

NFIB UPDATE

COVID-19 WEBINAR SERIES FOR SMALL BUSINESS

with Beth Milito and Holly Wade, NFIB



November 3, 2021

Special Guest – Marty Abo, Abo and Company, LLC (CPA/ABV/CVA/CFF)

Topic – Succession Planning for the Small Business Owner: Navigating the Exit



DISCLAIMER

- The materials and information provided in this webinar and on NFIB's website are for informational purposes only and not for the purpose of providing legal or tax advice. You should contact your attorney and/or tax professional to obtain advice with respect to any particular issue or problem.
- This is based on information available by 11/2/21.

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Agenda



- NFIB Covid-19 Small Business Resources
- Martin Abo - Succession Planning for the Small Business Owner: Navigating the Exit
- Q&A
- Send questions to info@nfib.org

Upcoming Webinars

NFIB's *Special Fall Webinar Series*

Small Business Reset and Recovery

First Wednesdays - 12 PM EST

**Episode 4 - Digital Marketing Boot Camp for Small
Business**

Presented by Donna Botti

Wednesday, December 1st

COVID-19 Resources

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- Economic Injury Disaster Loan - ***still open!***
 - Employee Retention Credit - ***still open!***
 - Paycheck Protection Program (forgiveness)
 - SBA Updates – sba.gov/updates
 - NFIB Coronavirus Resources (including past webinars)

Economic Injury Disaster Loan (EIDL)

LOAN AMOUNT

Maximum loan amount of \$2 million

TERMS

30-year loan, no penalties for early payments

3.75% for businesses (fixed), 2.75% for nonprofits (fixed)

USE OF PROCEEDS

Working capital and normal operating expenses (health insurance, payroll, rent, supplies, utilities). EIDL proceeds can also be used to prepay commercial debt and make payments on federal business debt.

LOAN DEFERMENT

Deferment Period for all COVID-19 EIDLs until 2022

Existing EIDL Borrowers may request an increase. Log in to the online portal for businesses that the SBA created for those requesting EIDLs. (Same portal for all EIDLs.) Once you do, you will see either a button that says "Request an Increase" or a "quote" displayed with your eligible amount. The "Request an Increase" button takes applicants to the EIDL application for up to \$2 million. If you don't see that button, it means you are not currently eligible for an increase. If you see a quote displayed, click on "Review and Accept Amount" and use the slider tool to confirm your requested amount. The maximum loan amount for which you're eligible is a product of your 2019 revenue subtracted by your cost of goods sold times two. If you have no COGS, subtract 0. Note that if you've already applied for an EIDL loan or increase, and it has not yet fully funded, you will not see the "Request an Increase" button on your portal yet, even if you are eligible.



APPLY for EIDL [HERE](#) (directly through the SBA)

Employee Retention Credit Overview



Step-By-Step Process

1. **Determine whether you qualify for the ERC in any 2020 or 2021 quarter through the gross receipts reduction test (50% for 2020 and 20% for 2021)**
 - a. The gross receipts qualifying test is the most business friendly → If you qualify via a reduction in gross receipts, you will AUTOMATICALLY qualify for the following quarter and every subsequent quarter until gross receipts reach 80% of comparable 2019 quarter levels.

If not, determine if you qualify based on the suspension of operations test, or alternatives mentioned in the “Do I Qualify?” section.
2. **Determine qualifying wages in your qualifying quarter/s.**
 - a. Exclude wages paid for with PPP funds or FFCRA credits
 - b. Exclude employees whose wages do not qualify such as related individuals (question 59)
3. **If your wages paid do not meet the \$10,000 maximum, include allocable qualified health plan expenses.**
4. **Calculate the ERC for each qualifying employee → 50% of qualified wages in 2020 (up to \$5,000) and 70% of qualifying wages in 2021 (up to \$7,000)**
5. **Calculate the ERC amount for all employees.**
6. **Decide how to claim the credit and do so.**
 - a. Forms 941-X, 941, or 7200

ERC Resources

- Jamie Trull ERC Calculator and other ERC resources including the 2020 and 2021 decision trees: [Are you Eligible for the Employee Retention Tax Credit? - jamietrull.com](https://jamietrull.com).
- Visit with Kristi Stone, CPA to schedule a 30-minute session to cover any questions the business owner has about ERC: <https://calendly.com/kristi-m-stone-cpa/personalized-erc-consultation>. She also offers additional services - calculating ERC, documenting qualifications, analysis of ERC and PPP to ensure optimization of both, etc. If they have any questions about her services, they can reach out to her via email as well Kristina.m.stone@outlook.com.
- NFIB has done six webinars on the ERC, which you can find [here](#) and [here](#). The second link is to Matt Evan's CPA webinar, and his slides and spreadsheets are available to help with completing the 941s.
- NFIB ERC tip sheet overview is [here](#).



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Steps to take when closing a business

- Make final federal tax deposits
- File final federal quarterly or annual employment tax forms – 940/941's
- Issue final wage and withholding information to employees - W-2
- Report information from W-2's issued – Form W-3
- File final tip income and allocated tips information return – Form 8027
- File annual return – check the box that return is final (no box on Schedule C, Form 1120, 1120S, 1065
- Report partner's/shareholder's shares – Form 1065 and 1120S Schedule K-1
- File final employee pension/benefit plan – Form 5500
- Issue payment information to sub-contractors – Form 1099-MISC
- Report information from 1099's – Form 1096
- Report corporate dissolution or liquidation – Form 966
- Consider allowing S corporation election to terminate – Form 1120S
- Report business asset sales – Form 8594
- Report the sale or exchange of property used in the trade or business – Form 4797
- Cancel the Employer Identification Number



WHAT'S THAT BUSINESS REALLY WORTH?

What is a Business Valuation?

- Measures business and personal resources both today and as a basis for future projections.
- The act or process of determining the value of a business enterprise or ownership interest therein
- Valuing a bundle of rights

Business Valuation Considerations

- Type of entity to be valued
- Purpose of valuation (examples)
- Valuation Date
- Standards of value
- Premise of value
- Level of Value



If the Succession Plan is not properly addressed, our business owner client risks:

- Financial loss due to increased but possibly avoidable estate/gift/ income taxes
- Possible gaps in wealth from lack of valuation/estate/financial planning
- Jeopardizing the continuation of the enterprise
- Inability to proactively identify & secure new owners versus in a reactive manner
- Inability to consider the orderly departure of owners from a business
- Inability to strategize regarding the ownership transfer for unplanned events (i.e., disagreements with other owners, sickness, death, other catastrophes, etc.)

Three basic approaches to determining business value:

- Income
- Market
- Asset (also referred to as Cost Approach)
 - Under each approach, there are multiple “methods”
 - The use of one or several approaches (or methods) may be appropriate

Asset Approach

- Based on the principal of substitution
- In other words, what a buyer would pay for a similar asset of equivalent utility
- Often the primary approach when the business has losses or nominal projected cash flow or is asset-intensive
- Can be used for both control and minority level valuations
- Net Asset Value (NAV) Method – all assets and liabilities are adjusted to current values
- NAV = assets less liabilities
- Pitfall – If done incorrectly fails to capture intangible and other unrecorded assets
- Minority owners typically can't compel a liquidation
- Excess Earnings Method – hybrid of the asset and income approaches

Market Approach

- Also based on the principal of substitution
- A buyer would pay no more than the cost to acquire a substitute property with the same utility
- Can be used for both control and minority level valuations

Two methods generally used for Market Approach

- Guideline public company method; based on sales of similar publicly traded company shares (Can be difficult to use for small and medium sized companies due to size, capital structure, and other differences)
- Merger and acquisition transaction data method; based on acquisition of similar privately held or publicly traded companies (Works best when companies are sufficiently similar to the subject business; positive correlation between price and multiples used is desirable; exercise caution with dated transactions)

Income Approach

- Value is based on the present value of expected future benefits to be derived from ownership
- Discounted or capitalized cash flow methods are typically utilized for operating companies
- Used for both control and minority level valuations

Two methods generally used under the income approach:

- Discounted Cash Flow (DCF) Method
- Projects future cash flows for a number of years
- Terminal value
- Capitalized Income Method
- Estimated future cash flow is capitalized
- Often used for companies with stable growth rates