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The CFO Advisor

Guidance for Small Business Success™



It's one thing to start a business, but protecting it so that it will remain profitable and growing is perhaps the most difficult challenge. One bad decision or simply the wrong mindset can send your business spiraling and doomed for failure.

In this issue of "The CFO Advisor," I'll share with you some ways you can protect your business and avoid common causes of failure, including how to eliminate damaging business losses, control expenses, and navigate the rough waters of leadership.

You'll also learn some spending tips designed to help you stay prosperous, as well as get advice from a millionaire entrepreneur on how to maintain a successful business.

Until next month...

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ELIMINATING DAMAGE FROM EXCESS BUSINESS LOSSES

The Tax Cuts and Jobs Act tax reform added an amazing limit on larger business losses. Unfortunately, it can hit you right in your cash flow. The new law works in some unusual ways that can result in you being taxed even when you have no real income for the year. Once you learn how this new rule works, you'll want to start thinking about the planning opportunities that can help you dodge the problem.

Over the years, lawmakers have implemented rules that limit your ability to use your business or rental losses against other income sources.

partnership interest or S corporation stock.

3. The passive loss limitation, which limits your passive losses to the extent of your passive income unless an exception applies.

The recent tax reform added Section 461(l) to the tax code, and it applies to individuals (not corporations) for tax years 2018 through 2025.

Under this new provision you can't use the portion of your business losses deemed by the new law to be an "excess business loss" in the current year. Instead, you'll have to treat the excess business loss as if it was a net operat-

ing loss (NOL) carryover to the next taxable year.

Here are three steps to follow to help determine your excess business loss:

1. Add the net income or loss from all your trade or business activities.
2. If step 1 is an overall loss, then compare it to the maximum allowed loss amount: \$250,000 (or \$500,000 on a joint return).
3. The amount by which your overall loss exceeds the maximum allowed loss amount is your new tax law-defined "excess business loss."

For example: Paul invested \$850,000 in a start-up business in 2018, and the business passed through a \$750,000 loss to Paul. He has sufficient basis to use the entire loss, and it is not a passive activity.

Paul's wife had 2018 wages of \$50,000, and they had other 2018 non-business income of \$600,000.

Under prior law, Paul's loss would offset all other income on the tax return and they'd owe no federal income tax.

Under the new tax reform that applies to years 2018 through 2025 (assuming the wages are trade or business

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ELIMINATING DAMAGE

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income):

- Their overall business loss is \$700,000 (\$750,000 - \$50,000).
- The excess business loss is \$200,000 (\$700,000 overall loss less \$500,000).
- \$150,000 of income flows through the rest of their tax return.
- They'll have a \$200,000 NOL to carry forward to 2019.

To avoid this rule, you'll need to keep your overall business loss to no more than \$250,000 (or \$500,000 joint). The two big-picture strategies you can use to make this happen are by:

- accelerating business income, and
- delaying business deductions.

If one of your businesses will have a loss in excess of the limits, it is important you start thinking about the planning opportunities as soon as possible. The longer you wait, the fewer opportunities you will have to limit or, better yet, eliminate the damage.

A Few Guiding Principles To Help You Navigate The Rough Waters Of Leadership

When you are in a position of leadership, it helps to have a few guiding principles to assist you in navigating the difficulties you will inevitably have to endure. Here are a few thoughts to reflect on:

- Think about your ordinary interactions with your peers, colleagues, and team members. When you are in a meeting, at the water cooler or in the lunchroom, it is wise to remember that each interaction is an opportunity for you to take a risk in the realm of openness — and when you do, you



open yourself up to growth and happiness.

- To understand your work world, you must simultaneously examine your company environment and examine yourself for biases and influences you are not

aware of. Otherwise, it will be difficult to render the good judgment that will be required of you.

- One of the most powerful ideas to remember in the workplace or in life is that no problem will be solved unless someone takes responsibility for solving it.

Avoid These Common Causes Of Business Failure

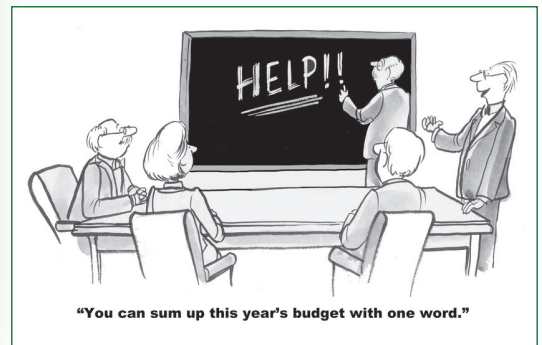
The U.S. is a land of entrepreneurs, and the fact that many, if not most, small businesses fail in just a few years doesn't deter men and women from taking the plunge and starting their own companies all the time. If you're thinking of joining them — or know someone who's just starting out — pay attention to these reasons why most new businesses so often fail:

- **Not knowing customers deeply.** Your product or service may indeed be groundbreaking, but do people really need and want it? How much are they willing to pay? You've got to understand your market thoroughly in order to provide what customers really value.
- **Growing too quickly.** Maybe



you're successful right out of the gate. Can you sustain that success? You'll need to be able to increase production, hire people, maintain quality, and keep paying your bills as your organization speeds up. Many small businesses start off with a bang and then end with a whimper.

- **Mismanagement of employees.** You can't do everything yourself, especially if you start to grow. But are you able to identify good employees before you hire them, and step back to let them do their jobs once they're on board? Starting a business and managing a staff call for specific, separate skills that you'd better have or learn quickly.
- **Failure to communicate.** You won't sell many products if customers don't know what you have to offer. And you won't motivate your employees if you can't share an inspiring vision of what you want to achieve. Focus on getting your message out as widely as you can — in person, in print, in social media, and everywhere else customers and employee candidates might be looking for someone like you.



Are You In Need of a Trusted Business Advisor?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As an experienced business advisor, I have worked not only in private and public industries but also across many functional areas and can help you implement best practice solutions to improve profits.



Do You Have A Tough Accounting / Finance Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at 352-450-2880 or email me at dwight@dlhulseconsulting.com. Perhaps I'll feature you in a future issue!

Keep Your Business Prosperous By Spending In These Key Areas

If you run your own small business, you probably know that the key to sustained growth is investing in the right areas. You don't have to spend lots of money. You just have to spend the right amount in three important categories:

- **Research and development.** Perform regular customer surveys. What are people buying? What do they want that you're not offering? What are they buying from your competitors? Look for ways to offer more while staying close to your core competency.
- **Marketing.** Let your customers know you're out there. Stay focused on what works, and watch for new opportunities, like trade shows or internet advertising. You might use your customer research to write an article for a trade journal and expose your company to a new audience. Post on social media; used well, it can reap big benefits.
- **People.** Take care of your current workforce so employees won't be tempted to go elsewhere. Always be looking for new talent to recruit. In the meantime, upgrade your own skills. Take a seminar on communication, leadership, or motivation so you can do a better job of managing the people you have.

A Millionaire Entrepreneur's Advice For Success

Jeremy Adams grew up in a trailer park and started his entrepreneurship journey as a teenager. He burned CDs, did neighbors' yard work, and waited tables before founding his first business, a food truck company, at 22. Now 30, he runs a multimillion-dollar portfolio of businesses. On the CNBC Make It website, he shares the secrets of his entrepreneurial success:

• **Embrace loneliness.** You'll be on your own a lot building your business. Be ready to work long hours and sacrifice vacations and parties as you work your way to success.

• **Take advice with a grain of salt.** Your friends and family may want the best for you, but they don't necessarily share your goals. Listen to them, but listen also to your gut.

• **Ask for help.** Don't try to do everything yourself. Surround yourself with smart people, and don't be shy about asking them for advice and assistance.

• **Lose your ego.** Make your business about customers, not about you. Be willing to listen to feedback and act on it.

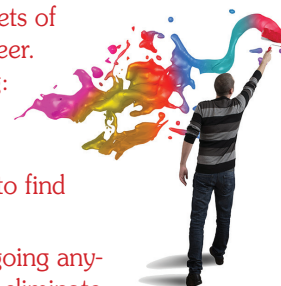
• **Focus on growth and development.** Without growth, your business will stagnate. Always be on the lookout for your next big opportunity.



Take An Entrepreneurial Approach To Creativity

You may not dream of starting your own business, but the secrets of entrepreneurship can develop your creative talents in any career. Here's what successful entrepreneurs do to keep the ideas flowing:

- **Think about your customers.** We all have customers: People who depend on us, and whose support we need. Get into the habit of analyzing their demands and anticipating their needs to find new ways of satisfying them.
- **Measure your results.** Don't waste time on ideas that aren't going anywhere. Decide how you'll track progress and identify success, and eliminate efforts that aren't productive.
- **Launch pilot projects.** When you've got a new idea to try, roll it out incrementally instead of all at once. You'll do a better job of identifying what works and eliminating what doesn't when the stakes aren't overwhelming.
- **Use your network.** You're not the only person who can generate creative ideas. Tap the people you know — co-workers, friends, mentors, and the like — when you're looking for new projects or innovative solutions. Few entrepreneurs succeed totally on their own — they rely on the people around them for original thinking and support.
- **Learn from failure.** Nobody wins all the time. When you fail, spend some time analyzing what happened. Was the idea itself flawed, for example, or did it fall apart somewhere in your execution? You'll probably uncover some new ways of attacking problems and finding solutions.



Quotes:



"I know the price of success: dedication, hard work, and an unremitting devotion to the things you want to see happen." — **Frank Lloyd Wright**

"The secret of leadership is simple: Do what you believe in. Paint a picture of the future. Go there. People will follow." — **Seth Godin**

"Find somebody to be successful for. Raise their hopes. Think of their needs." — **Barack Obama**





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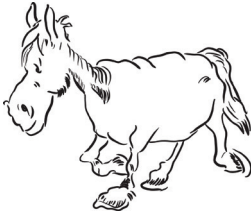
Take An Entrepreneurial Approach To Creativity Team Effort

Reduce Your Salary and Reap the Benefits

Disclaimer: Any accounting, business, or tax advice contained in this communication, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties.

Team Effort

A motorist stuck in a ditch received help from a farmer walking down the road with an old horse.



"Just give me a minute, and old Billy will get you pulled out of there," the farmer said as he hitched the car to the horse. He then began to shout, *"Pull, Chuck! Pull, Willow! Pull, Stanley!"*

Nothing happened.

Finally, the farmer said, *"Pull, Billy!"* The horse took a few steps forward and pulled the car out of the ditch.

The driver thanked the farmer for his help and then asked why the farmer called out all of the other names before he called on Billy.

"Billy is blind and a bit set in his ways," the farmer said. *"If he thought he was the only one pulling, he wouldn't have even tried."*

Reduce Your Salary and Reap the Benefits

If your small business is registered as an S corporation, the fact of the matter is that it has to pay you reasonable compensation for the services you provide to the corporation. However, if your corporation pays your health insurance premiums, how does that affect the salary amount you need to pay yourself?

When it comes down to the law, it is required that as an S corporation owner-employee, you pay yourself reasonable compensation for the services you perform for the corporation.

What is reasonable compensation?

Reasonable compensation is the total value of remuneration you receive from your corporation, including both cash salary and benefits.

Reduce Your Salary, Increase Your Benefits

By choosing to reduce the amount of your cash salary, you'll in turn be gaining two tax benefits.

For example, let's say that your health insurance cost is \$10,000. Instead of increasing your cash salary by \$10,000, if you reduce your cash salary by the \$10,000, you realize the following two tax benefits:

1. You'll save 15.3 percent in FICA taxes on the \$10,000 decrease in cash wages (assuming your salary is less than \$128,700).
2. You'll increase your possible Section 199A deduction by up to 20 percent (or \$2,000) by avoiding the additional wage expense that would otherwise reduce your qualified business income.

