

Resolve to Maintain Accurate Records in the New Year

Plymouth County experts call compliance “king”

By Jim Farrell

For the Plymouth County Business Review

A new year is just around the corner and for veteran business owners and would-be entrepreneurs alike that translates into a time to concentrate on tax strategies and according to local fiscal experts, the importance of accurate record keeping and maintaining compliance cannot be overstated.

“The recent scandals at Enron created a spillover effect, even on small businesses,” according to Jake Lynch, a principal in the 41-year-old CPA firm of Needel, Welch & Stone, in Rockland. “The advent of such legislation as Sarbanes-Oxley makes it imperative that records be up to date and without error, and that management take more responsibility in this area -- so compliance is king.”

Lynch, noting that in the wake of a series of corporate financial scandals, including those associated with Enron, WorldCom and Arthur Andersen, “the need for stringent, above-scrutiny record-keeping and business practices is critical now more than ever.”

“There is a need for businesses to maintain strong relationships with their lenders, and problems with record-keeping or other improprieties will negatively affect that relationship,” said Lynch.

Also, according to Lynch, sustaining accurate records of a business can add as much as 10% to its value, but conversely poorly kept or sketchy account may diminish the sale value of a business by at least that amount.

And make sure records are current – that aspect of fiscal housekeeping is essential in the event you want to sell or take on an investor. A good rule of thumb, said Lynch, is to have financial documents for the last five years at the ready; if not you may be looking at a 10 % lower valuation when it comes time to sell or worse, that prospective buyer may go elsewhere if you’re not prepared to provide an “at a glance” financial health report.

Retaining the services of a CPA to prepare and sign your business tax return is important, but ultimately it is the business owner who must take responsibility for the numbers. In other words, having a third party prepare your return won’t exempt you from an audit. Think of your CPA as a quality control guide, but do some of your own homework by getting acquainted with any number of accounting software programs now available. Considerably less expensive than they used to be, these programs can help ensure your records are accurate, particularly in the event of an audit.

And according to Richard Bloodgood, a partner/principal in the firm of Bloodgood and Maimaron in Duxbury, the Internal Revenue Service now has more money to spend auditing businesses so “watch out.”

“Be careful to avoid deductions that will raise red flags,” said Bloodgood, who specializes in one person proprietorships and partnerships. “In a five-year period, you can lose money for two years but must show a profit for three, particularly if you’re claiming business deductions. A different situation, where your profits are less, suggests to the IRS that you’re basically operating a hobby.”

Having a plan in place to avoid such a trap fall is vital if you are, say a “struggling artist” who has talent and name recognition but hasn’t earned much money from sales. An experienced accountant can assist with such a plan.

The IRS is also keeping a more watchful eye on different types of business organizations, with limited liability corporations (LLCs) most visible on the radar screen, said Bloodgood. If you have already established an LLC the word of advice is make sure some minimum salary comes out of what is sometimes referred to as a “pass-through entity.” And if you have not yet decided on what type of business organization best suits your needs, a qualified CPA can help you determine if you should set up as a sole proprietor, sub chapter S or LLC.

While the “bottom line” may be all about numbers, there are other points a business owner must consider to merit success, according to Lynch.

A high-quality team of professional advisors, including an attorney and CPA will ensure your record-keeping and compliance efforts are first rate, but there’s another aspect to bear in mind.

“Human capital is critical,” said Lynch. “Most successful companies are good because of good people. Hire the best people you can and do what you can to keep them.”

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