

Right On The Money

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Netting & Pace will be the premier provider of comprehensive, customized, fee-only financial services to thoughtful, knowledgeable families.

We will provide flawless service so families can achieve their goals, secure their futures, and remain comfortable. We will exceed our clients' expectations, enhance our employees' careers, and enjoy our work.

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family wealth management

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Do You Value Your Business?

By: Paul Mangum



Well, of course you do. The better question is probably, "What is the value of your business?" If you are the owner or part owner of a business it is likely you have thought about that at some point in your tenure as an owner. You may be thinking about selling your interest or perhaps you are doing some estate planning. Maybe it's for bank or insurance purposes or perhaps you are admitting a new partner or getting a divorce. There are countless reasons why someone may want or need to know the value of their ownership interest in a business.

Where do you start? Many people start by looking around at the building and equipment and furniture and think they are what is valuable in their business. Surely the assets, the "stuff", the things you can see and touch, are what's valuable. Yes, they certainly are valuable but they may not be the items that determine the value of your business interest. In fact, in your particular case, they may not even be particularly relevant. How can that be? I'll get to that in a moment - but the point I want to make at the start is that the balance sheet of a business does not necessarily determine the value of a business to its owners.

The most common standard of value in business valuation is "Fair Market Value". The Internal Revenue Service, in the oft quoted Revenue Ruling 59-60, defined fair market value as "the price at which property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts". The Service further instructs that "all available financial data, as well as all relevant factors" should be considered, including nature and history of the business, the outlook for the economy and the specific industry, the earning capacity and financial condition of the business, the dividend paying capacity of the business, the presence of goodwill or other intangibles, previous sales of interest in the company and the market prices of public stocks in similar businesses.

Personal update: My wife and I will celebrate our 32nd anniversary this summer by going to New York City to visit our daughter. Can you believe that we have never been to the Big Apple together in all those years?

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Your 401(k) Plan

By: Don A. Pace

Netting & Pace can assist your company or business with establishing or evaluating an existing retirement plan with special emphasis on 401(k) plans. We know that each company has particular circumstances and unique retirement objectives.

Plan Design

Our evaluation will consider traditional 401(k) plans, safe harbor 401(k) plans and new comparability plans. Under traditional 401(k) plans employees can elect to make tax deferred contributions while employers and choose whether to make contributions on behalf of employees. Several options are available for employers such as matching contributions or profit-sharing contributions.

Safe Harbor 401(k) plans may be more suitable if the highly compensated employees are limited as to contributions and if the employer wants to eliminate the hassle of discrimination testing.

New comparability plans make discretionary contributions to older and longer tenured employees. This may allow employers to provide additional retirement benefits to exactly the right group of employees or owners.

We can help you determine which of these plans may be best for your company. Or perhaps another type of plan such as a Simple IRA is more suitable.

Investments

As your plan's financial advisor we will reduce your exposure to fiduciary liability.

We can build and maintain a diversified list of mutual funds suitable for your employees accounts. Your employees' will enjoy the following benefits:

- Easy access to their accounts online for most requests with ability to quickly see our investment recommendations and make their own selections.
- No load mutual funds with low expense ratios especially selected for their suitability in retirement portfolios.
- Diversified portfolios if our recommendations are followed.
- Quarterly statements mailed to participants.

Plan Administration

By using our proven outside administrator you will have competent and reliable answers to your questions. Your compliance, testing and tax reporting needs will be delivered. We can intervene to insure that your needs are attended to promptly.

Summary

We can be the driving force behind the implementation of a new retirement plan or help you consider changes to an existing plan, ensuring that your goals are met efficiently and with a minimum of hassle. You will not be disappointed. Just give us a chance

Personal update: Beverly and I recently completed a seven-day cruise to the Caribbean. This was in part a celebration of our 35 years of marriage this July.

Do You Value Your Business

Continued from page 1

There are several methods business appraisers use to value business interest. Each of these has variations and not every one is appropriate for the circumstances at hand. The three main methods are the Market Approach, the Asset Approach and the Income Approach. The application of each of these approaches usually starts with a value of the entire business which is then reduced to the level of the interest being valued if such interest is less than 100%. Further adjustment may be required depending on the characteristics of the interests.

The Market Approach analyzes sales of public companies in the same or similar industry under the theory that the public prices those shares by factoring into account the particulars of the industry and its prospects for the future, as well as expectations for the economy in general. It's a conceptually appealing approach and commonly used. However, it is often difficult to find publicly traded companies that truly provide a meaningful comparison. Frequently, they are many times the size of our subject company, have multiple lines of business, deep management, sophisticated and complicated capital structures and international exposure. Even when a comparable company is found the appraiser must often make adjustments to accommodate for the increased risk evident in the subject company for items such as regional concentration, over reliance on just a few customers, lack of depth or experience in management, etc.

The Market Approach also encompasses previous sales of interest in the subject company. This is a very powerful indication of fair market value if the sales were at arm's length. However, the appraiser must be careful to determine whether the fundamentals of the company's business have changed since the previous sale.

The Asset Approach determines fair market value by assuming that the company's assets are what give it value. It may be thought of as the "liquidation value" of the company. The starting point is to determine the current value of all the company's assets and liabilities. This approach is used mainly when the underlying assets are very valuable compared to the income they are producing, such as in a real estate holding company, or where the interest being valued is large enough to compel the liquidation of the company. It is not appropriate when valuing a minority interest in a company or with a service company or other company where it is apparent that the company is most valuable as an operating entity.

The Income Approach approaches fair market value by assuming that the value of the company is indicated by some measure of the historical or future earnings or cash flow of the business. For instance, if recent earnings are considered indicative of future earning capacity, then a weighted average of such years' earnings might be derived. This average would be "capitalized" at an appropriate rate to indicate the company's value. This is basically a variation of familiar "P/E" or Price/Earnings ratio commonly discussed in public stock market analysis. This method is most appropriate when valuing an operating business or when the interest being valued is a minority interest and the owner's value is determined basically by the ability of the company to make distributions or pay dividends.

As noted above, it may be necessary to adjust the value determined by one of these methods to reflect its characteristics. For instance, it would not usually be appropriate to value a 25% ownership interest in a business simply by dividing the value of 100% of the company by 4. This reflects the reality that a 25% owner lacks the ability to control the company. Such owner cannot compel liquidation, dividend payments, direct management, etc. Therefore a Discount for Minority Interest might be appropriate. Also, the shares of a closely held business cannot be easily and quickly sold on an established market such as the New York Stock Exchange. If an entity value is determined by using data from publicly traded securities, a discount to compensate for the time and costs of selling the interest or Discount for Lack of Marketability might be in order. On the other hand, if the interest is a majority or controlling interest, a premium for the benefits such interest confers might be considered.

The variations of these approaches are endless and each company is unique. An appraiser must understand not only the business and its industry but have a complete understanding of the type of interest the owner has. If you find yourself thinking about the value of your business, remember - it's about more than the "bricks and mortar".



By: Sandra A. Beltran

Dates To Remember

August 2007

Special Dates
None

Office Holidays
None

Tax Due Dates
None

September 2007

Special Dates
September 3 – Labor Day
September 9 – Grandparents Day
September 23 – First Day of Autumn

Office Holidays
September 3 – Labor Day

Tax Due Dates

September 17
Individuals
Make a payment of your 2007 estimated tax if you are not paying your income tax for the year through withholding. Use Form 1040-ES. This is the third installment date for estimated tax in 2007.

Corporations
File a 2006 calendar year income tax return (Form 1120 or 1120-A) and pay any tax, interest, and penalties due. This due date applies only if you timely requested an automatic 6-month extension u

S Corporations
File a 2006 calendar year income tax return (Form 1120S) and pay any tax due. This due date applies only if you timely requested an automatic 6-month extension. Provide each shareholder with a copy of Schedule K-1 (Form 1120S) or a substitute Schedule K-1.

Corporations
Deposit the third installment of estimated income tax for 2007. A worksheet, Form 1120-W, is available to help you estimate your tax for the year.

October 2007

Special Dates
October 8 – Columbus Day
October 31 – Halloween

Office Holidays
None

Tax Due Dates

October 15
Individuals
If you have an automatic 6-month extension to file your income tax return for 2006, file Form 1040, 1040A, or 1040EZ and pay any tax, interest, and penalties due.

Partnerships
File a 2006 calendar year return (Form 1065). This due date applies only if you were given an additional 6-month extension. Provide each partner with a copy of Schedule K-1 (Form 1065) or a substitute Schedule K-1.

Personal update: Well, it was a busy high season. Now I am ready to relax and enjoy the summer before our second high season comes around in the fall.



And You Thought You Knew Everything!

By: Shirley Kotzur

1. There are 293 ways to make change for a dollar.
2. More than 50% of the people in the world have never made or received a telephone call.
3. There are more chickens than people in the world.
4. The longest one-syllable word in the English language is "screeched".
5. On a Canadian two dollar bill, the flag flying over the Parliament building is an American flag.
6. No word in the English language rhymes with "month", "orange", "silver" or "purple".
7. "Dreamt" is the only English word that ends in the letters "mt".
8. All 50 states are listed across the top of the Lincoln Memorial on the back of the \$5 bill.
9. Almonds are a member of the peach family.
10. There are only four words in the English language which end in dous: "tremendous, horrendous, stupendous, and hazardous".
11. "Los Angeles" full name is "El Pueblo de Nuestra Senora la Reina de los Angeles de Porciuncula"
12. Tigers have striped skin, not just striped fur.

Author Unknown

Personal update: In October I became a new member of the Netting & Pace, CPAs team. As a bookkeeper with many years of experience, I am enjoying meeting and working with clients as well as my new co-workers. My family and I celebrated my parents' 51st wedding anniversary together on a cruise to Cozumel and Playa del Carmen.



Reminder: Making Estimated Tax Payments to Avoid IRS Underpayment Penalties

By: Raul Flores

By this time around many have filed their 2006 personal tax return, and as half the year flies by, many get ready to celebrate Labor Day. We should not forget that taxpayers still need to be reminded to make some time off from their busy schedules and check to see if they have made their estimated tax payments as the year continues in 2007.

Every taxpayer is required to prepay their federal income taxes quarterly. Employees prepay their federal income taxes through their payroll withholdings, and the IRS treats it as being paid equally throughout the year.

The problem arises when taxpayers have substantial income not subject to regular withholding- for example, income from self employment, interest, dividends, or sale of stocks. If withholding is not enough to cover total federal income taxes, the taxpayer is subject to a penalty for underpayment of estimated taxes.

Quarterly estimated tax payments are required if withholding is not sufficient to avoid the penalty for underpayment of estimated tax. In addition they must be paid in equal installments. Any tax liability in excess of withholding and estimated tax payments must be paid by the return's due date - April 15.

For estimated tax purposes, the year is broken down into four payment periods, and a 2007 calendar-year individual would be required to pay his four installments as follows:

2007	Due Dates
First Installment	April 16, 2007
Second Installment	June 15, 2007
Third Installment	September 17, 2007
Fourth Installment	January 15, 2008

The underpayment/estimated tax penalty can be avoided by taxpayers by doing the following:

Using prior year tax - The taxpayer paid (through withholding and/or timely estimated payments) at least 100% of the prior year tax liability during the current year. For individuals with adjusted gross income in excess of \$150,000 (\$75,000 if married filing separately) can avoid the estimated tax penalty by paying 110% of the amount of tax shown on the prior year's tax return. An individual may not use the prior year's tax safe-harbor amount if the prior year was not a 12-month period.

90% of Current-year tax - The taxpayer paid (through withholding and/or timely estimated payments) at least 90% of the tax shown on the current year's return.

Annualization Method - The taxpayer paid (through withholding and/or timely estimated payments) at least 90% of the current year's tax based on annualization of actual year-to-date income for each quarter of the year. This exception is available for taxpayers whose income is not received evenly throughout the year.

Underpayment penalty does not apply if:

- The tax due after subtracting federal income tax withholding is less than \$1,000.
- The taxpayer was a U.S. citizen or resident and had no tax liability on the prior year tax return that covered 12 months.

Personal update: We are so proud to announce the birth of our beautiful daughter Isabella Nicole born on May 24th. She is well loved by all her family including her three young brothers who are very protective of her. After having 3 boys we finally have a little princess around the house.

As seen in: "Scene In SA Monthly" Magazine



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Netting & Pace has over 30 years of proactive business consulting experience. Our focus is on the services that can enhance your financial stability. We can help you with the current business issues you face including:

- Texas Margin Tax
- Income Tax Planning
- Business Valuation
- 401(k) Design with Investment Selection Satisfying Due Diligence

***Netting & Pace –
We don't treat you like a number.***

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Special Message

*Thank you to everyone who returned the survey we mailed in June.
If you have not returned yours, please take a moment to complete and mail back to us.
We will update you on the final results in our next newsletter.*