# Strothman+Co Financial News and Views

At Strothman and Company we help entrepreneurial businesses grow. At every stage.  Every day. That's why we keep you up to date on relevant issues.

**In This Issue:**



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## Strothman Spotlight

DREAM FUNDERS

We are excited at Strothman and Company to be a sponsor of Dream Funders, a new locally produced TV series that matches local entrepreneurs who want to start or grow their business with local private investors.  Our partner, Melissa Fraser is the host and co-producer of the series.  Watch the show on channel 21, Wednesday's at 8pm.

If you are interested in appearing on the TV series as an investor or entrepreneur please apply at www.LouisvilleDreamFunders.com

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## Most Common Startup Mistakes (and How to Avoid Them)

While there are many business successes, there are unfortunately many more business failures.

Various factors, including the type of industry or the age of a business, can contribute to its chances of failure, according to the Statistic Brain Research Institute. The research found that the older a business is, the more likely it will fail. While a 5-year-old business has a 55 percent likelihood of failure, a 10-year-old business has a 71 percent chance. Similarly, only 37 percent of information-based businesses failed after four years, compared to 58 percent of finance, insurance and real estate businesses during the same timeframe. In order to prevent the majority of failures, there are some ways that businesses can be proactive and reduce their chances of going under.

### Not Being Social Enough

Not using social media at all; failing to use the right kind of social media; or not knowing how to use it effectively are some reasons startups fail. Whether it's a lack of time or simply not keeping up with the most popular brands, lack of a presence of social media is one reason startups fail. Examples of positive social media use include using LinkedIn to search for new hires and using the company's profile to advertise for employment. Twitter can be used to engage and have conversations with potential customers and future employees by showing recent work products and seeking community engagement. Showing your prospective customers photos, videos and links to authoritative websites will often provide your company with invaluable PR.

### Not Being Insured Well Enough

Another thing attributed to startup failures, especially for those that have even a few employees, is lack of insurance. Even when an entrepreneur is working out of his or her home, insurance may be necessary if clients come and visit the home office. Similarly, business auto insurance may also be necessary if client meetings are necessary at a client's place of work. Malpractice or errors and omission insurance may not be required, but even if a lawsuit is baseless, the money and time it takes to defend and dismiss a lawsuit can take away from an owner's time, potentially reducing cash flow.

### Poor Business Name Search

Picking a business name is a critical part of branding one's company, but not performing a trademark search can result in lost money and even a complete business failure. Since a business name goes into the LLC or corporation filing paperwork, signage, a website, business cards and what potential customers see, it's imperative that a thorough check is done on the name's availability. If the name is already in use and trademarked, legal costs could become pricey.

### Not Using Enough Varied Marketing Techniques

A non-diverse marketing approach can make or break a startup; examples include the inability to scale product sales or attract investments from venture capitalists. Startups that leverage their advertising through social sales, word-of-mouth advertising and partnering with businesses in non-competing, complementary industries can increase the likelihood of sales.

Startup entrepreneurs who fail to be cognizant of their communication skills and styles can spell doom for their ventures. This is especially true if the startup is looking for Venture or Angel Capital funding. Meandering or looking down at the conference table instead of making eye contact does not convey confidence or display positive body language to potential investors.

For entrepreneurs who reduce or avoid these mistakes, the chances of their startup surviving and thriving are certainly increased. However, even the best startup can't predict how its customer base or government regulations will ultimately impact its success.

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## Tip: New Legislation Helps Tax Planning for Small Businesses

Perhaps one of the biggest headaches for owners of small businesses involves dealing with the yearly changes to the tax code and trying to leverage tax breaks that have an expiration date. Strategic tax planning can be difficult and is frequently complicated. Here's an overview of some of the new rules that should simplify matters for 2016.

The Protecting Americans from Tax Hikes Act (often referred to as the PATH Act) was passed in December 2015. The act eliminates a lot of the uncertainty inherent in tax planning by enhancing and making permanent several key tax provisions that previously had been renewed by Congress on an ad hoc basis. Unfortunately, the provisions were extended so late in 2015 that most businesses were unable to plan significant investment or long-term purchases to take full advantage in their 2015 filings. Your tax professional can advise you on your specific situation, but here are some key components that could affect your tax planning during 2016.

- More businesses will be eligible for the existing research and development (R&D) credit, which PATH also makes permanent. Startups with less than $5 million in gross receipts (and very little profit) previously were ineligible for the R&D credit. Now, some small firms that fall below the $5 million level may be able to apply the credit to the Social Security portion of their payroll taxes up to a limit of $250,000. Application of this credit has been broadened to include more business sectors. Previously, technology and scientific companies were the only beneficiaries of R&D write-offs.
- Changes to Section 179 in the Tax Code may bring the most welcome change to the small business sector. In recent years, owners of small firms were able to write off up to $500,000 spent on new or used equipment and software. However, that write-off was cut to $25,000 for the 2014 tax year. PATH has restored the

write-off to its previous $500,000 limit and has made the provision permanent. This might be the most impactful change in the mix. These deductions involve business-related purchases across the board - not just computers and software, but desks, lamps and most day-to-day equipment used by a company's employees.

- However, business owners do need to be mindful when it comes to applying Section 179 to automobiles and other vehicles. To qualify for a tax deduction, a passenger car must be used more than 50 percent for business purposes. For most cars, the first-year deduction is capped at $3,160 with an additional $200 for SUVs and pickup trucks. Some vehicles may also qualify for $8,000 in potential bonus depreciation. If they use larger business vehicles (6,000 to 14,000 pounds), some business owners may be able to deduct up to $25,000 plus a possible 50 percent in depreciation.
- The IRS has simplified the way small businesses may expense tangible goods. For quite some time, small businesses were allowed to write off equipment costs of up to $500, rather than carrying them as depreciating assets on their balance sheets. For the 2016 tax year, the IRS will increase the maximum deduction to $2,500. These write-offs must be supported by invoices.
- On the other hand, penalties for self-employed workers or entrepreneurs who lack essential health benefits will continue to increase. Families without coverage will see the sharpest increases.

The recent changes could affect and benefit your business. Consult your tax professional to find out more.

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### Stock Market: Falling Oil Prices Depress Stock Prices

Investors saw the market continue to slide throughout February, as stocks followed the downward trajectory of oil prices - a pattern which began in January. Not surprisingly, investment experts were puzzled, as well as unhappy, to see this unmistakable correlation between stock valuations and oil prices. This connection is a recent one; we have not seen this pattern in the past decade or so. There's no doubt we are seeing it now. Experts have noted that oil prices and the Standard & Poor's 500 index have been marching in close formation for 87 percent of the time since 2016 dawned - and that, in the last weeks of February, the correlation has been even tighter. Since oil prices have hit new lows this year, the S&P 500 has lost 5.5 percent of its value. Here are the major talking points.

1. Is the turmoil in the energy sector spilling over into other areas?
   It depends on who you choose to believe. Some analysts believe that we are beginning to see other factors, such as positive economic news, lifting stock prices. At the end of February, we saw strong manufacturing data and a positive sign from consumers as orders for durable goods increased, outstripping previous forecasts. Other analysts are less optimistic. Financial stocks also have

been hit hard because investors worry about the possibility of major loan defaults in the oil and gas sector. Some worry that businesses and consumers in states like Oklahoma and Texas will be hit hard by the downturn in the energy sector. They predict companies across the board will find credit tighter. Other analysts believe that fears like these are an overreaction and that spill over as such has been minimal.

2. Will major producers scale production back?
   Hopes that U.S. energy producers would cut production were not realized and neither were predictions that OPEC, especially Saudi Arabia and Iran, would cut back. Investors are slowly coming to accept the fact that oil prices will stay low for a while. Some analysts fear that those emerging nations that are heavily reliant on oil income will see their purchasing power decline and create a slowdown in global markets. Some experts anticipate that volatility in U.S. markets will remain until oil prices bottom out.

3. Are fears of a recession unfounded?
   Many analysts believe that the bull run is not over, and that the market volatility which peaked in late January/early February has begun to subside. As February drew to a close, we saw both energy and financial stocks rally. Many hope that this means a beginning of the end of the correlation between oil prices and market performance. Some are hoping that upcoming economic and job reports will help fuel more optimism. Federal Reserve Chairman Janet Yellen has hinted that the Fed will raise interest rates gradually, but just how gradually remains to be seen. There is no shortage of advice coming her way from a variety of market sectors. Many policy makers are urging caution and a moratorium on possible rate hikes until oil prices stabilize and global economic uncertainty eases.

Successful investors understand the importance of discipline in challenging times, avoiding knee-jerk reactions to market changes. As always, the above commentary is general in nature and should not be substituted for professional guidance from your tax and investment advisors.

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## Pay Up or Stay Home

If you're looking to use your U.S. passport on your next international trip and you're delinquent on your taxes, some recent changes to federal law may have you grounded.

When President Obama signed the FAST Act (Fixing America's Surface Transportation Act) into law, he expanded the federal government's ability to restrict who can obtain a new passport or renew an existing one. Previously, the Secretary of State was empowered to deny new and renewed passports for non-custodial parents if their state of residence informed the Department of State of a child support debt of more than $2,500. However, the FAST Act also empowers the Secretary of State to deny delinquent taxpayers the ability to obtain a new passport or renew an existing one.

This new law will require the Secretary of State to withhold issuing new passports and renewal requests for anyone who is a seriously delinquent taxpayer. Similarly, the Secretary of State also is allowed to invalidate and rescind any active passport held by a seriously delinquent taxpayer.

Under this FAST Act, taxpayers are considered delinquent when their federal tax liability exceeds $50,000, including penalties and interest and a lien or notice of levy is filed against the debt. Moving forward, the $50,000 threshold will be indexed according to inflation. An exception for the passport issuance or renewal may be made in certain cases: for taxpayers with federal tax debt that qualifies for an Offer-in-Compromise (OIC); for taxpayers who are eligible for innocent spouse relief; for taxpayers who have debt that is frozen due to an appeal for a collection due process (CDP) hearing; or for taxpayers who have worked out a collection agreement.

The question persists as to how to make sure that the innocent or exempted taxpayers can still exercise their right to travel internationally with a passport. This depends on the identification of seriously delinquent taxpayers by the Commissioner of Internal Revenue and verification by the Secretary of the Treasury. These individuals' names would then be transferred for identification from the Secretary of the Treasury to the Secretary of State.

As part of the law, taxpayers whose passport privileges may be revoked if they don't satisfy outstanding federal tax debt are first notified through the IRS' standard mailed debt notices so they can address the issue. This is done to help taxpayers resolve their federal tax obligations and prevent passport suspension or revocation in the future. However, one potential pitfall of this method of notification is once a taxpayer sees their notification for tax debt, they may not always pay attention to the potential passport issue.

For those taxpayers who believe they are incorrectly assigned to the no passport list, the law allows for a "reversal of certification" provision. If the determination was made incorrectly or the federal tax debt is satisfied or no longer meets the threshold, the IRS must inform the Secretary of the Treasury who in turn will make the Secretary of State aware of the error. Additionally, since the corrective action to get removed from the list can be time intensive, taxpayers may petition the court to have their passport privileges restored while the administrative procedures are ongoing.

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## Bond Strategies that Benefit Investors

A portfolio of individual bonds can provide constant, dependable income both now and in the future. Now that we're in an environment of rising interest rates, it's more important than ever to develop a bond portfolio with flexibility so investors can optimize their income stream.

An overarching strategy for bonds is to stagger their durations so you have periodic opportunities to re-assess investment options when each bond matures and the principal is repaid. The last thing you want is for all of your bonds to mature around the same time, because you may get stuck reinvesting your principal at lower interest rates. To prevent this, consider the following bond strategies.

**The Ladder**

When you "ladder" a portfolio of bonds, you purchase a variety of short-term, intermediate-term and long-term bonds. As each bond matures, you can evaluate your next move based on the current state of interest rates. When they're low, you might want to reinvest in longer-term bonds, which generally provide the highest yields. When interest rates are high, you have more options available depending on what your portfolio needs, but it's a good idea to continue diversifying maturities so you retain flexibility. Laddering is generally an appropriate strategy for an investor who can commit a significant amount of funds over a long-term timeline.

For example, say you purchase a two-year, a four-year and a six-year bond at the same time. Two years later, interest rates have increased, so you reinvest the first bond for a six-year duration. Two years after that, you take the principal from the second bond and invest for an eight-year duration. Two years later, you re-invest the third bond for a 10-year duration. Thereafter, you re-evaluate the bonds as they come due and continue to pursue a laddered duration strategy. If you remain diversified, you should be able to reinvest principal every two to four years, which provides the opportunity to frequently re-evaluate your needs and the interest rate environment.

**The Barbell**

When you purchase a combination of short- and long-term bonds, but eschew intermediate-term bonds, you create a Barbell Strategy. Here too, you can re-evaluate the direction of interest rates at different time periods while at the same time taking advantage of the higher rates of longer-term bonds. The Barbell Strategy provides a degree of liquidity since the investor receives back a portion of his assets every few years when the short-term bonds mature. It's a sound solution for people with long-term income needs who also want regular access to funds for short-term goals, such as paying for college or buying a new car.

**The Bullet**

The Bullet Strategy is appropriate for an investor who knows exactly when he needs his income, such as the year he plans to retire. In this scenario, he buys a series of bonds all scheduled to mature in that year. However, to achieve diversity and the flexibility to reinvest at potentially higher rates, this bond investor staggers when he purchases the bonds. First he purchases long-term bonds, then a few years later he purchases intermediate-term bonds, and then finally a little further down the road he buys short-term bonds. Each bond will mature in the same year, but the investor keeps a cash cushion on hand and waits for the optimal interest rate option to make subsequent purchases.

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### Technology: What's at Stake in the Apple vs. FBI Battle

The encryption issue is not new. It started in the '90s when encryption became more commonplace in consumer products, and has escalated to a full-scale, highly public debate between Apple - an industry leader in smart phone/mobile technology - and the FBI. Here is a concise look at what is at stake.

- Technology companies have always developed and upgraded security methods to keep hackers from accessing private data. Since Edward Snowden went public with reports of government surveillance, these companies have changed their security protocols to protect users against government efforts to access private data.
- Federal wire-tapping laws already give law enforcement access to data handled by phone carriers. This legislation doesn't cover tech companies, and those companies are fighting hard to keep it that way.
- Encryption is the magic that makes personal data safe. Once data is protected by encryption, the only way to access it is through the encryption key. No one - not even the manufacturer of the device or its software - can access the information without the encryption key.
- Back in 2015, the FBI's chief said the agency wanted back door access to encrypted data. When he did so, a howl of protest went out from security and technology professionals, as well as reporters and human rights activists, pointing out that doing so opened a virtual Pandora's Box of problems - most particularly creating an enormous security risk as soon as a manufacturer weakened the water-tight nature of encryption. To the technology industry, the problems inherent in providing the possibility of such access far outweighed the advantage of doing so.
- The FBI is not asking for Apple to help law enforcement break the encryption on iPhones. They want Apple to tamper with a security feature that makes it virtually impossible to guess the pin used to encrypt an iPhone. For this to happen, a backdoor would have to be built into the encryption protocol. Opponents believe that doing so would immediately open up a massive new opportunity for leaks or theft that potentially would give cyber-crooks and cyber-terrorists a chance to steal data at an unprecedented level. FBI supporters argue that such a feature already exists - a troubleshooting system that allows the company to update software without needing to know subscribers' passwords. Industry analysts expect Apple to ramp up security on this particular feature in an effort to thwart the FBI's proposal to highjack it for surveillance purposes.

- The battle between big tech companies and the government is being fought in the media with both sides using emotional arguments to influence public opinion and obtain the solution they want. The FBI has chosen a public fight over access to a dead terrorist's smart phone and has tapped the outrage of relatives of victims of the San Bernardino shootings to support its efforts to force tech giants like Apple and Google to make encrypted data accessible to law enforcement. On its part, Apple is running a hard-hitting PR effort, most recently evidenced by CEO Tim Cook's open letter to customers, which appeared as paid commentary in prime media outlets.

The battle between the FBI and Apple has already reached the headlines and the law courts. Observers believe Congressional involvement will be necessary to resolve this issue in any meaningful way.

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## 2016 Strothman and Company Seminar Series

We are pleased to announce our 2016 Seminar Series. Strothman and Company has been providing these complementary programs for 30 years, demonstrating our commitment to education and continuous improvement. In addition to these seminars, others may be added during the year. Be sure to watch for our monthly newsletters! Please invite friends and associates to attend these FREE seminars.

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| **Investing in a Turbulent Market**<br>*Managing Your Risks* | **May 12, 2016**<br>8 - 10 AM<br>Owl Creek Country Club |
| **Cloud Accounting**<br>*The Technology Savvy Way to Run Your Business* | **August 18, 2016**<br>8 - 10 AM<br>Owl Creek Country Club |
| **Business Ethics**<br>*Learning from the Mistakes of Others* | * <br>**September 21, 2016**<br>8 - 10 AM<br>University of Louisville -<br>Shelby Campus |
| **Expanding Your Business Nationally & Internationally**<br>*Tax and Business Considerations* | **October 20, 2016**<br>8 - 10 AM<br>Owl Creek Country Club |
| **Tax Update**<br>*Preparing for a Changing Environment* | **November 10, 2016**<br>8 - 10 AM<br>Owl Creek Country Club |
| **21st Annual StroCo University**<br>*Blazing Trails* | **December 1, 2016**<br>8 - 12 PM<br>University of Louisville - |

Shelby Campus

Strothman and Company seminars are designed to qualify for Continuing Professional Education (CPE) for CPAs.

If you have any questions, please call Stephani at 502.585.1600 or email showard@strothman.com