30-year mortgage, here's a comparison of effective interest rates including points.

LENDER'S RATE	EFFECTIVE RATE FOR ONE POINT	EFFECTIVE RATE FOR TWO POINTS	EFFECTIVE RATE FOR THREE POINTS
7%	7.10%	7.20%	7.30%
8%	8.11%	8.21%	8.32%
9%	9.11%	9.23%	9.34%

For other stated interest rates, ask each potential lender to calculate the effective interest – what you'll really pay including points.



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systems. The cost to computerize or upgrade an existing computerized billing system can be justified by the reduction in time and effort needed to prepare invoices. Companies that delay invoicing are actually slowing down their cash flow.

In the long run, more frequent billing can often produce greater savings for a company by improving cash flow. And, of course, frequent billing helps to reduce the risk of non-payment.

- Assign shared order processing responsibilities. No single person should have the sole responsibility for any aspect of order processing or billing. A typical order processing procedure might, for example, in-

volve four steps: order entry, credit check, coding and editing. Each of these has to be done before shipping and invoicing are possible. But if each of these four procedures is assigned to a different employee, a real bottleneck can develop if, for example, one employee is ill.

It might be a much better idea to assign a group of orders to each employee and let that employee take the orders through each of the four order processing stages that precede shipping and invoicing. This will greatly reduce the possibility that the illness or inefficiency of one employee might delay billing. Furthermore, it familiarizes more employees with the total order processing procedure.

- Segregate "problem" orders. Order processing can be slowed to a walk by "problem" orders or by orders from new customers. These orders should be immediately removed from the normal processing routine and given to a specific person for resolution.

These billing and order processing procedures may or may not be suitable for your business, but they are good examples of things to consider when you review the billing procedures in your company. Remember, efficient order processing means faster billing, and the faster billing means improved cash flow.



T-Bill Timing To Save Taxes

U.S. Government Treasury bills are a uniquely attractive investment. In addition to being the safest investment you can make, T-bills offer tax-timing features that can save tax dollars.

- **T-bills with maturity dates of one year or less let you defer interest income.** T-bill interest isn't taxed until the T-bill matures. So, if, for example, you buy a 360-day T-bill in August of 2017 that matures in August of 2018, your tax on the interest income won't be due until April 15, 2019.
- **T-bills let you lower the tax on interest.** If you withdraw money from a CD before it matures, you'll

pay a penalty. This is not true of T-bills which can be sold before they mature to reduce the tax on interest.

Here's one example of how T-bill timing can work. Assume you buy a one-year \$200,000 T-bill in August of 2017. You pay \$194,000. By August of 2018, \$6,000 in interest will accrue. But in December of this year, you realize you'll be in the 15 percent tax bracket for 2017 and in the 28 percent tax bracket for 2018. Therefore, you sell the T-bill in December of this year, collect the interest income for this year, and pay 13 percent less tax than you would if you held the T-bill to maturity.

