

SelfInformed

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**NASE's 2016
Dependent
Scholarship
Recipients**



BACK TO BASICS

The Benefits of **BUYING A BUSINESS**

Buying a business provides a tremendous money making opportunity because it combines six factors that make it far superior to any other form of investment.

•These six factors are:

- Appreciation
- Leverage
- Depreciation
- Amortization
- Conversion
- Cash Flow

Let us analyze each of these from the view of the business owner.



CASH FLOW

Cash flow refers to the deficits or surpluses of money after all expenses. Positive cash flow, indicates a situation where the business supports itself without additional cash allocations.

When a buyer is considering a business purchase, one of his first tasks should be to determine how much money he needs to live on. He must then start looking for a business that will give him at least that amount. National statistics indicate that the average small business is sold for 3.07 times owner benefit.

Owner benefit is a key term when analyzing and evaluating a business purchase. Owner benefit is described as the amount of money that goes to the owner of the business, and not necessarily what is reflected as the net profit in the tax returns.

Example: The tax filing of Bob’s Bagels, provided to Joe as part of the due diligence, reflected several allowable expense deductions. Joe prepared the owner benefit calculation for Bob’s Bagels as follows:

| | |
|-----------------------------------|------------------|
| Tax Statement Net Profit | \$20,000 |
| Owner Salary | \$40,000 |
| Personal Phone | \$1,000 |
| Personal auto | \$4,000 |
| Personal travel and entertainment | \$2,000 |
| Interest | \$3,000 |
| Depreciation | \$13,000 |
| Total Owner Benefit | \$ 83,000 |

With this owner benefit, Joe felt comfortable paying \$250K for Bob’s Bagels Shop.

CONCLUSION

When evaluating buying a business, common sense can be the buyer’s best ally. The amount of money a buyer makes in running the business will be greatly determined by how these factors are evaluated.

If the business buyer is looking to make his first business purchase, support from a business friendly attorney and accountant are strongly encouraged. Business brokers can be invaluable at filtering through hundreds of businesses to find a select few that meet the required profile and type. The business broker fees are generally paid by business sellers, so this resource can be an excellent element for the ground work.

An experienced business broker will ask the following questions as part of finding a list of good candidate businesses:

- How much cash is available to put down as down payment?
- What type of business is of interest or does the buyer have experience in?
- What types of business does the buyer definitely not want?
- Who will run the business on a daily basis?
- How much additional cash does the buyer have to cover new capital needs and start-up expenses?
- What minimum cash flow does the buyer need from a business to cover his current living expenses?
- How soon does the buyer want to be in business?
- Does the buyer have any location preferences?

Finding the right business will take time and effort. The best businesses sell fast and when the right business is found the buyer should have his team in place to move quickly and do the due diligence.

The benefits of buying the right business can give the buyer many years of profitable enjoyment.

Authors Note: Antonio Paez has over 20 years of experience in business brokerage, business valuations, business coaching, and mergers and acquisitions.



Ask the Expert

Q: *I am working on filing my extended tax return that is due in October and I discovered a number of payments that I did not include on last year's tax return. Can I just include those on the next year's return or have I lost the benefit of those items?*

A: The easy answer is 'No' to both questions. It would not be appropriate to include payments made in a prior year on the current year's income tax return, but the good news is that does not mean you have lost the benefit. As you probably already know, the IRS keeps our tax returns 'open' for three years, meaning that they can go back and examine those returns for potential errors or omissions at any time during that three year period. That may not sound fair, but it also means that we can make adjustments to those returns as well if indeed we

find that something was omitted or we discovered an error. The correct approach for the omitted deductions that you have discovered is to file an amended tax return for last year. The process is much easier than it sounds and in most cases you can complete the process yourself. If you use a tax professional, it would be a good idea to visit with them first to see how much in additional fees you will incur compared to the tax that you will recoup to determine whether or not the amended return is worth the effort.

The amended return is completed using IRS Form 1040X. You can download a copy of the form along with detailed instructions directly from the IRS website at www.IRS.gov. The



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form is basically just a comparison of the information that was originally filed and the new information that includes the missing items. Any specific forms from the original return that have changed based on the new data are also attached to the Form 1040X and that's it. Pretty simple and in most cases certainly worth the effort. The bottom line is that you should not include old items on the current tax return, but also don't assume that there is no benefit from those items.



As always, don't forget that you are not alone. Bookmark our website at **NASE.org** as well as the IRS website at IRS.gov and you will always be able to find the help you need.



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NASE's 2016 Dependent Scholarship Recipients

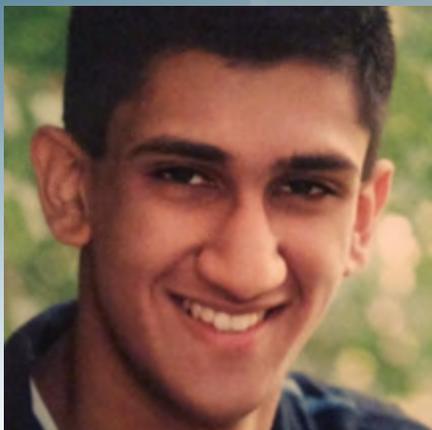
It's September and with the changing of the season comes the beginning of a new school year. It also means that we have handed out scholarships again for the 27th year in a row. Members from across the country work with their dependents to fill out applications early in the year. The applications are

then carefully and thoroughly reviewed with winners being notified over the summer in preparation of the Fall semester.

This year saw two of our 2015 recipients receive scholarships again, congratulations to Siddhart and Kelly on a job well done. Rounding out the four recipients are Jaycey Beard from Eagle, Colorado and

Jennifer Cail from Lisle, Illinois. We wish all the recipients of the NASE's 2016 Dependent Scholarship continued success as they continue on their educational journey.

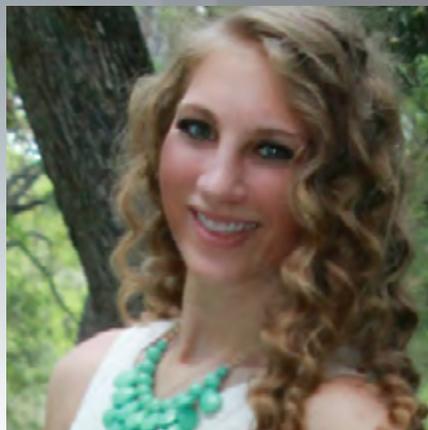
*For more information on **Dependent Scholarships**, please visit the **NASE website** to learn more.*



SIDDHART AGARWAL

2016 | Windham, New Hampshire

Siddhart plans to use the scholarship to attend Tufts University where he will study Biomedical Engineering.



KELLY LANGFORD

2016 | San Antonio, Texas

Kelly plans to use the scholarship to attend The University of Texas at San Antonio where she will study Nursing.



JAYCEY BEARD

2016 | Eagle, Colorado

Jaycey plans to use the scholarship to attend McNeese State University where she will study Health Services.



JENNIFER CAIL

2016 | Lisle, Illinois

Jennifer plans to use the scholarship to attend Wilson College where she will study Veterinary Sciences.



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Clinton Releases SMALL BUSINESS PLAN

Secretary Clinton released her eight point small business plan in August, the plan includes:

- **Unlocking access to capital.** We need to give small businesses—including women- and minority-owned small businesses—access to the financing they need to build, grow, and hire.
- **Cutting red tape to streamline the process of starting a small business.** The plan offers state and local governments new federal incentives to cut red tape and streamline unnecessary licensing to make it less costly to start a small business.
- **Providing tax relief and simplification for small businesses.** Simplify the rules so small businesses can track and file their taxes as easily as filling out a checkbook or printing a bank statement. And the plan would quadruple the start-up tax deduction to significantly lower the cost of starting a business.
- **Incentivize health care benefits for small businesses and their employees.** Expansion of the health care tax credit for small employers with up to 50 employees

through the Affordable Care Act. And simplify complex phase-out and eligibility rules so that it's easier for many more small businesses to get the credit and cover their workers.

- **Opening new markets.** Every small business across America should be able to enter new markets—whether those markets are across town or across the world. We should invest in the roads, bridges, ports, and airports that make it easier for small businesses to reach new customers, and encourage innovations that unlock new markets for small businesses.
- **Making sure small businesses get paid—not stiffed.** She will stop large companies from using expensive litigation hurdles to deny small businesses payment for services, and she'll give small businesses recourse to take on predatory behavior. Read more here.
- **Supporting small-business owners and entrepreneurs.** Expand the access and availability to incubators, mentoring, and training to 50,000 entrepreneurs and small-business owners in underserved communities across the country.

- **Make the federal government more responsive to small business.** Guarantee a 24-hour response time to small businesses with questions about federal regulations and access to capital programs.

The NASE supports a simplified tax code which is always better for the long-term survival of small businesses. Secretary Clinton's focus on both a standard business deduction and access to health care are two essential tools for the small business community. Offering health care benefits to employees is on point: in fact, we support this in conjunction with the flexibility of Health Reimbursement Arrangements in order to ensure small business stability and health of both their employees and businesses.

We are eager to hear more concrete proposals from the Secretary as to how she will, on day-one, move to unravel the regulatory constraints that make it difficult for small business owners to thrive. We applaud her efforts to begin this important conversation.

We are also equally excited to see from Donald J. Trump his proposals for small businesses and how he would decrease tax complexities.