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Success InSight®

Spring 2024

# SCREENING TENANTS: What Landlords Need to Know

As a landlord, property manager or other housing provider – you may choose to run a tenant background check using a company that compiles credit or background information. These services are helpful tools to aid landlords in choosing the best tenant. However, when you use consumer reports to make tenant decisions, you must comply with the Fair Credit Reporting Act (FCRA) which is enforced by the Federal Trade Commission.

Examples of these reports include:

- A credit report from a credit bureau, such as Trans Union, Experian, and Equifax or an affiliated company;
- A report from a tenant screening company that describes the applicant's rental history based on reports from previous landlords or housing court records;
- A report from a background check company that describes the applicant's criminal history;
- A report from a tenant screening company that describes the applicant's rental history and criminal history, and also includes a credit report.
- A risk score or recommendation from a tenant screening company about the applicant based on criteria you've selected; and
- A report from a reference checking service that contacts previous landlords, employers, or other parties listed on the rental application on behalf of the rental property owner.

These key points will help you stay compliant with the FCRA:

- Only get consumer reports for a permissible purpose such a new applicant or renewal. Get written authorization from all applicants before you pull a report.
- Certify to the company from which you are getting the consumer report that you will use the report only for housing purposes. You may not use the consumer report for another purpose.
- Review other applicable federal and state laws related to screening tenants in your area. For example, in some locations, refusing to rent to anyone with a criminal record may violate the Fair Housing Act.
- If you reject an applicant, increase the rent or deposit, require a co-signer, or take any other adverse action based partly or completely on information in a consumer report, you must give the applicant or tenant a notice of that fact in writing, electronically, or orally.

An adverse action notice tells people about their rights to see information being reported about them and to dispute inaccurate information. The notice must include: the name, address, and phone number of the Credit Reporting Agency (CRA) that supplied the report; a statement that the CRA that supplied the report did not make the decision to take the unfavorable action and can't give specific reasons for it; and a notice of the person's right to dispute the accuracy or completeness of any information the CRA furnished, and to get a free report from the CRA if the person asks for it within 60 days.

The adverse action notice is required even if the information in the consumer report wasn't the primary reason for the decision. Even if the information in the report played

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# The Road to Success

As we've received a number of inquiries recently regarding the topic of Financial Planning, I thought I'd revisit an article we ran several years ago that outlined our approach to the process. Please keep in mind that Financial Planning is a personal journey and can mean different things to different people and different financial advisors, and as such, there is no "one-size-fits-all" approach. With that said, at its core, worthwhile Financial Planning should provide you with a solid understanding of your current personal financial situation, clearly define your financial goals, and help you protect yourself and your loved ones from catastrophic loss.

Whether you are just starting out in your professional life, in your prime earning years, or in retirement, a personalized game plan can create a solid foundation from which you can make informed decisions about your financial future and help you make the best use of your assets. The following is just a small sample of questions you might ask yourself as you're preparing a Financial Plan: what is my monthly income and outflow?; what's the value of my current investment holdings?; how much and how often am I contributing money to my investments?; when do I want to retire?; how much income will I need during retirement?; do I need life insurance, disability insurance, and if so, how much?; how do taxes come into play?

The scope of this article won't allow us to explore all that's involved in preparing a comprehensive Financial Plan, but please know that this process doesn't have to be complicated, and can be very valuable. View this process as the financial equivalent of a thorough physical exam, with all the same benefits.

You can begin to put together a realistic look at your financial future by following a simple 4-step Financial Planning process.

**Take Inventory** – Understanding your current financial situation is an important first step. Gather all the documents, account statements, insurance policies, etc., that have any bearing on your financial life and take a "snapshot" of where you are today.

**Clearly Identify Your Financial Goals** – Be as specific as you can here, with realistic dollar amounts tied to a time line. The better defined your goals are, the better prepared you are to make decisions that give you the best chance to achieve them.

**Create and Execute a Plan of Action** – Armed with a solid understanding of your current financial situation and a clearly defined set of financial goals, now's the all-important task of setting a course of action and executing your ideas.

**Monitor and Adjust** – Things change. There may be events in your personal life or in the marketplace that cause you to think differently about your financial future. Financial Planning is not a one-time event, it's an ongoing process. Remaining alert and flexible will be a key to your long-term success.

Successful long-term investing starts with a solid plan. Taking the time to understand your current financial situation and clearly outlining your future goals is valuable information as you determine how to allocate your investments.

Try to keep it simple, and let common sense and the ideas and strategies recommended by IAS Financial be your guide along the way. And remember, view Financial Planning as ongoing process, not a one-time event.

If you have questions about Asset Allocation or Rebalancing and how they may currently apply to your situation, please feel free to call Ted Black, CFP® at 888-878-0001, extension 3.

Ted Black, CFP®
888-878-0001, extension 3
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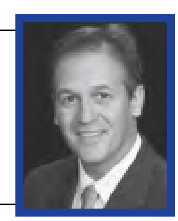


## Screening Tenants

• *continued from page 1*

only a small part in the overall decision, you must notify the applicant or tenant.

While oral adverse action notices are allowed under the FCRA, written notices are the best practice and benefit both you and the applicant or tenant. Written notices allow you to provide proof of FCRA compliance. Written notices also better enable applicants and tenants to assert their rights to request a copy of the report from the CRA and to dispute any errors in the report.

If you use a credit score in deciding to take an adverse action against an applicant or tenant, you have additional obligations. You must give the applicant or tenant written or electronic notice that includes the credit score, a description of the score (its source, the date it was created, and the range of scores under that credit model), and the key factors that adversely affected the credit score, listed in the order of their importance based on their effect on the credit score.

According to the FTC, landlords who use "investigative reports" – reports based on personal interviews concerning a person's character, general reputation, personal characteristics, and lifestyle – have additional obligations under the FCRA. These obligations include giving written notice that you may request or have requested an investigative consumer report and giving a statement that the person has a right to request additional disclosures and a summary of the scope and substance of the report.

Finally, when you are finished with a consumer report, you must securely dispose of the report and any information you gathered from it. That can include burning, pulverizing, or shredding paper documents and disposing of electronic information so that it can't be read or reconstructed.

### What Tenants Need to Know

When filling out an application with a tenant background check requirement, take the following steps to decrease the likelihood of errors and protect your rights:

- Give the landlord your full name — first, middle (if you have one), and last — and date of birth. Fill out every section completely, this may include giving your Social Security number, prior addresses, and possibly other information as well.
- Understand what the application fee is for. Is it a onetime fee for any home offered through this housing provider or are you applying specifically for this home? See if the home is still available before you pay the fee.
- What a landlord is checking for may vary. If you expect some negative issues will show up, ask what the landlord is looking for before you pay the fee.

Under the Fair Credit Reporting Act, tenant background check companies cannot report most negative information — for example, most civil lawsuits and judgments, including housing court cases, and arrest records — after seven years. Bankruptcies can be reported for 10 years. However, there is no time limit for criminal convictions. Other laws, including the Fair Housing Act (FHA) and state or local laws, may have more restrictions on what tenant background check companies can report.

**Under the Fair Credit Reporting Act, tenant background check companies cannot report most negative information after seven years.**

Under the Fair Credit Reporting Act, tenant background check companies are required to take reasonable steps to ensure the information in your report is accurate. Common errors may include

- Information that belongs to someone else
- Incomplete information, such as how civil or criminal cases or eviction actions were resolved
- Duplicate information, such as the same criminal record appearing more than once, suggesting they are separate cases
- Outdated information, such as information that is legally too old to be included in a background check criminal record or eviction information that was sealed or expunged

If a landlord makes a negative decision about your application because of something a tenant background check company included in a report, review your rights under the FCRA. If you believe a background check company or landlord has violated your rights, contact a local fair housing organization, state attorney general, local legal aid or legal services office, or a local lawyer.

You can complain to the Department of Housing and Urban Development's (HUD) Office of Fair Housing and Equal Opportunity (FHEO) and submit a report to the Department of Justice (DOJ) if you think a landlord or tenant background check company illegally discriminated against you. You can also complain to the Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB), if you think a background check company included errors in your background check or if a landlord did not provide required information about the tenant background check company.

# From the Financial Hotline

**Call, fax or e-mail for answers to all your financial questions.**

**Q** *I have a Flexible Spending Account (FSA) through my employer. Can I use it to pay for my gym membership?*

**A:** The cost of a gym membership as a medical expense can be paid or reimbursed by an HSA, FSA, Archer MSA, or HRA only if the membership was purchased for the sole purpose of affecting a structure or function of the body (such as a prescribed plan for physical therapy to treat an injury) or the sole purpose of treating a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). Otherwise, the cost of a gym membership is for the general health of the individual and **is not a medical expense**.

The IRS is warning about misinformation about Health Savings and similar accounts that could lead to serious mistakes. Nonmedical nutrition, wellness and exercise expenses that aren't explicitly related to a medical diagnosis or treatment aren't reimbursable under these plans. But that hasn't stopped certain bad actors from offering to provide a "doctor's note" (for a price) that they claim would authorize health reimbursement plans to accept ineligible expenses, such as for nonmedical food that doesn't satisfy normal nutritional needs. To review the IRS's related FAQs: https://www.irs.gov/individuals/frequently-asked-questions-about-medical-expenses-related-to-nutrition-wellness-and-general-health

**Q** *What are the 2024 depreciation limits for business vehicles?*

**A:** The IRS guidance provides the 2024 depreciation limits for "luxury" business vehicles as follows: For vehicles placed in service in 2024, depreciation limits (including first-year bonus depreciation) are $20,400 for year one, $19,800 for year two, $11,900 for year three and $7,160 for each year after that. This includes passenger cars, as well as SUVs, trucks and vans if their gross vehicle weight (GVW) is 6,000 pounds or less. The IRS also announced lease inclusion amounts for lessees of passenger vehicles first leased in 2024.

Purchasing a heavier vehicle can offer tax advantages. New or used vehicles may be eligible for Sec. 179 expensing, which might allow you to deduct the entire cost. However, a reduced Sec. 179 limit ($30,500 for 2024) applies to vehicles (typically SUVs) with GVWs of more than 6,000 pounds but no more than 14,000 pounds.

Also keep in mind that, if a vehicle is used for both business and personal purposes, depreciation must be allocated between deductible business use and nondeductible personal use. The depreciation limit is reduced if the business use is less than 100%. If business use is 50% or less, you can't claim any bonus depreciation or Sec. 179 expensing.

**Q** *What is a Payable-on-Death account?*

**A:** These are estate planning tools that can be very helpful if used correctly. Payable-on-death (POD) accounts can be a quick, simple and inexpensive way to transfer assets outside of probate. They can be used for bank or credit union accounts, certificates of deposit and even brokerage accounts. Setting up such an account is as easy as providing the financial institution with a signed POD beneficiary designation form. Upon your death, your beneficiaries just need to present identification to the bank, with a certified copy of a death certificate, and the money or securities will be theirs. Be aware that POD accounts can backfire unless they've been coordinated carefully with your estate plan. For example, suppose Jack divides his assets equally among his three children in his will. He also sets up a POD account leaving $50,000 to his oldest child. That creates a conflict that may have to be resolved in court.

**Q** *I received a call from the Federal Trade Commission (FTC) giving specific instructions on a security breach on my financial accounts and requesting that I transfer the funds to a new, secure account. I verified the name of the staff member was legitimate, but I am still skeptical. Is this a scam?*

**A:** YES!!! FTC has confirmed scammers are impersonating law enforcement, the FTC, the IRS and other government agencies, even using the names of real employees to steal money from unsuspecting consumers.

Legitimate callers will never send consumers to a Bitcoin ATM, tell them to go buy gold bars, or demand they withdraw cash and take it to someone in person. It will also never contact consumers to demand money, threaten to arrest or deport them, or promise a prize. If someone claims to work for the government and makes any of these demands or threats, hang up and report the call at ReportFraud.ftc.gov in English or ReporteFraude.ftc.gov in Spanish. In light of surging complaints around impersonation fraud, the FTC recently announced that it has finalized the Government and Business Impersonation Rule, which gives the agency stronger tools to fight scammers and return money to consumers harmed by impersonators.

FINANCIAL RECORDS

# Spring Cleaning

Organizing your financial records will help you save time and maximize your productivity. A good place to start is weeding out unnecessary paperwork. Let's get started:


## Federal tax records.

Generally, the IRS has three years to audit a tax return, from the later of the due date of the return or the date you file. You can also file an amended return within this time frame if you overlooked something.

However, despite the three-year guideline, many tax advisors recommend retaining copies of your finished tax returns indefinitely to prove that you filed. Even if you don't keep returns indefinitely, at least keep them for six years after the returns are due or filed, whichever is later.

It's a good idea to keep the records that support items on your individual tax returns until the three-year statute of limitations runs out. Examples of supporting records include canceled checks, charitable contributions receipts, and documents showing your mortgage interest payments and retirement plan contributions. These documents may also support an amended tax return if you find you overlooked something.

So which records can you throw away today? Generally, based on the three-year rule, you'll soon be able to throw out most records associated with your 2020 return if you filed by the due date (which was extended to May 17, 2021, due to the pandemic). Extended 2020 returns could still be vulnerable to audit until October 15, 2024.

Also, some tax issues are still subject to scrutiny after the three years. If the IRS suspects that income has been understated by 25% or more, the statute of limitations for audit rises to six years. If no return was filed or if fraud is suspected, there's no limit of time for the IRS to launch an inquiry.

Certain records that support figures that may affect multiple years, such as carryovers of charitable deductions, should be saved until the deductions no longer have effect. Also, don't toss out records that support deductions for bad debts or worthless securities that could result in refund claims. You have up to seven years to claim them.

## State tax records.

The previous guidelines are geared toward complying with federal tax obligations. However, there may be variations. Plus, states generally have the right to resolve their own issues related to federal tax returns that have been audited. So, hold on to records related to an IRS audit for a year after it's completed.

## Real estate records.

Retain real estate records for as long as you own a property, plus three years after you dispose of it and report the transaction on your tax return. Throughout ownership, keep records of the purchase, h me improvements, relevant insurance claims and refinancing documents. These documents help prove your adjusted basis in the home, which is needed to figure any taxable gain at the time of sale. They can also support rental property or home office deductions.

## Investment account statements.

To accurately report taxable events involving stocks and bonds, you must maintain detailed records of purchases and sales. Records should include dates, quantities, prices, dividend reinvestment and related expenses. Keep these records for as long as you own the investments plus additional time until the statute of limitations for the relevant tax returns expires.

The IRS requires you to keep copies of Forms 8606, 5498 and 1099-R until all the money is withdrawn from your IRAs. It's even more important to retain records of all transactions relating to Roth IRAs, in case you're ever questioned.

## Pay Stubs, Medical Bills, Bank and Credit Card Statements.

These records can usually be thrown away after one year, unless they are your only proof of income earned or purchases. For example, you may want to keep any statements that are the only record of a large purchase or service that has a guarantee or warranty or if you need proof of income and the payer does not issue a 1099 or W-2.

You can also usually toss paid medical bills unless you have an unresolved insurance dispute, in which case you would retain the medical bills until the dispute is resolved. It's possible you can also access all these records online and save them to files on your computer.

## Purchase Receipts.

You can throw out most monthly bills after you see the payments have been credited and there are no disputes. Don't toss receipts that pertain to products or services under warranty, your tax returns, insurance claims or a purchase you are disputing.

## Orignals and or copies to save indefinitely.

Do not throw away:

- Birth certificates
- Death certificates
- Social Security cards
- Marriage certificates
- Divorce certificates
- Adoption papers
- Passports
- Wills and living wills
- Powers of attorney
- Legal filings
- Military records
- Retirement and pension plans
- Inheritance documents
- Beneficiary forms
- Insurance policies
- Deeds to real property owned

## Keep for as long as you own.

Deeds, surveys and closing documents to real estate owned. Titles to boats and vehicles. Documentation for any item you have insured or that is under warranty or guarantee.

## Health insurance policies.

Keep all your health, disability and other insurance information for as long as you have coverage and then add an additional year in case a claim comes up that wasn't addressed before.

## Homeowners insurance.

Keep that expired policy at least three years, you may need it. For example, it may take years for storm damage to cause a leak in your roof but the policy in effect at the time of the storm is the one you will have to prove to make the claim.

## Purge with Caution.

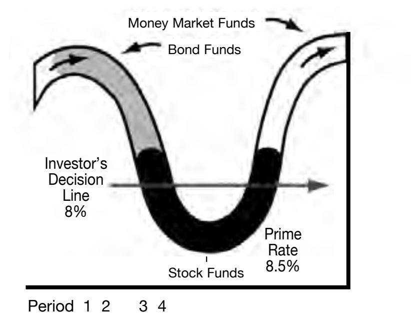
If you think you may need it – keep it. For essential original documents you may want to invest in a small document lockbox that is fireproof and waterproof. But remember you don't have to make space for boxes of paperwork. You can cut down on clutter by storing your important documents electronically.

Electronic options include using a scanner to scan to your computer or taking photos with your cell phone. You can also choose use cloud based storage such as iCloud or Dropbox, or external hard drives like HDDs, SDDs or a flash drive. It's always a good idea to back up digital copies just in case.

Be cautious when disposing of paperwork that includes personal information that can be used to steal your identity.

# The Money Movement Strategy

**Prime Rate Chart for Money Movement Strategy**




*Long-Term Direction: Level*
*Monthly Change: 0.00%*

### How It Works

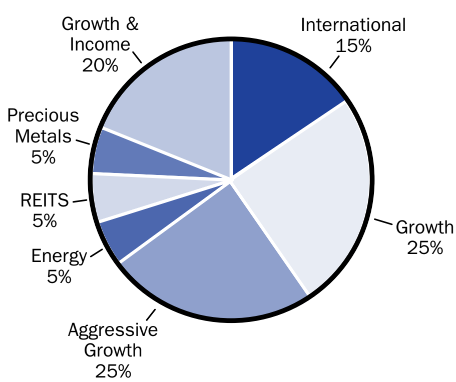
Long-term increases or decreases in the value of stocks, bonds and money market instruments are caused by changes in interest rates, primarily the Prime Rate. Of the three categories of mutual funds — stock, bond, or money market, there is only one type of investment that will give you above-average returns at any given time.

The Money Movement chart represents typical changes of interest rates smoothed out over time. The Investor's Decision Line (IDL) indicates the point at which you should move your money from one type of fund to another. Contact the Stock and Mutual Hotline or Investment Holine for the best evaluation of how the Money Movement Strategy will work for your specific circumstances.

# Models For Portfolio Management

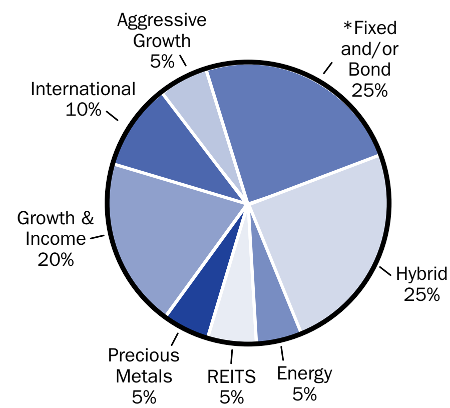
## Aggressive

Keep all mutual funds and retirement money in stock funds.



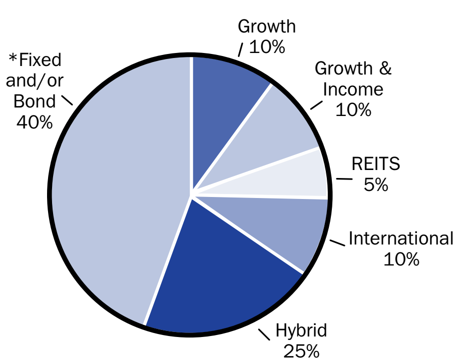

## Moderate

Keep most mutual funds and retirement money in stock funds.



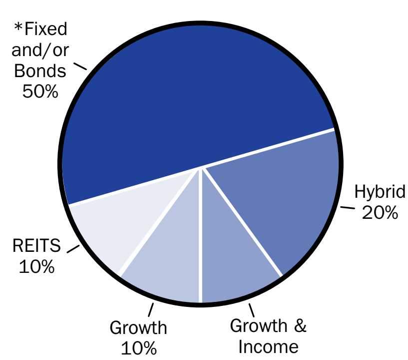

## Conservative

Keep most mutual funds and retirement money in stock funds.




## Retirees

Note: This portfolio does not follow the Money Movement Strategy!
Create the proper mix of Stock, Bond, and money market funds.




*Fixed Market-Linked CDs

# No-Load Mutual Funds*

| Fund Name/Type | Stock Symbol | Buy, Sell or Hold | 3 Month % Change | Average Annual Returns as of to 03/31/24 1 Year % Change | 5 Year % Change | 10 Year/ % Change | Expense Ratio |
|---|---|---|---|---|---|---|---|
| **Aggressive Growth** | | | | | | | |
| BNY Mellon Small Cap Index | DISSX | Buy | 2.39 | 15.46 | 8.67 | 8.31 | 0.50 |
| Kinetics Paradigm No Load | WWNPX | Buy | 13.67 | 14.41 | 13.25 | 11.55 | 1.64 |
| Needham Growth | NEEGX | Buy | 28.75 | 49.95 | 19.52 | 11.88 | 1.86 |
| Schwab Health Care | SWHFX | Buy | 8.12 | 13.29 | 9.59 | 9.81 | 0.79 |
| Value Line Small Cap Opp | VLEOX | Buy | 8.71 | 21.54 | 11.50 | 10.47 | 1.18 |
| **Growth** | | | | | | | |
| American Century Mid Cap | ACMVX | Buy | 4.71 | 9.79 | 9.30 | 8.78 | 0.98 |
| BNY Mellon MidCap Index | PESPX | Buy | 9.83 | 22.76 | 11.17 | 9.47 | 0.50 |
| Harbor Disruptive Innovation Inv | HIMGX | Buy | 12.59 | 28.45 | 7.67 | 9.33 | 1.19 |
| Janus MidCap Value T | JMCVX | Buy | 9.94 | 22.32 | 9.29 | 7.89 | 0.74 |
| Neuberger Berman Partners Inv | NPRTX | Buy | 6.29 | 5.20 | 11.26 | 9.81 | 0.76 |
| Selected American Shares | SLASX | Buy | 13.06 | 40.96 | 12.63 | 10.04 | 0.99 |
| American Century Small Cap Value | ASVIX | Hold | 4.90 | 18.72 | 12.34 | 9.08 | 1.09 |
| **Growth & Income** | | | | | | | |
| American Century Equity | TWEIX | Buy | 5.47 | 9.09 | 7.08 | 8.21 | 0.93 |
| American Century Large Value | ALVIX | Buy | 6.69 | 13.22 | 9.72 | 8.32 | 0.84 |
| Fairholme | FAIRX | Hold | -1.69 | 35.23 | 14.73 | 6.04 | 1.00 |
| Parnassus Equity Income Inv | PRBLX | Buy | 9.99 | 27.78 | 14.80 | 12.61 | 0.82 |
| Janus Contrarian T | JSVAX | Buy | 8.53 | 20.55 | 14.02 | 9.19 | 0.87 |
| T. Rowe Price Equity Income | PRFDX | Buy | 8.82 | 20.10 | 10.88 | 8.73 | 0.67 |
| **Hybrid** | | | | | | | |
| American Century Balanced | TWBIX | Buy | 6.17 | 17.09 | 7.82 | 6.94 | 0.91 |
| James Balanced Golden Rainbow | GLRBX | Buy | 5.78 | 14.73 | 4.56 | 3.10 | 1.25 |
| Oakmark Equity & Income | OAKBX | Buy | 4.92 | 19.22 | 9.21 | 7.03 | 0.86 |
| Impax Sustainable Allocation Inv | PAXWX | Buy | 4.65 | 12.94 | 8.16 | 6.94 | 0.90 |
| Permanent Portfolio | PRPFX | Buy | 6.09 | 16.03 | 9.87 | 6.10 | 0.82 |
| Value Line Asset Allocation Inv | VLAAX | Buy | 4.44 | 19.22 | 8.99 | 8.67 | 1.04 |
| **International** | | | | | | | |
| American Century Intl Growth | TWIEX | Buy | 6.86 | 8.47 | 6.84 | 4.58 | 1.26 |
| Artisan International Inv | ARTIX | Buy | 9.81 | 15.87 | 6.74 | 4.58 | 1.19 |
| Matthews China Investor | MCHFX | Hold | -2.75 | -21.77 | -4.17 | 2.45 | 1.12 |
| William Blair Intl. Growth | WBIGX | Buy | 6.42 | 13.07 | 7.52 | 5.03 | 1.24 |
| T. Rowe Price Emerging | PRMSX | Buy | -0.43 | -3.71 | -1.84 | 2.30 | 1.16 |
| **Sector Funds** | | | | | | | |
| American Century Real Estate Inv | REACX | Buy | -1.44 | 8.15 | 3.79 | 6.02 | 1.15 |
| Cohen & Steers Realy Shares | CSRSX | Buy | -0.49 | 9.53 | 5.73 | 7.65 | 0.88 |
| T. Rowe Price Health Sciences | PRHSX | Buy | 7.95 | 13.90 | 9.99 | 11.75 | 0.80 |
| USAA Precious Metals/Minerals | USAGX | Sell | 1.82 | -2.79 | 7.19 | 2.54 | 1.18 |
| US Global Investors Global Res | PSPFX | Hold | 0.00 | -8.53 | 5.69 | -3.37 | 1.60 |
| **Bond Funds** | | | | | | | |
| American Century Infl-Adj Bond | ACITX | Buy | -0.10 | -0.53 | 2.04 | 1.73 | 0.51 |
| Fidelity Capital & Income | FAGIX | Buy | 4.19 | 13.51 | 6.99 | 6.24 | 0.93 |
| Janus Flexible Bond | JAFIX | Buy | -0.47 | 2.03 | 1.03 | 1.60 | 0.70 |
| Loomis Sayles Bond Retail | LSBRX | Buy | 0.81 | 5.56 | 1.06 | 1.64 | 0.91 |
| Impax High Yield Bond Indv Inv | PAXHX | Buy | 0.63 | 8.45 | 2.96 | 2.75 | 0.92 |
| American Century Sh-Dur Bd fund | APOIX | Buy | 0.60 | 1.88 | 2.88 | 1.79 | 0.63 |
| Western Asset Core Bond | WATFX | Buy | -0.87 | 1.42 | -0.16 | 1.75 | 0.45 |

* Some funds may be closed to New investors due to demand.

The performance data quoted represents past performance and the principal value and investment return will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Returns shown, unless otherwise indicated, are total returns, with dividends and income reinvested. Past performance is no guarantee of future results.

Since it purchases equity securities, including common stocks, the Fund is subject to the risk that stock prices will fall over short or extended periods of time. The Fund may buy and sell securities frequently as part of its investment strategy. This may result in higher transaction costs and additional tax liabilities.

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Statistics and information provided by Morningstar.

** IAS Owners and employees may hold a position in any of the listed funds.

# Small Business Questions

*I have a small business that my wife and I run. We are starting to consider retirement and we have family members interested in taking over. What are some things to consider when we start these discussions?*

**A:** Transferring a family business successfully requires careful planning and clear communication. You will need to determine what the business is worth and how you will want to be compensated. For example, will you want a lump sum payment or do you need monthly income? Will you retain percentage ownership or transfer it in full?

How the business will transfer depends on its structure. If your small family business is a sole proprietorship, you could transfer business ownership by selling its assets. If it's a partnership, you could transfer your interest to other partners. If it's a corporation, you can transfer by gifting, selling, or bequeathing shares.

It's important to define in writing exactly what will happen with target dates and goals. Here are four main points to consider:

1. **A business strategic plan.** This defines goals, objectives, and targets for a company and outlines the resources that will be allocated to achieve them. When a strategic business plan is in place, it allows each generation an opportunity to chart a course for the firm. Setting business goals as a family will ensure that everyone has a clear picture of the company's future. A strategic plan is long-term in nature and focuses on where you want the business to be at some future date.
2. **A family strategic plan.** This plan establishes policies for the family's role in the business and is needed to maintain a healthy, viable business. For example, it should include the creed or mission statement that spells out your family's values and basic policies for the business, and it may include an entry and exit policy that outlines the criteria for working in the business. The plan should consider which family members desire to have a part in management of the business versus those who desire a more passive role.
3. **An estate plan.** This is a written document that outlines the disposal of your estate and includes such things as a will, trust, power of attorney, and a living will. It is essential to leave clear instructions, so your business does not fall to heirs who have opposing goals. Without a good plan in place, you may also pay higher estate taxes than necessary, allocating less of the estate to your heirs.
4. **A succession plan.** This is where you will identify key individuals who will be trained to take over the business when the time comes. You should also outline a precise timeline and detail how the training will be done. This plan should include introductions to key vendors and customers. Having a calendar of events and sticking to them goes a long way toward easing concerns for all involved.

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*I own a corporation. How can I ensure the compensation I take is "reasonable" in the eyes of the IRS?*

**A:** If you own a C corporation, you know there's a tax advantage to taking money out as compensation rather than as dividends. The reason: A corporation can deduct the salaries and bonuses that it pays executives, but it can't deduct dividend payments. Therefore, if funds are paid as dividends, they're taxed twice, once to the corporation and once to the recipient. Money paid out as compensation is taxed only once, to the recipient employee.

However, the amount of money you can take out of the corporation this way is limited. Under tax law, only compensation deemed to be reasonable can be deducted. Any unreasonable portion isn't deductible and may be taxed as if it were a dividend paid to a shareholder.

There's no simple way to determine what's reasonable. If the IRS audits your tax return, it will examine the amount that companies in similar industries would pay for comparable services under comparable circumstances. Factors considered include the employee's duties and the amount of time spent on those duties, as well as the employee's skills, expertise and compensation history. Other factors that may be reviewed are the complexities of the business and its gross and net income. Here are some steps you can take to make it more likely that the compensation you earn will be considered "reasonable" and therefore deductible by your corporation:

1. Keep compensation in line with what similar businesses are paying their executives. Be sure to retain whatever evidence you find about what others are paying.
2. Contemporaneously document the reasons for compensation paid in the minutes of your corporation's board of directors. For example, if compensation is being increased in the current year to make up for earlier years when it was low, be sure the minutes reflect this. Cite any executive compensation or industry studies that back up your compensation amounts.
3. Avoid paying compensation in direct proportion to the stock owned by the corporation's shareholders. This can look like a disguised dividend and will probably be treated as such by the IRS.
4. Pay at least some dividends if the business is profitable. This avoids giving the impression that the corporation is trying to pay out all of its profits as compensation.

Keep in mind that the IRS is generally very interested in unreasonable compensation payments made to anyone "related" to a corporation, which may include not only a shareholder-employee but also a member of a shareholder's family.


***I am closing my business. What are my final tax responsibilities?***

**A:** The exact checklist will vary depending on the specific details of your business. But in general, the final income tax return and related forms must be filed for the year of closing. The correct return to file depends on the type of business.

**Sole proprietorships.**
You must file the usual Schedule C, "Profit or Loss from Business," with your individual return for the year of closing. You may also need to report self-employment tax.

**Partnerships.**
A partnership must file Form 1065, "U.S. Return of Partnership Income," for the year of closing and report capital gains and losses on Schedule D. Indicate that this is the final return and do the same on Schedules K-1, "Partner's Share of Income, Deductions, Credits, etc."

**All corporations.**
Form 966, "Corporate Dissolution or Liquidation," must be filed if you adopt a resolution or plan to dissolve a corporation or liquidate any of its stock.

**C corporations.**
File Form 1120, "U.S. Corporate Income Tax Return," for the year of closing. Report capital gains and losses on Schedule D. Indicate this is the final return.

**S corporations.**
File Form 1120-S, "U.S. Income Tax Return for an S Corporation" for the year of closing. Report capital gains and losses on Schedule D. The "final return" box must be checked on Schedule K-1.

**All businesses.**
If you sell your business, other forms may need to be filed to report the profit or loss from the sale.

Businesses with employees must pay the final wages and compensation owed, make final federal tax deposits and report employment taxes. Failure to withhold or deposit all employment taxes due can result in severe penalties. Generally, payments of $600 or more to contractors during the calendar year of closure must be reported on Form 1099-NEC, "Nonemployee Compensation."

Depending on the size and scope of your business there may be more still to do. For example, a business that has an employee retirement plan will need to terminate the plan and distribute the benefits to participants. Flexible Spending Accounts and Health Savings Accounts must also be terminated.

# Economic Outlook

*–By Russ Colbert*

The economy is still growing. Real GDP came in last year over 3% and consumer spending finished strong. New home sales overall have come in above expectations and initial jobless claims are low. Durable goods orders are lower lately due to weak demand for some of the bigger ticket items. Meanwhile the stock market had a good rally this year until its recent pullback. This was partly due to the Federal Reserve putting off rate cuts that had been announced earlier this year. If the economy remains healthy and keeps expanding, it is very hard to believe the Federal Reserve will cut rates before mid-summer or the second half of the year. We could see a change if inflation continues to drop or there is a decline in economic growth. What would help move this stock market into a new territory would be to see improvement in areas such as Artificial intelligence and other new and advancing technologies providing a boost to productivity. This would keep growth strong and even accelerate it, while bringing inflation down. It will happen eventually. I just hope sooner than later.

Currently, we are tracking GDP growth above a 2.0% annual rate so far this year. This is close to the long-term average. Those figures for the first quarter will be released in a few weeks. At the same time unemployment remains below 4.0%. Inflation is currently averaging around 3.7%, down from a 9.0% high in mid-year of 2022. It rose from recent month lows. We must keep our eye on energy prices that have recently spiked upward due to the wars and other problems around the world. Real growth and inflation show little impact so far from the Federal Reserve current interest rate levels.

We have mentioned this before and need to keep a close eye on it. The government is running permanent, and very large deficits and using its budget to fund semiconductors, EV's, solar, and wind generation, as well as redistributing more money to immigrants and students who are in debt. Many citizens feel that the best response to this as many were taught in a basic economics class, would be for the government to run a surplus, or at least work on shrinking the deficit, and the Federal Reserve to be a little worried about overheating the economy. Instead, Congress just pushed through a $1.2 trillion dollar spending bill with a deficit that will approach $1.6 trillion, and the Federal Reserve announced that it is likely to cut rates three times in 2024. We also recently saw the latest inflation figures coming in higher than we thought, above 4%. The stock market seems to have decided that the Federal Reserve and the Federal Government can manage the economy to keep stocks up. We must be careful that this does not come at a price. No centrally managed economy has been permanently made to go only one way. It can look good for a time, but eventually the huge size of the government and mishandling of monetary policy catches up. The U.S tried in the 1970's and the result was stagflation. It doesn't happen overnight.

If the Fed is cutting rates because it is an election year, and if the government is spending money in an effort to entice some voters to see it as personally beneficial to vote for big government – it could be a recipe for lousy economic outcomes. When the government pushes money in directions that are politically beneficial, they are often not efficient in a true economic sense. This means less growth and more inflation. The markets may completely ignore it and investors may think the government has a recipe for prosperity. We will see what happens. We also have an election coming up soon that could cause some changes.

If you have any questions or need a portfolio review to keep you on track with your investments or retirement plan, please call me.

Russ Colbert
Senior Portfolio Manager
1-888-878-0001

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___ Review of my Investment Portfolio
___ Where to invest in 2024

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