MONEY TALKS

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INSIDE

Personal Financial Planning 2

Taxes

Cash Flow Enhancement 3

Technology

Bank Lending Barometer (BLB) 4

The Way Things Are: Government Favors the Super Rich, the Poor, and the Bureaucracy... As a Result, Taxpayers, Especially Working Class Are Left Holding the Bag

EDITORIAL

In most high-tax States -- New York, Maryland, California, for example -- the function of government appears to be to promote the interest of the poor, the super rich, and the bureaucracy (government workers). The working-class, non-government worker has no voice in these high-tax States. Programs for the poor are designed to keep them poor and trapped; there is no accountability.

Unfortunately, I know this first hand: my mother faked out the system for more than 40 years. During that time – and since – I have seen money being thrown at the bureaucracy (supposedly) to help the poor, but with an end result of perpetuating the misery and keeping people down. Seeing how the system worked from the inside, I have formulated some steps to fix the situation. First of all, there should be a significant waiting period before any benefits begin. Life skills such as budgeting and assigning the proper priorities to expenses need to be taught along with work ethic, relationship skills, career options, and healthy living skills.

People with enough money to buy influence regularly buy off political leaders, receive special exceptions (for zoning, for example), and obtain government funding when the private sector would not fund their questionable projects. Then when a project goes bad the suffering taxpayers foot the bill for failure. The dishonest influencers shift costs of their developments to State and local governments, which requires taxes to be raised: taxes that are paid by the working class.

Another suggestion I have to increase accountability is to have customer service satisfaction surveys for the government. The government is not efficient. I hear from my clients who are employed by government agencies that 25 percent of the government workforce at all levels could be eliminated without any loss of services. There are no standards of performance at any level of government, and there is no accountability: everybody receives above average evaluations and problem employees are not fired – they are simply “reassigned.”

When a government-agency supervisor with integrity and a sense of accountability toward the taxpayer tries to get more productivity from his workers, the result often is that a worker in his department files a complaint against the boss with some vague claim – usually based on something “insensitive” that the supervisor supposedly said or did. The well-meaning supervisor learns his lesson – he becomes a drone and his motivation is lost forever. A government agency investigator of these claims told me that 64 percent of them have no merit at all – they just cause work interruptions and cost the taxpayers money.

There have been some positive changes in the bureaucracy over the past two years – accountability seems to be on the rise. The situation will only get better, however, if

Personal Financial Planning-

Annuities? Beware!

An annuity is a tax-deferred investment issued by an insurance company. It is similar to an IRA or a 401K plan in that it requires you to withdraw annual taxable payments starting at age 70½. There is one big difference between annuities and other retirement plans, however.

That big difference can have a very negative effect on your bottom line: it is the excessive amount of fees charged by the insurance company. Typical fees that the insurance company charges are a 6 percent upfront fee and an annual investment fee of 3 percent. The chart below compares the expenses and net annual value of a $500,000 annuity with a $500,000 IRA or 401K plan that has an annual investment fee of .75 percent (the typical fee at T Rowe Price or Vanguard). The chart shows the results after 10 years. What could you do with nearly a quarter-of-a-million dollars?
There are two more negative aspects to annuities that you need to be aware of. First is the surrender fee that starts at 7 percent in Year 1 and declines by 1 percent every year until this fee is gone at Year 8.

	Annuity	401K-IRA	Difference
Investment	500,000	500,000	-
Upfront fee	(30,000)	0	30,000
Net Investment	470,000	500,000	30,000
Rate of return	8.00%	8.00%	0.00%
Inv. Fee	-3.00%	-0.75%	2.25%
Net Return	5.00%	7.25%	2.25%
Initial balance	470,000	500,000	30,000
Value yr. 1	493,500	536,250	42,750
Value yr. 2	518,175	575,128	56,953
Value yr. 3	544,084	616,825	72,741
Value yr. 4	571,288	661,545	90,257
Value yr. 5	599,852	709,507	109,654
Value yr. 6	629,845	760,946	131,101
Value yr. 7	661,337	816,115	154,777
Value yr. 8	694,404	875,283	180,879
Value yr. 9	729,124	938,741	209,617
Value yr. 10	**765,580**	**1,006,800**	**241,219**

The second thing that you must be aware of is that annuities are high-commission products that are sold by brokers and agents who generally will not have a complete picture of your financial situation. Do not purchase an annuity unless it is part of a well-thought-out strategy that fits into your financial planning goals.

Let's look at some more of the pros and cons of annuities. If you have maxed out your retirement plans and want to defer more tax dollars, then an annuity may be an option. But you need to consider that if you take your after-tax dollars and invest them in a capital-appreciating mutual fund, then the income may be taxed at the lower capital gains rate, and this may eliminate the benefit of the annuity's tax deferral. You also must consider that most after-tax annuities cannot be un-

Personal Financial Planning (con't)

For people concerned with outliving their assets, fixed annuities may be a reasonable option. A fixed annuity guarantees that you will be paid a certain amount each month as long as you live after you make an initial lump sum investment that is credited with a certain rate of return. The problem with fixed annuities is that interest rates have been so low in the last 10 years that this type of annuity does not make sense from a rate-of-return perspective. Another problem with fixed annuities is what happens to the payments after you die: the insurance company may have the right to keep your money or, if you choose an option to pass the annuity to your heirs, you will receive a lower monthly payment. Contact my office if you are considering an annuity; we will do a thorough review to see if an annuity is right for you.

Taxes

2018 Income Taxes Big Changes

Although each individual and each company has unique circumstances, and a blanket statement cannot be made about whether the person will have a reduced or increased tax liability, it is true that the "Tax Cuts and Jobs Act," also known as the Trump Tax Plan, will put significantly more cash in the bank accounts of small businesses (businesses with sales less than $25 million).

Most individuals also will see more money in their bank accounts, but not nearly at the level that a small business owner will see. This year we included with the copy of each of our clients' tax returns a comparison of their taxes under the 2017 tax law compared to the 2018 tax law. This one-page report, which is called "Tax Reform Impact Summary," is only a general guide. Contact our office for more details.

The two big changes for small businesses will be the ability to use the cash method of accounting and the 20 percent Qualified Business Income Deduction. These changes are discussed below.

Cash Method. We will switch most of our current accrual-based clients to the cash method beginning with the 2018 year. Receivables minus payables on 12/31/17 will create an additional expense to be taken over a four-year period beginning in 2018.

The 20 Percent Qualified Business Income Deduction. This is a deduction of 20 percent for qualified businesses on their taxable income. In other words, the business is paying income taxes on only 80 percent of its taxable income. *All non-service businesses qualify for the 20 percent deduction regardless of income.*

The deduction is phased out for *some service businesses* (healthcare, law, accounting, consulting, financial services, brokerage services, performing artists, and athletics) when the business's income reaches $315,000 (joint returns). The phase-out continues with decreasing rates until income

Cash Flow Enhancement

What Is Your Business Worth?

Pratt Stats, a private company transaction database, has released its 2017 results showing the median sales multiple for all businesses sold in 2017. The median sales multiple went up 7 percent to .48 for 2017. Historical multiples data is shown in the chart below.

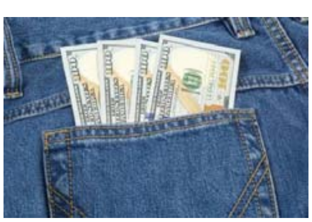
Year	Multiple	% Change
2007	0.60	-
2008	0.50	-17%
2009	0.47	-6%
2010	0.50	6%
2011	0.52	4%
2012	0.50	-4%
2013	0.50	0%
2014	0.53	6%
2015	0.46	-13%
2016	0.45	-2%
2017	0.48	7%

The multiple is obtained by taking the purchase price of the business and subtracting any long-term liabilities. The result of that calculation is divided by the sales for the most recent year.

Industry Breakdown	
Category	**Multiple**
Finance, Insurance, Real Estate	1.03
Manufacturing	0.67
Transportation	0.71
Services-Includes Medical	0.57
Agriculture	0.62
Wholesale Trade	0.40
Construction	0.36
Retail Trade-Includes Food Service	0.33

Multiples broken down by specific industries are shown in the chart below.

The multiples given for the various industries are averages. A key factor in a business's worth is its rate of profitability: a business with a lower rate of profitability will have a lower multiple than those in the industry breakdown. Contact my office to discuss your company's rate of profitability and ways to increase it.



Technology

Overuse of Excel Spreadsheets?

I have observed clients using Excel spreadsheets instead of relying on QuickBooks for basic accounting functions. For instance, an Excel spreadsheet is not the proper tool for recording employees' time as input to QuickBooks Payroll .

For instance, an Excel spreadsheet should not be the primary method of accounting for an employee's time for payroll purposes because it does not have the specific functionality needed to be useful at payroll time. A time clock program, on the other hand, records the time when an employee starts work, takes a lunch break, ends work. The program prints out a report, by employee, at the end of the payroll period showing the number of hours worked including regular time, overtime, and paid time off. The results may be entered into QuickBooks Payroll or the time clock program can export the data directly into the QuickaBooks payroll program. Adjustments always can be made after the export process.

Using an Excel spreadsheet to summarize the time clock program instead of using the QuickBooks Payroll is certainly not efficient and even may appear suspicious because this would be an easy way to pad an employee's hours.

The general manager of a construction company wanted to know the profitability of the construction projects, this is a good thing. Unfortunately, he used, an Excel spreadsheet to show the profit and loss on various construction projects. The spreadsheets showed the company as profitable, but, in reality, the company was unprofitable. The person using the Excel spreadsheet did not properly account for direct costs and fixed costs; therefore, the results were skewed toward a non-existent profitability.

The solution here is a simple, three-step process:

- Set up accounting processes (billing to customers, payables, and payroll) that record accounting transactions accurately and timely.
- Run profit and loss reports in QuickBooks; check if they are accurate and make sense.
- If the profit and loss is not accurate, find out why and make changes to the accounting processes.

Spreadsheets have their place: they allow you to test different variables for financial scenarios. But they cannot take the place of the features of an accounting system such as QuickBooks.

A spreadsheet also should not be used when what you really need is a database. If you do not have formulas using variables that you set up in your spreadsheet because they are important to your decision making, chances are you should set up a database, not a spreadsheet. A database gives you more control over your data and sorting and reporting it. Spreadsheets were made for numbers; they are not efficient when it comes to dealing with non-numeric data.

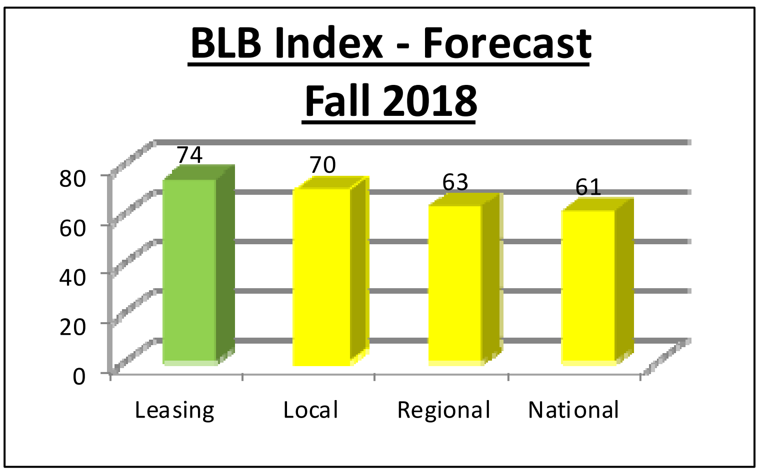
done once you invest in them. And, for estate tax purposes, after-tax annuities do not have a step-up basis for your heirs.

BLB: Bank Lending Tightening, But Still in OK Zone.

Bank lending has tightened somewhat at national and regional banks, this is the first tightening I have seen in five years. These banks are asking more questions then they ever have before in the last five years. In addition, they are requiring up to date profit and loss and balance sheets. Another item they are requiring is a profit and loss statement that covers multiple years-July 1, 2017 to June 30, 2018. Nevertheless, the national and local banks are still in the OK zone.

Local banks have tightened a little bit. Leasing companies have tightened slightly, but they can be the best deal if you are looking to get the financing quickly. Loan rates for 10 year term loan range from 4.5% to 5.25%.

Bank Lending Barometer



Score	Lending	Description
76-100	Jackpot	Here's the Money! We'll do the paperwork later.
51-75	OK	Let's see what we can do.
26-50	Tight	I would lend you the money, but under-writing is killing most of my deals now.
0-25	Very Tight	I know you have 100% cash pledged for the loan, but we don't have the money.

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