Harris, Burnett & Schmiesing CPAs
7730 Olentangy River Road
Columbus, OH 43235
(614) 436-CPAS

CLIENT'S tax & financial UPDATE
VOLUME 37 / NUMBER 1
SEPTEMBER - OCTOBER 2014 ISSUE

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

How to Improve Your Chances of Getting a Business Loan

Regardless of whether interest rates are high or low, the ability to borrow is an important factor in running a successful business. Whether you need to borrow money now or in the future, it's good business practice to know what information a banker or other lender will need in order to grant your loan request.

This information falls into two broad categories. The first is **general information** about you, your business product or service, and your plans for the business. While some banks will gather this information from a loan application, it's wise to prepare a clear, written presentation of the general facts about you and your business.

General information

You'll probably be asked to supply some of this information on the loan application form, but you can often provide additional facts that will have a favorable impact on a lender. That's why it's good strategy to prepare a written presentation that gives a lender a clear description of you and the business you are in.

Here's a checklist for the general information you should include in your written presentation:

- Your management background, abilities, and accomplishments as well as those of your key management personnel.

- A general description of the nature of the industry or business you are in.
- The sales potential of your product or service. This should include your short-term and long-term marketing plans and how you

CONTINUED ON PAGE 4

taxPOINTS

You must keep records to support items reported on your tax return. You should keep basic records that relate to your federal tax return for at least three years. Basic records are documents that prove your income and expenses. This includes income information such as Forms W-2 and 1099. It also includes information that supports tax credits or deductions you claimed.

Tax loophole. Shift income to low-tax-bracket family members by structuring your business as a pass-through entity – for example, an S corporation, partnership, or limited liability company. The income each family member would report on their tax return is proportionate to their percentage of ownership.

Create estate tax savings by giving a minority interest in your business to family members. For estate tax purposes the value of a minority interest in a closely held business is often discounted 30% to 40% due to the lack of marketability and lack of management control.

What You Should Know About Deductible Moving Expenses

To deduct the costs of a job-related move, your new place of work must be at least 50 miles more than the distance between your former residence and your old place of work. In addition, you must work a minimum of 39 weeks in the 12 months following your arrival at your new location. The 39 weeks don't have to be consecutive, and you don't have to work for only one employer.

You can deduct the expenses that are reasonable for moving your personal property (furniture, appliances, cars, and personal effects) and that of other members of your household as well as travel expenses for you and your family to get to your new location (including lodging).

You have the option of deducting your car travel by using either your actual expenses for gas, oil, parking fees, and tolls you pay to move or the standard mileage rate of 23.5 cents a mile. You must keep an accurate record of each expense if you elect to deduct the actual expenses.

An important feature of deductible moving expenses is that they are not subject to the 2% of Adjusted Gross Income limitation on miscellaneous itemized deductions.

The Ten Biggest Financial Mistakes People Make

Most financial planners agree about the ten most common financial planning errors people make. Here's the list.

1. Failing to plan retirement financing.
2. Failing to carry an "umbrella" policy to protect against risks not covered in other policies.
3. Investing too much in one stock, usually the employer's stock.
4. No disability insurance or too little disability insurance.
5. Holding investments which are not productive.
6. No will or an outdated will.
7. Failing to use a short term trust to save taxes.
8. Investing in unwise or unnecessary tax shelters.
9. Relying on variable income to meet fixed expenses.
10. Failing to coordinate estate planning with personal financial planning.

Deducting Medical and Dental Expenses

With the high cost of medical care more people are now able to deduct on their tax return unreimbursed medical expenses. If you plan to claim a deduction for your medical and dental expenses you must be able to itemize your deductions on Schedule A and your medical and dental expenses must exceed 10 percent of your adjusted gross income (the threshold is 7.5% if you or your spouse is age 65 or older and this exception will apply through 2016).

Even if your medical and dental expenses were incurred in a previous year and paid in the current year, you can still deduct them in the current year as long as you have accurate records of those expenses. Include medical and dental expenses you paid for yourself, your spouse and your dependents. There may be some exceptions that apply, such as, expenses reimbursed by insurance or other sources don't qualify as a deduction.

Deductible medical and dental expenses must be mainly for diagnosing, treating, easing or preventing disease. Medical expenses include…

- Doctors and dentists
- Prescription medicines
- Qualified long-term care services
- Medical insurance premiums
- Eyeglasses, equipment and supplies
- Limited amounts for qualified long-term care insurance
- Transportation costs to and from medical care, the deduction is 24 cents per mile for 2014.

No double dipping. If you have paid your medical and dental expenses with monies from your Health Savings Account or Flexible Spending Arrangements, you can't deduct the amounts paid from those plans.

Estimated Taxes

Avoid Costly Surprises for Those with Nonwage Income

If you have nonwage income that is not subject to withholding, you'll probably owe some tax. If so, you are required to pay this tax to cover your tax liability through quarterly estimated tax payments or face underpayment penalties and interest.

Here are some tips on how to avoid estimated tax underpayment penalties at the end of this year and minimize the burden of quarterly taxes for 2014…

Nonwage income includes…

- Interest and dividend income
- Capital gains
- Business income
- Rental income
- Gambling winnings
- Taxable distributions from an IRA or pension plan
- Social security benefits
- Other income from non-wage sources

When you expect to owe $1,000 or more when you file your tax return, you should pay estimated taxes.

To avoid underpayment penalties, estimated tax payments must be large enough so that when combined with wage withholding they total at least…

- 90% of the tax shown on your current individual income tax return, or
- 100% of the tax that was shown on the prior year (110% if the prior year's adjusted gross income exceeded $150,000 on a single or joint return, $75,000 if married filing separately).

The estimated taxes are generally paid in four quarterly estimated tax payments of equal size with due dates of April 15, June 15, September 15 and January 15 of the following year.

The penalty for underpayment is the IRS interest rate, which changes quarterly and is 3% for the second quarter of 2014. Payments are made by filing the IRS Form 1040-ES voucher, Estimated Tax for Individuals, or electronically through the IRS's Electronic Federal Tax Payment System (EFTPS).

CONTINUED FROM PAGE 1

How to Improve Your Chances of Getting a Business Loan (continued)

intend to handle any problems or opportunities which your business faces.

- An explanation of exactly how the money you are borrowing will be spent, whether the amount is sufficient for your immediate or long-term purposes, and how the borrowed funds will contribute to your firm's well being.

In short, your general information presentation should tell the lender who you are, what your business has done and what you expect to do, how you intend to reach your goals, and, of course, how the money you are borrowing will help you achieve those goals. If you make a logical presentation of this general information, you'll set the table for a clear understanding of your financial information.

Financial information

It's critical that you present all financial information in a formal, professional manner. A sloppy financial presentation is almost certain to result in the rejection of your loan request. The following financial documents should be prepared by your accountant:

- A personal financial statement for you and other principals of the business or other guarantors of the loan. Be sure that your personal financial statement includes the amount of money that you yourself have at risk in the business.
- A balance sheet which shows your company's assets and liabilities for your most recent accounting period. It's important that the balance sheet includes the amount of the company's present indebtedness and the terms of repayment of any outstanding loans. Copies of recent company tax returns should be attached to the balance sheet as supporting material.
- An income statement which shows the company's profit performance over a specific period of time.
- A cash flow projection which includes the prospective loan funds and other sources of money and shows how the money will be used.
- A sales forecast which projects and preferably allocates sales by type of customer over a given period of time.
- A current ratio position which shows the relationship between the company's current assets and current liabilities.

The role of your accountant

It's important to involve your accountant in both the preparation of all financial documents and in your meetings with the lender. Your accountant can supply whatever degree of assurance about the financial information that your lender may require. The degree of assurance will vary, depending on matters such as the lender's previous experience with you, the size of the loan you've applied for, and how well the bank knows your business.

For example, audited financial statements may be required if you are requesting a large loan and the lender has not had any previous experience with your company. In other situations, a review of the financial information by your accountant may be sufficient, particularly if the lender has had previous dealings with your company.

It's generally recognized that banks credit standards vary among banks, some banks have tighter credit standards than others. But if you're properly prepared and make a solid presentation, your chances of getting that vital business loan will be greatly improved.

Illustration by Chris Gash