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Tax & Business letter

SPRING
2022

Tap into this powerful form of advertising!

Word-of-mouth referral ideas

Maybe you've heard in passing that word-of-mouth referrals is one of the most powerful forms of advertising.

Consider this information from Forbes Magazine:

- 78% of B2B marketers say that referral programs generate good or excellent leads.
- 60% of marketers say that referral programs generate a high volume of leads.
- 54% say that referral programs have a lower cost-per-lead than other channels.
- Marketers rate referrals as the 2nd highest source of quality leads.

And according to Nielsen, 92% of consumers around the world say they trust word-of-mouth advertising above all other forms of advertising.

Here are some ideas to tap into this valuable tool:

■ Talk with your customers

Engage with your customers and listen to what they are telling you. Having a dialogue via phone, email, social



media or some other channel will help build trust that has a high likelihood of being turned into a word-of-mouth referral.

■ Provide value

When interacting with your customers, make your message a memorable one. Do this through outstanding products or services, solving a problem when something goes wrong, or wowing your customers by providing great value. These experiences will make them want to tell their friends and family about your company.

■ Make it easy to give referrals

Create a template that makes it simple for your customers to pass on word-of-mouth referrals to people in their network. In the template, be sure to include a brief description of your products' and services' benefits that you'd like your customers to discuss when referring your business to others.

Word-of-mouth advertising will likely always be at the top of the advertising mountain. Please call if you have questions about how to better utilize word-of-mouth advertising in your business. ♦



IRSTAX NOTES

100% meal deduction applies to meal portion of per diem payments

A special rule that allows you to deduct 100% of food and beverage purchases from restaurants through the end of 2022 can be applied to the full meal portion of a per diem rate or allowance, according to a recent announcement from the IRS.

No change to first quarter IRS interest rates

Interest rates for the first quarter in 2022 will remain the same compared to last quarter. These rates include: 3% for overpayments (2% for corporations); 0.5% for the portion of a corporate overpayment over \$10,000; 3% for underpayments and 5% for large corporation underpayments. ♦

Great ideas to lower taxes AND create happier employees



A tax deduction for your business, a financial benefit for your employees. What could be better than that? Here are some of the many employee benefits that are tax deductible.

- **Retirement plans.** Contributions you make to your employees' retirement plans are usually tax deductible. If your business currently doesn't offer a retirement plan, the Retirement Plans Startup Costs Tax Credit offers a credit of up to \$5,000, for three years, to offset the costs of starting an SEP, SIMPLE, or other qualified retirement plan such as a 401(k).
- **Cafeteria plans.** Also known as a Section 125 plan, a cafeteria plan offers employees a choice between receiving compensation in cash or as part of an employee benefit. Employee payments for a cafeteria plan benefit are made pre-tax, resulting in a lower taxable income for the employee. Your business also sees a tax cut, saving 7.65% in payroll taxes on each dollar that an employee's taxable income decreases.
- **Health care premiums for your employees.** Premium contributions by a business for employees and the employee's spouse and qualified dependents are 100% deductible as a business expense.
- **Tuition reimbursement.** Businesses can deduct up to \$5,250 per employee

per year for money spent on tuition or education reimbursement.

- **Publications and other resources.** Professional and other continuing education publications purchased for employees are tax deductible by your business, as are uniforms and tools.
- **Food and beverages.** The entire cost of a meal purchased by employees as part of a per diem allowance can be deducted by businesses through the end of 2022.

What you need to do

- **Stay organized.** Lots of worthwhile employee benefits can mean lots of paperwork. Some benefit programs, such as retirement plans, have anti-discriminatory guidelines that must be followed. So stay organized and get help if you have compliance-related questions.
- **Stay in touch with employees.** Let your employees know about all the benefits that your company offers. Consider reviewing the value of the benefits during salary actions or as part of developing W-2s. This makes the value of your benefits more visible to your employees.
- **Review annually.** Annually revisit your existing benefits to make any necessary changes, including deciding whether to expand your current benefits offering. Always be on the lookout for new ideas for benefits that could either be implemented immediately or in the near future. ♦

Tax CALENDAR



April 18

- 2021 individual income tax returns are due.
- 2021 calendar-year C corporation tax returns are due.
- First installment of 2022 individual estimated tax is due.

May 16

- 2021 calendar-year non-profit organization annual reporting returns are due.

June 15

- Second installment of 2022 individual estimated tax is due.



Tips to improve your working capital

Improving cash flow is always a worthwhile but sometimes nebulous goal for a small business. One way to better define this goal is to divide your cash into two buckets – long-term and short-term.

The short-term bucket is for cash you need to pay expenses over the next 12 months. The long-term bucket is for cash you need to pay expenses in the distant future, beyond the next 12 months.

Another name given to the amount of cash and resources you have available to put in the short-term bucket is working capital.

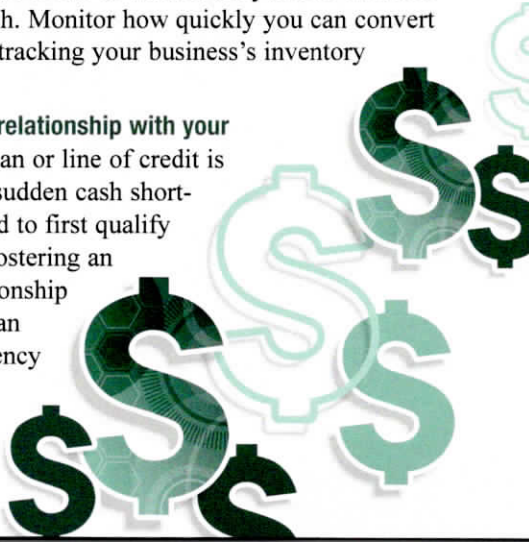
The importance of working capital

Beyond being able to pay recurring monthly bills, there are several reasons why having a healthy amount of working capital is important for your business:

- ▶ **Improved liquidity.** By exhibiting a high level of working capital, businesses can ensure adequate cash levels are available to take advantage of unexpected expansion opportunities or to survive a severe downturn in revenue.
- ▶ **Operational flexibility.** Adequate levels of working capital can be used to smooth out delays in receiving customer payments or navigating certain supply chain disruptions.
- ▶ **Increased business valuation.** A business that has plenty of cash available to pay its monthly bills, weather an economic downturn, and take advantage of expansion opportunities will fetch a premium when it comes time for you to put your succession plan into motion.

Tips for improving working capital

- ▶ **Pay suppliers on time.** Waiting as long as possible to pay a vendor may seem like a good strategy for improving short-term cash flow, but suppliers who are promptly paid may be more likely to be more flexible when it comes to prices and future payment terms.
- ▶ **Keep small expenses under control.** It's easy to ignore small expenses. But these incidental costs can add up in a hurry if you aren't paying attention. Consider putting a policy in place with how to deal with and track petty cash expenses and other small expenditures.
- ▶ **Keep inventory moving.** The longer inventory sits on a warehouse shelf, the more time you'll have to wait before you can turn that inventory back into cash. Monitor how quickly you can convert inventory into cash by tracking your business's inventory turnover ratio.
- ▶ **Foster a good working relationship with your banker.** A short-term loan or line of credit is one way to navigate a sudden cash shortfall. Of course you need to first qualify for the line of credit. Fostering an ongoing business relationship with a trusted banker can help you access emergency cash when needed. ♦



CASHFLOW CORNER

A great way to help your business sing!

For years Amazon lost money on their financial statements, but Amazon appeared to be unfazed by the negative financial press. Why? Their laser beam focus was on cash flow! Here are ideas to help define your business's success using cash flow techniques.

Develop a culture of improving your cash position.

Start by getting in the habit of monitoring your bank account activity daily to watch for mistakes or unforeseen charges. Then look at each business process that involves cash — purchasing, inventory, collections and payroll are good examples. Consider extending terms for paying vendors, establishing shorter terms for customers to pay and implementing a review process to ensure accurate payroll calculations. Explore opportunities to turn your inventory back into cash more quickly.

Create a cash flow forecast. With your knowledge of cash, create a forward-looking statement of monthly cash flow. The most common practice is a rolling 12-month forecast. This projects cash out twelve months. Then each new month, you drop a month and add another month one year out. It will reflect the ebbs and flow of cash throughout the year and identify times of cash crunch. You can then see the impact of changes you are making on your company's cash position.

Create and monitor relevant ratios. There are many helpful cash flow ratios. Identify ratios that are especially helpful to your business. Have debt? Consider the cash flow coverage ratio (operating cash flow ÷ by debt) to help plan for scheduled debt payments. Are you making a lot of capital purchases? Use the free cash flow calculation (operating cash flow – capital expenditures) to determine how much cash will be left over after purchasing.

Build in some contingencies. Most businesses experience seasonality. Understanding your business cycles can help you strategically manage cash in high cash months to cover shortfalls that come in low cash months. Set up a line of credit so it's available in case of an emergency, or as a bridge during short-term liquidity needs. A line of credit only charges interest when used, so it's a perfect tool to have at your disposal. The best time to establish a credit line is when you are flush with cash, so use your forecast to determine the best month to ask your bank for this line of credit. ♦

Stem the increase of rising costs

Inflation and supply chain bottlenecks have both significantly ramped up over the past 12 months, causing rising prices and headaches for millions of small business owners. Here are some ideas to stem the increase of your business's rising costs:

Identify supply chain weaknesses

A small business's supply chain can be surprisingly complex. Here are several areas of your supply chain that could be susceptible to the effects of inflation:

- Items that are affected by a just-in-time inventory system.
- Inventory or supplies that are only available through one vendor.
- Any materials or services that comprise 10% or greater of your cost of goods sold.
- Vendors who normally require longer lead times.
- Items that require special transportation or storage.

Strategic use of offers

One way to offset rising costs is to increase your revenue, either by raising your prices or raising your volume. Here are some suggestions:

- Raise prices but extend terms to great customers.
- Offer additional services that cost more but have higher value.
- Offer discounts to steer customers to lower-cost order delivery.

Control your costs

Conduct an audit of your expense accounts to identify opportunities to cut or control existing costs:

- Saving a nickel here and a dime there can quickly add up. Conduct an audit of your expense accounts to see if

there are opportunities for decreasing costs.

- Comparison shop to ensure you're getting the best value with competitive prices.
- Create a monthly budget to help you stick to a spending plan.

Please call if you have questions about how to review your financial statements to uncover ideas for stemming the increase of rising costs. ♦



NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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