

Year-end strategies

For business owners

The fourth quarter has somehow hit us all. The holiday vacations are being planned and the New Year's parties are being booked. In the meantime, those of us who own businesses have heavy responsibilities for collecting and preserving cash before the holidays quickly come upon us.

Those of us who have a cash plan and focus on the plan will enjoy the year-end festivities a lot more than those who do not.

Here are a few things entrepreneurs and small-business owners can do to keep cash from becoming a problem by the end of the year:

- Section 179 asset purchases. The IRS allows certain companies to expense up to \$108,000 in asset purchases in 2006. You could save between \$30,000 and \$40,000 in income taxes in 2006 by taking advantage of this IRS rule, depending upon your income tax bracket. The rules for these asset purchases are very clear; however, get something in writing from your tax CPA before you make any purchases. Be aware of limitations on dollar volume and certain vehicles that no longer are eligible for a 100% first-year write-off.

- Accounts receivable aging. Cash collection is cyclical, and the fourth quarter is one of the most difficult times to collect cash. A lot of our customers use the holidays as an excuse not to pay on a timely basis. It is all too common to make a call to the person who cuts the check to hear a message, "Sorry, I am on vacation for the



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next few weeks. Happy holidays." Well, the holidays are a lot less happy when we can't collect our hard-earned money from customers.

It is very easy for your company to get behind on its receivables collections, which quickly causes your company cash flow problems. Some suggestions to help avoid this problem include having someone on your staff who will handle collections of receivables, and setting collection goals with the staff and holding them accountable for those goals.

Your staff should call the largest receivable customers and document their vacation and scheduling conflicts to make sure your company is paid on time.

- Meet with your banker. Now is the time to meet with your banker to do planning for the months to come. Review the progress the company has made so far this year as compared with the same period a year ago.

Tell your banker the issues you are concerned about as they relate to cash flow. Ask the banker to propose solutions to cash flow problems, both the anticipated and the unexpected. Get input from your banker about your company's cash needs for the next few months. Listen and ask questions. Remember that you are spending this time creating or improving your relationship with your banker in order to help your company with future cash flow problems.

Now is the time to build banking relationships, especially before the bankers start their long holiday vacations.

The good bankers will always make the time necessary to talk and help you with your planning. They will enjoy talking to a business owner who knows the financial information about their company and is using proactive thinking to plan for the future.

- The tax bill due on Jan. 15. Most closely held companies operate within a legal structure of pass-through entities, such as S-Corporations, LLCs, etc. Consequently, you may owe an estimated tax bill to the IRS and the state on Jan. 15, 2007. Do yourself a favor and ask your tax account-

tant to give you that number — now!

Don't wait to receive a phone call from your tax accountant on Jan. 14 notifying you of a large tax bill that is due on the 15th. It is highly likely that your estimated tax bill is a calculation based upon a combination of the prior-year profits of your pass-through entities plus the increase or decrease in the current-year income. This calculation should be done today and should be figured into your cash flow projections.

One thing that really frustrates owners of pass-through entities is they often discover, after the fact, that they can't take a loss in a certain company to offset income in a different company due to the lack of tax basis. Make sure you talk with your tax accountant to determine if you can take a loss in one company to offset the income in a different company. That conversation can be held today. This issue should never be a surprise to you because it will most likely have a negative impact on your cash.

- Interim financial statements. Holiday vacations and other matters can cause the accounting staff to delay getting the financial statements completed on time during the summer months. You should have a balance sheet, income statement and statement of cash flows delivered to you no later than the 20th day of each month. No exceptions.

It is imperative that you know what is going on in your business during this busy time. Too many things can get out of control in a short time unless financial information is given to you on a timely basis. You should be made aware of the "exceptions" so you can react quickly, especially as these issues relate to cash.

- Project cash flow. Have your staff project cash flow for the next few months. Ask them project the sources and uses of cash on a weekly basis for the next four months. Ask them to document anything that might have a negative impact on cash. Hold your staff accountable for these cash projections. ●

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