HEALEY & ASSOCIATES
Certified Public Accountants and Consultants

Chart your course

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▶ Inside this issue

Tax & Business letter

SUMMER 2025

Mid-year business review ideas

A mid-year review is a chance to assess your business's progress, course correct if necessary, and plan for the month ahead. Here are several ideas of what to include in your mid-year review.

Create a full-year forecast

If you haven't already created a full-year financial forecast, now's the time. Better yet, shift to a rolling 12-month forecast. Unlike a static annual plan that ends in December, a rolling forecast always looks 12 months ahead, updating each month to reflect what's actually occurring in your business.

Compare your performance

Compare your actual year-to-date financial statements to 1) your forecast, and 2) last year's financial statements for the same time frame. For example, create a financial report showing actual results from January 1, 2025 through May 31, 2025. Then take this report and compare it to 1) your most recent forecast for January 1, 2025 through May 31, 2025, and 2) your actual results from January 1, 2024 through May 31, 2024. Look for what's going well, and what areas need improvement.

Forecast large purchases

Significant investments like new equipment, software upgrades, or a company vehicle, can put a strain on cash flow if not planned for in advance. Consider whether any of these purchases should be postponed, identifying any to be accelerated to take advantage of tax benefits or pricing discounts.

Forecast payroll requirements

One of the largest expenses for a business is salaries & wages. If you're planning to hire additional employees, include the full cost of each hire. Extra costs could include recruiting fees, training, software licenses, equipment, and company benefits.

Review debt payments

Review how much interest you're paying annually on loans and credit cards, and whether paying down some or all of your debts makes sense if you have extra cash available. Don't assume that cash is best left sitting idle in a low-interest savings account. Putting it toward strategic debt reduction can improve your business's long-term financial health.

Review strategy and execution

Ask yourself questions related to the marketing and operations of your business: Are you hitting business goals? Is your product or service mix still working? Has anything changed in your market or among competitors?

Mid-year reviews aren't just about finding problems – they're about creating clarity about what to focus on during the remainder of 2025. Taking the time now to conduct a thorough review will help you finish the year stronger! ♦

IRS TAX NOTES

Safeguard documents from natural disasters, IRS reminds taxpayers

The IRS is reminding taxpayers & business owners that now is a good time to think about protecting important tax and financial information as part of a disaster emergency plan:

- Original documents such as tax returns, Social Security cards, marriage certificates, birth certificates and land ownership documents need to be secured in a waterproof container in a safe space.
- Consider using cell phones or other devices to make a record of high-value items. A simple list with current photos or videos can help support claims for insurance or tax benefits after a disaster.
- Reconstructing or replacing records after a disaster may be required for tax purposes, claiming federal assistance or insurance reimbursement. Accurate loss estimates could mean more loan and grant money may be available.

Interest rates unchanged for second quarter of 2025

Interest rates for the second quarter in 2025 are unchanged compared to last quarter. These rates include: 7% for overpayments (6% for corporations); 4.5% for the portion of a corporate overpayment over $10,000; 7% for underpayments and 9% for large corporation underpayments. ♦

Tax CALENDAR

SUMMER 2025

June 16th, 2025

- ❑ Second installment of 2025 individual estimated tax is due.

September 15th, 2025

- ❑ Third installment of 2025 individual estimated tax is due.

Stem the rise of *increasing* costs

Many small businesses are still grappling with increased costs after the past several years of high inflation and supply chain bottlenecks. 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 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 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 purchase quantities to garner more efficient unit costs. 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.
- Price your products assuming the next volume cost break. If demand is there, your next supplier order will take advantage of the higher volume and get you lower unit costs.

Control your costs

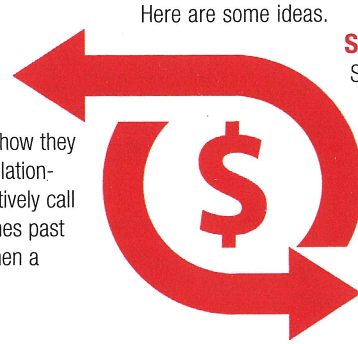
Conduct an audit of your expense accounts to identify opportunities to cut or control existing costs:

- 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. ♦

Increase cash flow with help from your suppliers

With great relations, suppliers can be a wonderful, cost-effective way to manage your cash. Here are some ideas.



Treat key suppliers as partners
Meet with key suppliers periodically to understand how they are doing and to build a relationship based on trust. Proactively call them BEFORE a bill becomes past due and let them know when a payment will be sent.

Extend terms
Negotiate the longest payback terms possible and ask for early-payment discounts. A one or two percent discount might not seem significant, but on bulk orders savings can accumulate.

Simplify
Set up automatic payments from your company bank account so you won't have to remember when a bill is due. The money will also stay in your account as long as possible.

Prioritize
Develop a priority payment list. Although everyone needs to be paid eventually, some vendors are more crucial to your success.

Release management
Pay for inventory when you sell it and not before. Consider implementing just-in-time delivery, where you place the order with the supplier and they then deliver or ship it.

Choosing a PAYROLL PROVIDER

One of the cornerstone activities of every business is the timely and accurate payment of payroll and its related tax and regulatory filings. Whether you do this in-house or use an outside service, it is a good idea to periodically assess how it's going and whether a change makes sense. Here are some thoughts.

- **Take a snapshot of the current situation.** Assess how well your current pay cycle is working. Create a list of the pain points. Also determine the level of knowledge the current person(s) have in the process. Payroll can be complicated, especially when adding in all the required deductions and various tax and payment deadlines. Try to be as objective as possible in your review.
- **Determine the time required.** Review how much time is spent in managing your payroll. Then convert it into cost. If you currently use an outside resource, you will already know the cost, but you should assess how much lead-time they require to get your payroll records and how much of a hassle their requirements are to your internal coordinator.
- **Integration assessment.** Determine how important it is to have payroll integrated into your accounting and benefits system. This will make reconciliation easier and will aid in the tracking of other key employee benefits like retirement plans and tracking paid time off. And don't forget the employee integration. Decide if you want employees to self-monitor their pay with online access or if you wish to stay on top of the requests being asked of by employees.
- **Service is important.** Most of the time, payroll runs like a clock, but when it doesn't it can be a real pain with possible penalties to boot! So knowing how problems are solved, and having a responsive person to handle those problems is key. If commissions are forgotten, or you are going to be a bit late in submitting payroll for the period, you do not want to be waiting hours or days to get an answer.
- **Compliance. Compliance.** Assess the payroll provider's understanding of taxes and other compliance measures. This is important, as not sending in withholdings timely can create real problems. If a large payroll service has a generic call center, the person on the line will not usually be able to knowingly answer your questions. Having a sound understanding of accounting and how it works is key.
- **Review alternatives.** Once you know your pain points and the cost of running your payroll, you are ready to assess potential alternatives. Create a matrix of measures before discussing your payroll with alternative suppliers. Then stick to your matrix, and ensure you include a reputation review and transitional process timing in your assessment. It is often hard to get suppliers to provide costing in a comparable fashion with other suppliers, so stick to your guns.

Payroll is one of the top functions of every business and, ideally, one that works well. But that usually doesn't happen by accident. It's because you work with a trusted, well-reviewed, competent provider. ♦

CASH FLOW CORNER

Make your money management easier with these ideas

Managing your business's money can sometimes feel overwhelming and time-consuming. With the right approach, though, your process can be easier and more effective. Here are some ideas.

- **Create a cash forecast.** Create a weekly or bi-weekly forecast that lists your expected income and expenses. Use this plan for upcoming obligations, such as payroll or loan payments, and to determine when you have enough extra money to make a capital improvement or hire a new employee.
- **Tie your bank statement to your accounting software.** If you aren't doing it already, consider linking your bank accounts to your accounting software. Instead of waiting for monthly statements, real-time bank feeds allow your accounting system to receive transaction data as it happens. This means you can reconcile more frequently—weekly or even daily.
- **Investigate discrepancies immediately.** An advantage of reconciling your accounts weekly or daily is that you can look into discrepancies quickly after they're discovered. Common causes of a transaction mismatch are bank processing delays, duplicate transactions, missing receipts, and unrecorded bank fees. Reviewing discrepancies as they arise can help resolve issues before they affect your financial reports.
- **Create controls for ACH transactions.** Multiple issues could crop up if you routinely pay some of your bills using ACH. If you find a duplicate invoice from a vendor, how do you know it was paid? How do you document payment approvals? Do you have controls for recurring transactions? Creating ACH payment controls can give you peace of mind that money is being spent appropriately.
- **Keep a detailed audit trail.** A well-documented audit trail can make your life easier should an issue arise, such as a discrepancy. Keep records of your cash deposits and withdrawals, bank statements, receipts and invoices, and any notes on discrepancies. Storing these records digitally ensures easy access and reduces the risk of losing important financial information in the event of a disaster.
- **Frequently review financial reports.** Make it a habit to review your balance sheet, income statement, and cash flow statement every month. This helps you identify trends, spot issues early enough, and make informed strategic decisions.

By creating controls, forecasting your cash flow, and automating recurring tasks, you can turn your business's money management into a well-oiled machine. ♦

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Tax considerations to include in your partnership or shareholder agreement

A partnership or shareholder agreement that omits tax considerations can lead to unintended liabilities, disputes, and financial setbacks. Here are several tax-related areas to consider including in your business's agreement.

- **Clear profit and loss allocation.** If an agreement fails to specify how profits and losses should be divided among owners, or if it includes arbitrary allocations without a justification, the IRS may reallocate income in a way that increases the tax bill for certain owners.

  For example, if a partnership agreement states that profits will be split equally but losses will be disproportionately allocated to one partner, the IRS may challenge this allocation as lacking substantial economic effect. If the IRS recharacterizes the allocations, some partners may face unexpected tax liabilities.

- **Distribution clause to address tax obligations.** Without a tax distribution clause, partners and shareholders may find themselves responsible for taxes on income for which they never received in cash. This situation can create financial strain, especially for minority owners who lack control over how distribution decisions are made. So consider including a tax distribution provision in your agreement to ensure that owners receive enough cash to cover their tax liabilities.

- **Clarity on buy-sell provisions upon death, disability, retirement, or exit.** A buyout could trigger unexpected capital gains taxes or ordinary income treatment at higher tax rates, or cause the IRS to deem certain buyouts as disguised compensation. Structuring buyout provisions carefully can possibly mitigate these risks.

- **Clear debt allocation.** For partnerships, the allocation of liabilities among partners affects their tax basis, which in turn determines their ability to deduct losses. If a partnership agreement does not specify how debt is allocated, partners may unexpectedly lose the ability to deduct losses or face additional tax liability if debt is reclassified.

- **Continuity of S corporation status.** For S corporations, shareholder agreements must comply with strict IRS requirements to maintain S-corp status. If an agreement allows ineligible shareholders (such as partnerships, corporations, or non-resident aliens) to acquire shares, the S corporation could lose its pass-through tax treatment and be subject to corporate tax at the entity level.

A partnership or shareholder agreement that's written without tax considerations can have major tax consequences. Please call if you have tax-related questions about your business's agreement. ♦

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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