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4 Steps To Creating A Dynamic Business Budget

Most business owners and high-ranking corporate managers recognize the importance of developing a budget that reflects expected income and expenses for the coming year. But even sophisticated projections aren't likely to take into account all of the potential calamities, cash-flow problems, employment issues, and other events that might occur. Another problem is that business people often create budgets at the beginning of the year and file them away for months. By the time the end of the year rolls around, it may be too late to make any meaningful adjustments.

Of course, your business isn't static, so your annual budget shouldn't be, either. The trick is to create a budget that is dynamic and can be modified easily while still standing the test of time.

Start with the basic premise that virtually every business needs a budget. In its simplest form, this is a detailed plan showing expected future costs and receipts. Not only can your budget help you manage your business expenditures, it also can help determine whether and when your profit objectives are in reach.

Your budget can put you on the right track and give you greater control. For instance, by examining your projected budget for the next quarter, you can anticipate peak periods and schedule inventory purchases and labor to handle the expected sales volume. In addition, you can factor in vacations, marketing plans, and various other activities. Developing a budget is a proven method for running a successful business and you should not be without one.

Here are four practical suggestions for going beyond the basics:

1. Review the budget on a monthly basis. To have your budget be truly dynamic, you should revisit it more than once each quarter—at least once a month is preferable. Include the key players on your management team and update the budget based on the company's performance during the prior month. Don't ignore significant numbers that may be indicating a trend. Are you sufficiently stocked to meet sales forecasts? Are there signs you will need to trim the staff or hire more workers? Are receipts and expenses in line with projections, or do you need to cut back or press ahead in certain areas? Getting answers to all of these questions is vital.

2. Implement changes that will have a positive impact. After you've conducted your monthly review, it's time to assess the situation and make any appropriate changes. Focus on steering the business in a positive direction. Then wait to gauge how the changes affect your income and expenses month to month and year to year. For example, if you have been underutilizing your marketing resources, adjust your budget and chart

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When Should You Choose To Use A Health Care Proxy?

A health care proxy can be a valuable tool in your estate planning kit. But don't confuse this document with a "living will," which you might use to try to accomplish the same objectives.

As the name implies, a health care proxy is a legal document that lets you authorize an agent to make medical and health care decisions on your behalf if you're unable to do so. This can include difficult end-of-life options. The idea is to appoint someone you trust to act the way you would have wanted. Therefore, it's critical that this person completely knows and understands your feelings.

Health care proxies also may help resolve disputes within families. The agent has sole discretion and makes decisions based on your personal philosophy. Legally, family members who disagree won't be able to interfere.

Similarly, a living will (recognized in most states) may be used to carry out your wishes. However, with a living will, you spell out instructions in writing, and that may leave room for different interpretations. Instructions such as, "If there is little hope of recovery, I would not want heroic measures taken to preserve my life," can mean different things to different people. There's no reliable way of writing a living will to cover every possible medical contingency or viewpoint.

Which do you prefer? Consult an expert to determine your best course of action.

Robert Pyle & Sarah Stamp

6 Bad Money Habits For You To Avoid

Take the time to give an honest answer to this question: "Are you mismanaging your money?"

Though your first reaction may be to say "no," upon more reflection you might have to reply "yes," especially if your spending continues to outpace your earnings.

To avoid making the same mistakes over and over, try to identify your bad money habits and eliminate or at least curtail them. Consider these six common problems:

1. You let emotions rule. Do you shop to relieve stress, escape boredom, or entertain yourself? Do you experience anxiety, guilt, or remorse after shopping? You could be an emotional shopper, genetically programmed to spend excessively. The trick is to keep emotions from getting in the way so that you buy only what you need. One option is to give yourself a cooling off period of a couple of days before making a major purchase to determine whether it's really worthwhile.

2. You feel entitled. Maybe you feel you deserve more than you have regardless of how much you earn or what you own. Why should you be deprived of a top-of-the-line car or your dream house? But smart money-managers train themselves to shy away from such notions and buy only what they can afford.

3. You crave instant gratification. If you need to get things right away—the latest electronic gadget or designer clothes—you may pay a premium, plus interest on any amount you need to borrow. That's a sure-fire way to sink deeper into debt. If you resolve to pay cash for all your purchases you may be able to hold back and consider the big picture.

4. Your self-worth is defined by possessions. Advertising pitches are designed to make you believe you'll be happier if you buy particular products. But you're much more than what you own, and if you can remind yourself of that, you may be able to look at prospective purchases in terms of whether they answer actual needs.

5. You've become complacent. Many people have the tendency to accept the status quo, even if that means continuing to pile up debts. Complacency is a dangerous emotional state because it lets you disassociate the pleasure you get from buying from the pain you'll feel when the credit card bill arrives. Realizing that you need to change is the first step toward making it happen.

6. You don't have a plan. Those with bad money habits tend to look at what they earn, spend, and save as separate things rather than acknowledging that they're all tied together. Creating a budget and a retirement savings plan, and sticking to it, are essential. Otherwise, mounting debt becomes a self-fulfilling prophecy.

One way to teach yourself better money habits is to try to run your personal affairs like a business. Set asides reserves for emergencies and allot funds for retirement saving on a monthly basis. Make a few important changes and you'll see the difference very soon. ●

Avoid Squabbling Over Your Estate

Don't assume that you're immune from the sort of dire consequences that can tear apart a family after you're gone. What often starts as a minor beef over a few prized possessions can turn into a full-fledged war. Things can get even worse if distant relatives show up out of the blue, staking their claim. But you might be able to avoid future family squabbles by addressing these issues now. Start by listing your assets and deciding who will get what and when.

Here are several areas that may require some extra attention:

Business ownership. This can be complex if you run a company and have to decide who will be named as your successor. Figure out the best person (or persons) to take the helm. If that arrangement disproportionately benefits one or more heirs, you might designate other assets to go to the others to keep things fair. One possibility is to use a buy-sell agreement facilitating the sale of business interests. Note that it may be crucial to start by establishing the value of any business you own.

Vacation homes. Transferring rights to a principal residence is often straightforward, but what about that cabin in the woods or your seaside cottage? If you have several children, splitting ownership may be a problem if one child's family expects to get more use out of the place. If you can't work out an equitable solution, consider selling the vacation home and dividing the proceeds.

Second marriages. Suppose you've remarried (perhaps more than once) and you or your spouse—or both of you—have children from a prior marriage. Depending on how your will is worded, all of the children from both sides of the family may share evenly in the estate. As an alternative, you could use a trust as a vehicle for passing assets to particular beneficiaries you've chosen.

The 3.8% Surtax Requires A 10-Year Tax Plan

Barring any unforeseen circumstances, the 3.8% Medicare surtax is here to stay. This controversial tax provision, included in the 2010 health-care reform legislation upheld in 2012 by the U.S. Supreme Court, will affect investors for the 2013 tax year and beyond. Unless Congress repeals the surtax, it's the law of the land.

If you're an upper-income investor, you need to consider the potential impact of the 3.8% surtax. What's more, if you are nearing retirement, or if you've already retired, you should look closely at your tax future, taking this latest development into account. When you add the 3.8% surtax to the top federal income tax rate of 39.6% in 2013—up from 35%—you could end up paying an effective federal tax rate of 43.4% on a portion of your income.

First, let's review how the 3.8% surtax works. Unlike the separate 0.9% surtax on "earned income" such as wages—another provision of the health-care law—the 3.8% surtax applies only to income from investments and other sources. Yet earned, noninvestment income still can push you above the threshold that triggers the tax.

The 3.8% Medicare surtax applies to the lesser of (1) net investment income (NII) or (2) the amount by which your modified adjusted gross income (MAGI) exceeds a threshold amount. That threshold is $200,000 for single filers and $250,000 for joint filers. For example, if you're a joint filer with $50,000 of NII and MAGI of $225,000, you don't have to pay the 3.8% surtax because the joint MAGI does not exceed the $250,000 threshold. However, if your MAGI is $350,000, you owe the surtax on the lesser amount of the $50,000 NII (compared with your $100,000 in excess MAGI). That will result in an extra tax of $1,900 (3.8% of $50,000).

How the IRS defines net investment income is crucial to these calculations. Under the provisions of the health-care law and subsequent regulations, NII includes (but is not limited to) income from the following:

- Interest,
- Dividends,
- Annuity distributions,
- Rents,
- Royalties,
- Income from passive activities, and
- Capital gains from selling property.

Other kinds of income don't count as net investment income. Items excluded from the calculation include:

- Salaries, wages, or bonuses,
- Distributions from IRAs or "qualified" retirement plans such as 401(k)s,
- Any income that you count in calculating self-employment tax,
- Gains from sale of active interest in partnership or S corporation, and
- Items otherwise excluded from income tax such as interest from tax-exempt bonds, capital gains on selling a principal residence (up to the maximum allowed amount), and veterans benefits.

One way to reduce your chance of having to pay the 3.8% surtax is to avoid the kinds of income that are treated as NII. However, even some of the things that don't count as NII—such as distributions from an IRA or a qualified plan—will increase your MAGI and therefore still could cause surtax problems.

Another looming obstacle is that the threshold figures ($200,000 for single filers; $250,000 for joint filers) won't be adjusted annually for inflation. That means more investors will be hit by the 3.8% surtax in the future. If inflation picks up, you might find yourself affected by the tax within just a few years.

One practical way to prepare for that likelihood is to project what your overall tax picture may look like for an extended period. Keep in mind that the new top federal income tax rate of 39.6% will continue to be in effect, while the maximum tax rate on net long-term capital gains has increased from 15% to 20% for single filers with taxable income of more than $400,000 and joint filers making more than $450,000. If you expect to benefit from large investment gains and sizable qualified plan and IRA distributions during retirement, your combined tax rate for federal and state income could approach or even exceed the 50% mark.

We can work with your tax advisor to help you develop a plan for the next 10 years, or even longer, that will take all of these tax factors into account. Such a plan might involve strategies for eliminating or reducing the 3.8% surtax—for example, by converting a traditional IRA to a Roth IRA, establishing a charitable remainder trust, or using life insurance, installment sales of property, or "leapfrog" annuities to defer income. You also might decide to increase your portfolio allocation to tax-exempt municipal bonds. ●

Jewelry and other valuables. When it comes to handing down your assets, don't leave any stone unturned, especially if it's a rare diamond. Catalog all valuables and family heirlooms and make sure you've accounted for the major pieces in your will.

Of course, it's your business, house, and valuables, and you can do whatever you want with them. But it probably won't hurt—and it most likely will help—to open a dialogue with other family members. You may be able to head off potential problems by clearing the air instead of letting things fester.

One of the best things you can do is spell out your wishes clearly in your will and attach a letter of instructions for clarification. In some cases, it also makes sense to film a video showing that you were of a "sound mind" at the time that you made these decisions. ●

Saving For Retirement At All Ages

Financial planners often are asked, "When should I start saving for retirement?" Although everyone's circumstances differ, the answer usually is a variation on this theme: As soon as possible. But that doesn't mean it's ever too late to begin, or that you'll have the same financial priorities at every age. When you're embarking on a career, you may not have much extra income to set aside, but you can work on establishing sound financial habits. Later, though you'll likely earn more, you'll also likely have greater obligations—supporting your family, paying a mortgage note, and, yes, saving for retirement. Still other factors may come into play as you approach your golden years.

Consider these basic approaches during different financial stages of your life.

In your 20s. Retirement may seem several lifetimes away. What's more, the salary you earn during your early working years likely won't provide much cushion for savings. But you may be surprised by how much you can accumulate if you're dedicated, thanks largely to the power of tax-deferred compounding. For instance, if you save $1,000 a month and earn 8% on your savings compounded annually for 40 years until retirement, you will amass a staggering $3,271,022.95. (These figures are hypothetical and not indicative of any particular investment.)

The easiest way for most people to sustain tax-deferred growth is through a 401(k) or another tax-advantaged retirement plan. If your employer provides matching contributions, try to contribute at least as much as you need to qualify for the maximum match.

In your 30s and 40s. These are prime earning years, but you also might incur substantial expenses raising the kids, buying and maintaining a home, and paying for college. Nevertheless, you should do your best to stay disciplined and contribute as much as you can to your retirement plans. For 2013, you can defer up to $17,500 of salary to your 401(k). In addition, if you establish an IRA, the annual contribution limit is $5,500. Meanwhile, although contributions to a Roth IRA are never tax-deductible, future payouts may be tax-free. ï€†

In your 50s and 60s. This may be when you earn the highest salary of your career. If the kids are out of college and the mortgage is paid off, it's truly time to make hay while the sun shines. Although you might not have been as diligent at retirement saving in the past as you would have hoped to be, you can recover lost ground quickly by socking away more in your retirement plans at this point in your life. For 2013, you can contribute an extra $5,500 to a 401(k) and an additional $1,000 to an IRA, above the limits already discussed. And you can save still more in taxable accounts outside your retirement plans. ●

4 Steps To Creating

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the results over both the short and long term. During your next review session, determine whether you're receiving a favorable return on marketing dollars spent per sales lead. Use this information when planning how best to allocate your costs for the future.

At the same time, don't forget to examine receivables. Is there a way you can speed up your invoicing procedures and payment cycles to improve cash flow? Are you doing enough to chase down deadbeat accounts and late payers?

3. Respond promptly to unexpected events. If there is one thing to learn about business budgeting, it's to expect the unexpected. Your budget needs to have the flexibility to accommodate whatever comes up. Suppose your top client suddenly goes out of business or drastically reduces its purchases. Take a look at your budget and see how this drop-off in revenue would affect your cash flow. Can you find replacement income and how long would that take? What would it cost you in terms of marketing or hiring additional personnel to help bring in new business? Adjust the budget accordingly and move on.

4. Use incentives in the budget process. A good way to get everyone on board with a regular budget review is to tie bonuses to the practice. This is accomplished best at the beginning of the year when you create initial projections. Typically, you'll establish parameters based on performance, but you also might set up rewards for return on investment from marketing, keeping expenses at or lower than projections, and other objectives. Think outside the box to keep the business humming in good times and bad.

Of course, a better business budget is no absolute guarantee of success. But you can improve the odds by being diligent and responsive throughout the year. ●

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