The fiscal landscape in the Valley is as complex a discussion as ever. To provide an overview of what it all means, what we can expect next and how best to get an upper hand on your business’ accounting needs, the San Fernando Valley Business Journal turned to some of the leading accountants in the region. These experts share their assessments regarding the current state of business accounting and the various trends that they have been observing, and in some cases, helping to drive. Below is a series of questions the Business Journal posed to these financial stewards of the Valley and the unique responses they provided – offering a glimpse into the state of business accounting in 2016 – from the perspectives of those in the trenches delivering financial advice and leadership to the businesses of our unique region today.
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DREW GREY

‘How do your clients handle the challenge of increasing their credit facilities while minimizing the taxes they pay the government?’

Grey: Clients preparing financial statements for financial institutions must find the balance between reducing federal and state taxes, and reporting strong earnings to the financial institutions that have provided credit facilities. We have strategies that emancipate the clients’ financial statements from their tax reporting. How do we do this? Financial institutions require an accrual-based financial statement, while tax law differs significantly from accrual accounting. 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 Shilz, 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: Clients need to adapt to continually changing circumstances. We meet regularly with our clients to review their goals and desires, and ensure that we are providing them with the maximum value possible. We recommend that our clients who own businesses plan their exit strategy well in advance, as they may need to transition family members or key employees into a succession plan. Exits can be costly; we have ways of reducing costs substantially. Our income tax and estate tax methods achieve the transfer while offering our clients maximum control and cash. 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 many years before it is executed. Having a well-seasoned plan can ensure proper capital gains treatment, avoid inclusion in the client’s taxable estate, and often help avoid paying taxes to the state of California.

Dolabson: Don’t let taxes drive your business decisions! Too many times I’ve seen clients chase tax deductions or credits without stopping to think if they are making sound business choices. It’s important to make sure that when opportunities present themselves, not only is there a tax benefit in place, but that over time additional value will be added to the business. While taxes are a factor in growing your business, there are often times plans that can be put into place within your organization that will allow for tax saving opportunities, without hindering your short or long term objectives. Keeping your advisors apprised of what is happening in your business and your future plans allows for thoughtful planning to occur.

Flamer: Create a realistic budget and monitor it as compared to the actual performance on a regular basis. By doing so, waste and inefficiencies will be identified quickly (management by exception principle) and more time can be invested in the company’s growth. While no one wants to adhere to a budget, it is important to note that budgets can be changed, modified and updated. A realistic budget and monitor it as compared to the actual performance on a regular basis. By doing so, waste and inefficiencies will be identified quickly (management by exception principle) and more time can be invested in the company’s growth. While no one wants to adhere to a budget, it is important to note that budgets can be changed, modified and updated.

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DAVID R FLAMER

Flamer: Successful clients are faced with paying more taxes on federal, state and local levels. We have assisted our clients with effective strategies to reduce or eliminate California taxation. Clients who have significant taxable income can use techniques such as captive insurance companies, which offer significant tax deductions and other benefits. Every client has unique characteristics. We study clients’ characteristics to determine the optimal strategy that meets their goals. Paying less in federal, state and local taxes provides more cash flow for business or investment.

Flamer: Being “closer to the numbers” is one trend that many clients have adopted. They want to know how much cash they are going to have to be able to invest, put in to their business, improve their real estate, buy additional real estate, or fund a college education. More and more are concerned about being caught short on liquidity. The desire to be “closer to the numbers” has resulted in many clients using various tools to manage their financial statements from their tax reporting. How do we do this? Financial institutions require an accrual-based financial statement, while tax law differs significantly from accrual accounting. 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 Shilz, 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.

Flamer: Being an active participant with the clients and assisting in the credit granting process is the key to success. The client’s tax return is just that, a tax return that calculates a taxable income and tax liability. It is not a financial statement. The challenge can be alleviated by making sure the personnel of the credit granting concern know precisely what is, and is not, included in the tax return that may have a bearing on the decision-making process. This could include amortization and depreciation, which would be added back to income. This typically improves the chances of a positive outcome.

Are there any recent trends you’ve noticed in terms of how your clients manage their finances?

Flamer: Being more “hands on” is one trend that many clients have adopted. They want to know how much cash they are going to have to be able to invest, put in to their business, improve their real estate, buy additional real estate, or fund a college education. More and more are concerned about being caught short on liquidity. The desire to be “closer to the numbers” has resulted in many clients using various tools to manage their financial statements from their tax reporting. How do we do this? Financial institutions require an accrual-based financial statement, while tax law differs significantly from accrual accounting. 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 Shilz, 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.

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Some clients see us as excellent CPAs who are great business people. Others see us as business people who happen to be great accountants. Either way, SRG is a unique team of professionals with one goal in mind: helping clients plan for and achieve their financial goals.

We find ways to reduce taxes without impacting the financial statement income and transfer of wealth, thereby, reducing estate taxes and protecting assets from creditors as a result of the proper structure. We strive to increase our clients’ net worth by retaining more cash to invest. We invite you to experience the SRG ADVANTAGE.

SRG ADVANTAGE™
Our team has the extremely high level of technical expertise typically found with big firms. We also have a creative and entrepreneurial spirit far beyond that of smaller firms. And we combine these with the personalized service one can only find at boutique firms. We call this the SRG Advantage™.

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Private equity is important, but can be used in conjunction with bank leverage to create a more complete financial package. If private equity is available, typically, financial institutions are going to be more interested in making financial tranches available, as the borrower is more qualified. That said, private equity can allow a company to grow with more flexibility as there is no need to address banking relationship issues, lending covenants, or the need for audited financial statements.1

David R. Flamer

As a result of a shrinking world, our local client businesses have benefited from international sales. From a tax perspective, international sales have provided our local client businesses with an opportunity for our clients to achieve a little-known tax break. Generally, this tax break converts ordinary income into qualified dividend income. The tax savings can be significant.

Keith S. Dolabson

Our practice has thrived on being proactive. We perform tax liability projections for most of our clients, typically at the beginning of fourth quarter. Once the client knows about a possible tax liability that must be settled, perhaps four to six months in the future, the cash flow needed for that obligation can be planned for. Having this knowledge, up front, has been very popular for clients at all income levels. As a result, tax time creates anxiety with many clients as they are concerned about an impending tax bite. Also remember that property taxes are due about the same time. This is exceptionally important for clients that are using their private equity for financing the growth of their company. Not planning for the settlement of tax obligations could cost the company badly needed capital that could make the difference between being able to fund a large order, or that order going to a competitor. It’s that simple.

What is the biggest difference you’ve noticed in the accounting profession today compared to when you first became licensed?

Flamer: The internet has created a new age of information that is too immediate in nature. Many clients simply assume that when they have a question that we either know it off the top of our head, or can research it immediately. In both cases, the answer should be at no cost. I don’t agree with that. In the “old days,” when a client had a question, we would research the answer and get back to them within a reasonable period of time, sometimes via a written transmission using U.S. Mail. In today’s profession, many clients expect a response within minutes. Further, they expect that response at any hour of the day or day of the week. This can be problematic. I am a firm believer in transparency. When we start working with a new client, we have a conversation about billable research, hours of operation, and turnaround time expectations. My feeling is that if they don’t know, it is difficult to hold them to the firm’s standards. The need to manage these expectations is a significant difference that is faced by today’s accounting profession.

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 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. Continual 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 success.

Specifically, with taxes potentially higher than in past years, have you seen a change in the way your clients monitor cash flow and what are some examples you can share?

Flamer: Our practice has thrived on being proactive. We perform tax liability projections for most of our clients, typically at the beginning of fourth quarter. Once the client knows about a possible tax liability that must be settled, perhaps four to six months in the future, the cash flow needed for that obligation can be planned for. Having this knowledge, up front, has been very popular for clients at all income levels. As a result, tax time creates anxiety with many clients as they are concerned about an impending tax bite. Also remember that property taxes are due about the same time. This is exceptionally important for clients that are using their private equity for financing the growth of their company. Not planning for the settlement of tax obligations could cost the company badly needed capital that could make the difference between being able to fund a large order, or that order going to a competitor. It’s that simple.

Are there any additional services that you offer today that perhaps were not offered in the past?

Dolabson: As I mentioned previously, the higher income tax rates are causing clients to view all their options. A popular vehicle to defer capital gains tax is a Charitable Remainder Trust or a CRT. A CRT allows a client to sell a low basis asset and not pay income taxes until the money is distributed to the client from the trust. Assisting in the design, implementation, and maintenance of CRTs for our clients’ low basis assets is a specialty that we have perfected over the past three years.

Grey: Our services have evolved to meet the changing landscape of business operations today. We are active in strategic financial consulting, and act at a level of a Chief Financial Officer and, in some cases, as the Chief Executive Officer. 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. We are actively involved in the Merger 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 of our clients who cover the world.

How important is private equity in terms of keeping businesses thriving?

Flamer: Private equity is important, but can be used in conjunction with bank leverage to create a more complete financial package. If private equity is available, typically, financial institutions are going to be more interested in making financial tranches available, as the borrower is more qualified. That said, private equity can allow a company to grow with more flexibility as there is no need to address banking relationship issues, lending covenants, or the need for audited financial statements. More concentration can be applied to managing the growth of the company vs. the growth of the banking relationship. This can allow a company to grow when others can’t due to a tightened credit environment.

How important is private equity in terms of achieving the goals of your clients?

Dolabson: Besides representing clients who live abroad and have business and investments in the United States, more and more of our middle market businesses are doing business internationally. As a result of a shrinking world, our local client businesses have benefited from international sales. From a tax perspective, international sales have provided our local client businesses with an opportunity for our clients to achieve a little-known tax break. Generally, this tax break converts ordinary income into qualified dividend income. The tax savings can be significant. At the federal level, the savings can be up to 15.8% (i.e. 39.6% vs. 23.8%). The opportunity involves creating an Interest-Charge Domestic International Sales Corporation, com-
monly referred to as an IC-DISC. For more information on the applicability of an IC-DISC, there is a nice summary article that was published by Forbes in March of 2011.

How are your clients handling the regulatory issues associated with running a business in LA County?

Flamer: Operating a business within the County of Los Angeles is not as burdensome as it is when the business operates within the City of Los Angeles. The burden typically centers around the need to register with the City of Los Angeles Office of Finance and obtain a business license. The problem is that many businesses do not realize that a business license is required. When they do, the soon discover that the business license tax is expensive, the recordkeeping can be voluminous, and audits are frequent. Have I advised clients to not locate within the City of Los Angeles? Yes. There are plenty of surrounding jurisdictions that either do not require a business license, or the business license is a simple flat fee. After decades under the existing structure, Los Angeles City leadership should figure this out and significantly simplify the business license tax ordinance.

What are some of the biggest mistakes companies make when it comes to managing their finances?

Grey: 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. Companies also need to communicate more frequently with their lenders, in both positive or negative situations. 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, and cannot be achieved in the same entity. 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.

Flamer: The single biggest mistake I see is not being proactive enough with financial data. As I tell my clients, “the numbers don’t lie.” If there is not sufficient enough infrastructure to create and maintain meaningful financial reporting, managing the business is virtually impossible. Operating a business in today’s competitive environment requires a tremendous amount of concentration by today’s management teams. Operating without having solid financial information leads to poor decision making because there are simply too many things to do. The team starts making decisions based on gut feel versus solid data. Situations like this typically do not end well.
What keeps your clients up at night in 2016?

Dolabson: As costs of business operations have increased and leasing or purchasing real estate has become more difficult in our local market, many business owners are struggling with how to maintain the continued growth of their company. This is resulting in a growing number of businesses relocating at least a portion of their businesses into other states. Business owners are finding that this creates a number of new operational, employment, legal, and tax issues and opportunities that they are confronted with. When facing these questions within your business it’s important to have the right team of advisors who have experience in this area and can help to navigate the process.

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

Dolabson: A significant part of our practice is focused on high net worth families, family offices, and business owners. Understanding how tax planning in a partnership, LLC, S corporation, or trust will benefit the owners or beneficiaries of those entities allows us to identify opportunities for tax savings.

Grey: Our firm has developed value-oriented services that increase our clients’ net after-tax cash flow. We provide tax strategies that reduce taxable income and do not impact the financial statements that commercial banks rely upon to provide credit facilities. We separate tax planning from financial reporting in a responsibly creative manner. We are trusted advisors serving at top levels in management. Our expertise as Controllers, CFOs and CEOs offers our clients knowledge and experience, which other CPA firms do not posses.

How should companies evaluate their accounting firms and the relationship they have with them?

Grey: The CPA firm should be a profit center, not a cost to the client. Companies should be receiving services that provide value from their CPA firm. Consistently providing significant value is the best formula for creating a successful relationship with clients. SRG is not a cookie-cutter CPA firm; we offer creative, value-centric solutions for a wide array of needs. Many of our clients want services such as tax minimization, financial statement optimization, assistance with finding debt or capital for their businesses, and increasing their credit facilities. Our high net-worth individuals value having an estate plan that reduces their estate taxes while maintaining their control. Public accounting is a client-driven business: Whether a client needs strategic business consulting or other services, the CPA must recognize these needs and deliver cost-effective and quality services to clients.

Dolabson: From a tax standpoint, we place an emphasis on proactive planning. Our experience is that most accounting firms are good at the reactive side of client service. We feel our unfair advantage is the fact that we force the discipline to schedule meetings and planning with our clients. Our knowledge capital is enhanced with each meeting and this benefits all of our clients. Accordingly, we are spending quality time looking ahead and making planning a yearlong process. Clients with any complexity should expect nothing less from their accounting firm.