

SMALL BUSINESS DIMENSIONS

FINANCIAL STRATEGIES FOR THE ENTREPRENEUR

Tax breaks, credits may spur small business growth

While economists may differ over the precise degree of importance of small business in the overall success of the U.S. economy, no one questions that it forms the backbone of this country's economic strength. How important it is becomes clear in times of economic uncertainty, which is why Congress has left in place and even passed new legislation designed to benefit small businesses.

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Material prepared by Raymond James for use by its financial advisors.



Transitioning the family business: In peace or in pieces?

Should someone get a bigger slice of blueberry pie for dessert if he picked, sorted and washed the berries for his mother while his siblings watched TV?

If a family bases decisions on equality, each sibling receives an equal share of pie. But if equity is the standard – shares based on proportion of input – whoever does the most work receives a larger piece. And if decisions are based on perceived need – perhaps a brother

didn't eat lunch and is ravenous – he receives an extra slice of pie.

Even among closely knit families, these simple scenarios over dessert can sow seeds of discord because people have their own perceptions of fairness. Equal slices of pie – or a business – might seem fair to everyone but the major contributor. An equitable distribution might seem fair to the contributor but quite unjust to everyone else for

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Tax breaks, credits may spur small business growth

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Assistance takes many forms, but some of the more widely available ones are in the form of tax credits spelled out in the Small Business Jobs Act signed into law in September 2010. It was designed to help create up to 500,000 jobs while providing up to \$12 billion in tax breaks. Here are some of those provisions and other tax credits available to small enterprises this year.

Spending on Equipment

Qualifying businesses that spend money on new equipment can write off these capital expenditures – up to \$500,000 worth – immediately, keeping more cash on hand for other purposes. Section 179 of the 2009 Recovery Act had allowed a write-off of up to \$250,000. The new law doubled the amount for 2010 and extended the provision through 2011.

Bonus Depreciation Extension

It's common for businesses to write off capital expenditures by following

a years-long depreciation schedule. On a temporary basis, businesses can front-load the depreciation of such expenditures made in 2008 and 2009 by 50% – and that includes qualifying business property entering service in 2010. The effect is to leave more cash in the business.

Startup Credit Increase

Entrepreneurs can now deduct up to \$10,000 in startup costs, reduced by the amount of actual costs over \$60,000 (if the startup costs are \$63,000, the deduction is reduced to \$7,000). Previously, startup credit was set at \$5,000, reduced by the amount of costs over \$50,000.

Health Insurance for the Self-Employed

If you qualify under the IRS definition of “self-employed,” you can now deduct your health insurance costs from your business profits, a provision that saves on regular

income taxes as well as on your self-employment taxes.

Employee Health Insurance Credit

If your business is a small enterprise with fewer than 25 employees who make less than \$50,000 annually, you may be eligible to receive a tax credit for healthcare premiums paid. Maximum credit is 35%, which would apply to a small business employing fewer than 10 people whose annual average incomes equal no more than \$25,000.

Capital Gains Exclusion for Investors

If your business is a C-corporation with assets of less than \$50 million, there is a 100% exclusion of capital gains taxes for investors who buy your company's stock at “original issue” (that is, directly from the company) and hold it for at least five years. This provision does not apply to LLCs or S-corporations. ■

Growing global – an achievable goal for many small businesses

It takes hard work and perseverance to successfully market your product at home. So maybe you've imagined it would be exponentially more difficult to expand into the global marketplace. Yet, going global is not at all out of reach for small businesses, especially those whose products or expert services have universal appeal.

Should the idea of creating a customer base outside the United States appeal to you, be prepared to do a lot

of homework and become somewhat of an expert on your target population. You don't have to do it alone. The U.S. Department of Commerce website (commerce.gov) provides information about foreign commerce, and there is comprehensive information – including details of financing guarantee programs available to small business – on the website of the Export-Import Bank of the United States (www.exim.gov/smallbusiness).

DUE DILIGENCE

If the idea of growing your business by expanding into international markets seems both feasible and exciting, it's time to check into every aspect of how it might work. For example, you would need to decide whether to ramp up production or simply divert some of your current production in order to have the products needed to break into the international marketplace. Bulking up inventory

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Terms of transition

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any reason, sensible or not. And distribution according to perceived need may be most disruptive of all – suppose the hungry child willfully skipped lunch.

PLANNING AHEAD

Fast-forward 40 or 50 years. Some family members, all grown. Some outspoken, others less so but hardly disinterested – and all wondering how fair you're planning to be as you decide on a succession plan for the family business.

No matter how difficult it is to arrive at a workable plan, it seems wise to give it your best effort. Only 30% of family-run companies succeed into the second generation; only 15% make it into the third. Those are discouraging numbers, and most business experts lay the blame at the lack of a workable, orderly and transparent succession plan.

In general, widely accepted criteria apply. Small business owners should have a succession plan, no

matter how old they are. While it's not routine, neither is it impossible for a perfectly healthy middle-aged person to suddenly become ill, suffer injuries in an accident or otherwise be taken away from the business.

Many experts agree that between ages 55 and 65, owners should devise a three-, five- or 10-year succession plan and actively explain, to designated successors, the nuts and bolts of the business and what made it successful.

WHO DEFINES "FAIR"?

But all that well-grounded advice for small-business men becomes moot when owners face family situations that defy routine formulas. Then there is only one rule: Find a succession formula that gives the business its best chance to succeed after you retire. That means working out a smooth transition that's as fair and just as possible to all relevant family members.

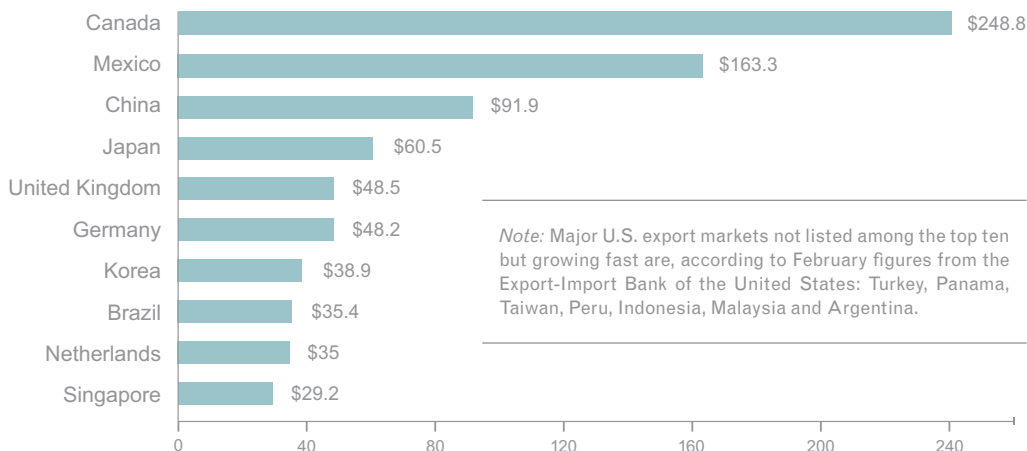
Note that "fair" doesn't necessarily mean equal. Furthermore, successful

transitions seldom are built on a platform of perceived need. Plans built on qualities like trust, respect and loyalty are more likely to succeed.

Should day-to-day management of the business be left to the one most-interested and most-involved heir while ownership shares are spread equally among the others? Would it be better for the enterprise and family to pass the business to the most actively involved heirs while using other ways to transfer wealth to those who are disinterested or unqualified? Experts tend to agree that one key element must be present – a transparent process that gives each family member a clear understanding of how you arrived at a just succession plan.

There are countless formulas to use basing your decisions on what you know about the inner workings of your family, your heirs' capabilities, their personalities and their individual perceptions of what is equitable and fair. ■

LEADING MARKETS FOR 2010 U.S. EXPORTS (\$ BILLIONS)



Note: Major U.S. export markets not listed among the top ten but growing fast are, according to February figures from the Export-Import Bank of the United States: Turkey, Panama, Taiwan, Peru, Indonesia, Malaysia and Argentina.

*Source: U.S. Department of Commerce, Census Bureau, Foreign Trade Division.

Growing global

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could mean more investment in raw materials, as well as personnel. If you provide expert services, such expansion might require hiring employees with specific qualifications.

Clearly, culturally specific products sometimes don't translate well across international borders, so finding potential distributors, vendors and/or marketing experts in your target export market is an early step. You'll want to test-market your product, and unless you yourself are intimately familiar with the culture or cultures of your chosen country or countries, reliable overseas partners are usually a necessity (the two agencies listed above can help put you in touch with potential foreign partners).

If entering into a foreign partnership doesn't appeal to you, an alternative is to find an export management firm. While that company will require a commission to market

and sell your product, it may be a small price to pay to open up a new market.

MARKETING IN OTHER LANDS

No matter how you go about entering the international marketplace, adhering to cultural practices is vital to your success. Americans are sometimes surprised to find that marketing approaches that work at home are nonstarters abroad.

To successfully carry on business in Japan, China or other likely Asian markets, for example, it is crucial to demonstrate a respectful relationship with both your employees and your customers. Brash sales approaches are likely to be seen merely as rude. In some markets, you may find yourself bending schedules or timetables to accommodate the culture, some of which don't adhere to the often hectic, split-second timetables that pre-

vail in many – but not all – Western countries. It's not uncommon for "immediate" to mean several hours or even days in some cultures.

There are many other aspects to explore if you're thinking of expanding globally. You may want to investigate and select a reliable shipper for your goods, or investigate international financing to find out what is available to you. You might want to take advantage of times in which the U.S. dollar is weak; this can be kind to exporters because it makes goods less expensive abroad.

The details will undoubtedly fall into place as you proceed. The point is that given modern technology and the growing interconnectedness of international economies, there could well be a place there for your business. Look at it as a mission that is possible – if you choose to accept. ■

SBA Patriot Express program for veterans extended

A Small Business Administration (SBA) loan program designed to streamline lending to veterans and others in the military or spouses of members of the military made it through the rounds of congressional tax and program cutting in December. The Patriot Express loan program has been extended for three years. Since it began in June 2007, this program has provided more than \$560 million in loan guarantees to nearly 7,000 qualified applicants who wanted to start or expand their businesses.

Loans of up to \$500,000 are available through Patriot Express, so named because it attempts to fast-track loan approval and turn-around times for applicants. The loans themselves are offered through the SBA's network of lending institutions.

Patriot Express loans may be useful for wide-ranging applications, including startup costs, expansion, working capital, equipment purchases, inventory accumulation and business-occupied real estate purchases.

Eligible members of the military

community include:

- Veterans
- Service-disabled veterans
- Active-duty military members eligible for the Transition Assistance Program
- Reservists and National Guard members
- Spouses of any of the above
- Widows or widowers of service members who died in active service or of a service-connected disability

For details, visit sba.gov/patriot-express. ■