The San Fernando Valley Business Journal has once again turned to two of the leading accountants in the region to get their assessments regarding the current state of business accounting, economic variables, and the various trends that they have been observing, and in some cases, driving.

Following is a series of questions we posed to these financial stewards of the Valley area and the unique responses they provided – offering a glimpse into the state of business accounting in 2017 – from the perspectives of those in the trenches delivering financial advice and leadership to the businesses of our region today.
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DREW GREY

Is the new administration having an effect on your clients’ tax planning?

SEIDEN: Without good information about what both the personal and business tax changes will actually be, clients are finding that they have to ignore the potential changes in making decisions.

GREY: The new administration has created significant uncertainty concerning income tax rates and whether there will be estate taxes. Our clients want to know the rates, as this impacts their decision process. Some of our clients have held off selling assets due to their inability to adequately plan. Taxes should not control decisions.

GREY: CFOs are concerned with many issues; however one of their primary issues is having sufficient debt or equity to fund their business expansion. Commercial lenders make decisions based on the Company’s compiled, reviewed or audited financial statement. Therefore, our clients are able to increase their cash flow through paying less in income taxes and are still able to maximize their credit facilities. We actively assist our clients in the preparation of detailed financial projections to plan for their needs. We have developed strategic relationships with conventional and non-conventional financing sources that can provide the debt or equity as needed to expand their businesses.

GREY: The regulations and extra costs related to the employer-employee relationship are most likely to cause the most issues. These include healthcare coverage, various time off and overtime payment rules, the complexity of independent contractor rules, and the potential for litigation related to all of these the regulations.

MARTIN D. SEIDEN

How do your clients handle the challenge of increasing their credit facilities while minimizing tax payments?

GREY: Clients preparing financial statements for financial institutions need to find a strategic balance between reducing federal and state taxes, and reporting strong earnings to the financial institutions that provide credit facilities. We have strategies that emancipate the clients’ financial statements from their tax reporting. How do we do this? Financial institutions require accrual-based financial statements, while tax law differs significantly from Generally Accepted Accounting Principles (GAAP). This difference can yield lower taxable income without impacting the accrual-based EBITDA of the company. We evaluate each company to identify areas where the financial statement and tax reporting can be separated by applying different year-ends and methods of accounting. At SRG, we use the GAAP and tax rules to our clients' advantage, while maintaining integrity in all aspects of our reporting. This is another example of our creative, value-added approach to solving our clients' problems.

GREY: Some of the biggest mistakes companies make when it comes to managing their finances?

SEIDEN: Companies take out bank loans that are not large enough to correctly match their financing needs. Also, in an attempt to improve cash flows, some companies slow down payments, which hurts their vendor relationships.

GREY: The biggest mistake companies make is that they try to reduce their tax obligation in the same entity that they are using to borrow from the bank. Tax minimization and financial statement optimization are mutually exclusive. The SRG Advantage is the emancipation of the financial statements from the tax returns, yielding our clients optimal results. Lower income taxes are paid and the financial statements are fairly stated, this enables the company to obtain the maximum amount of available financing. Companies need to better plan for their financing needs, and more effectively project their covenant performance. This planning helps to confirm and maintain compliance and the conditions required to increase their credit facilities. The Company can increase its line if they have complete and accurate monthly financials, projections and an annual review of audit. Companies also need to communicate more frequently with their lenders regarding both positive and negative situations.

GREY: What role can smart accounting play when it comes to helping a company grow its business these days?

GREY: The CPA firm needs to identify growth opportunities and help clients implement proactive strategies to optimize their market share. Short term, mid-term and long-term planning contributes to achieving these goals. Once a comprehensive business plan is developed, our firm will introduce lending institutions, private equity firms or private sources to achieve the goals. The accounting firm is an active partner with its clients in reaching their goals. Continuing monitoring of results is a critical contribution of the accounting firm. The business plan and forecast should be monitored and revised regularly to properly plan for the company's
Out-Of-The-Box Thinking For GROWING BUSINESSES

The SRG Advantage™
Growing companies face challenges such as increasing revenue, increasing profitability, managing tax liabilities, and enhancing credit facilities. SRG is a team of business advisors and CPAs highly experienced in helping companies grow faster and optimize results.

Our strategies increase our clients’ net worth and retain more cash. We reduce taxes without impacting financial statements. We introduce clients to our banking and financing partner network.

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success. We have developed financial reporting tools that will enable the owners, key managers, and our firm of performance indices. We continually review variances and advise on corrective action if necessary.

✦ In terms of tax reform, what do your clients need to know about the road ahead?

SEIDEN: They need to know not to let potential, or actual, tax law changes drive them to make decisions that have small, positive effects, but are not good for them or their business in the long run.

✦ What specialties have you or your firm developed and how do you use them to benefit your existing clients?

GREY: Our services have evolved to meet the changing landscape of business operations today. We are strategic business consultants, and act at a level of a CFO and, in some cases, as the CEO. As Trusted Advisors we are active in our client’s business operations. Many of our partners and professional staff have been controllers, CFOs, or CEOs. This level of seasoned experience gives our firm a unique ability to meet our clients’ needs far beyond that of firms that are just CPAs focused on tax. We also are actively involved in Mergers and Acquisition activities from the buy and sell side, selecting the appropriate investment banker, and assisting with long-term planning for tax minimization and succession planning. We have developed effective strategies to eliminate or substantially reduce estate taxes and regular taxes from the sale. Asset protection is another benefit that flows from an effective structure. Our firm has become global to meet the needs our clients who cover the world.

✦ What keeps your clients up at night in 2017?

SEIDEN: The fear of the unknown – In the political arena, in the future of their tax burden, and in the rising uncertainty in the economy. Also, our clients are concerned with hiring new employees. The current talent pool seems shallow and the unemployment rate is low. Finding quality, qualified individuals is a struggle. Another major concern is healthcare. The landscape is unclear and costs are rising quickly. I should also mention that quite a few clients are concerned with the process of passing wealth to future generations. When wealth is illiquid (business, real estate, farmland, as examples) it takes finding the correct vehicle.

GREY: Uncertainty! Business leaders find great discomfort in uncertainty. Uncertainty in income and estate taxes, uncertainty with the global economy, uncertainty in the credit markets, uncertainty in how new regulations will affect business, uncertainty about what competitors are doing and uncertainty how new technology will affect their businesses. Uncertainty leads to short-term focus. Companies are shying away from long-term planning. Businesses have become more complex due to the rapid growth in information. Many companies suffer from information overload. SBG provides systems to enable management to convert the information into valuable knowledge for better short-term and long-term decisions. Strategic thinking and problem solving with alleviate stress and uncertainty.

✦ What’s the biggest piece of advice you give your clients when it comes to planning for the future?

GREY: Clients need to adapt to continually changing circumstances...Many clients want to maximize their entity value and then exit through a sale. We can assist with the sale. We recommend that exit-strategy planning be done at least a year before marketing the Company for sale. Having a well-seasoned plan can ensure substantially less taxes through various strategies such as basis step-ups, deferred payment of taxes, utilization of the lower capital gains taxes, reductions of the amounts includable in the taxable estate tax and potentially eliminate taxes to California.

DREW GREY