

Alvin Caballero, CPA

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# The Main Street Accountant

...For all your main stream needs

Spring has officially arrived, and we are just around the corner from wrapping up another busy tax season. Much like the spring flowers coming to bloom, many small business owners are now starting to think about how to grow and freshen-up their businesses, and make improvements that set them up for a successful year.

In this issue, you'll find several ways to make great new things "bloom" from your business, starting with how to get in the opportunity zone, and benefit from tax-free capital gains. You'll learn how to set proper goals, be an effective leader for your employees, and learn the 10 key rules of business from Sam Walton, founder of the 40+ year successful company we all know as Walmart.

Get ready to "Spring Forward" with all of the great reads you'll find this month. Happy reading!

*Alvin Caballero, CPA*



## Getting in the Opportunity Zone

One of the new tax-planning strategies created by the Tax Cuts and Jobs Act tax reform are qualified opportunity funds.

The new opportunity funds have the ability to defer current-year capital gains, eliminate some of them later, and then on the new investment make capital gains tax-free. However, to put the benefits in place, you will need to navigate some new rules and time frames.

### Here's an example:

On December 1, 2018, you sell \$8 million of stocks with a cost basis of \$3 million for a long-term capital gain of \$5 million.

**1** Within 180 days, you invest the \$5 million gain in a qualified opportunity fund.

**2** You make an election on your 2018 tax return to defer the \$5 million in long-term capital gain income, meaning no taxes on this gain in 2018.

**3** On December 31, 2026, your qualified opportunity fund has a basis of \$750,000 (15 percent of the

deferred \$5 million capital gain) since you held it for at least seven years.

**4** Let's assume the fund has a fair market value of \$7 million on December 31, 2026. You'll have a deemed sale on December 31, 2026, and recognize \$4.25 million in income, computed as follows:

\$5 million (the lesser of the deferred gain or the fair market value of the fund), less \$750,000, the basis in the fund.

**5** On January 1, 2027, your basis in the qualified opportunity fund is \$5 million (\$750,000 original basis plus \$4.25 million of deferred gains recognized and taxed in 2026).

**6** If you sell the qualified opportunity zone fund in August 2028 for \$10 million, then your basis in the fund is \$10 million and you recognize no taxable gain on the sale, since you held it for more than 10 years.

**7** Overall, you will have a total of \$10 million in gains from these

transactions: \$5 million from 2018 and \$5 million in 2028. Using the qualified opportunity fund investment strategy, you can:

- temporarily defer \$4.25 million of long-term capital gain from 2018 to 2026, and
- permanently exclude from tax \$750,000 of long-term capital gain from 2018 and \$5 million of gain in 2028.

However, for the above strategy to make great financial sense, you'll need: (a) appreciation in your qualified opportunity fund, and (b) to hold the investment for at least 10 years so that the appreciation is tax-free to you when you sell your investment.



## It's Tax Time Again: Here's Some Trivia About Taxes

No one enjoys paying taxes, but these factoids might take some of the sting out of writing that annual check:

- The first national income tax was established by Congress in 1894. However, it was ruled unconstitutional by the U.S. Supreme Court the following year. The Constitution was changed in 1913 to allow for a legal income tax.
- Taxes were originally due on March 1. The date was changed to March 15 shortly before the beginning of Prohibition. In 1955, it was changed to April 15 to spread out the work of processing all the tax forms.
- The first tax form was just four pages long, including instructions.
- Unusual deductions: A parent was able to deduct the expenses for her child's clarinet lessons because she claimed they corrected the child's overbite. A junkyard owner deducted cat food for the cats he kept to drive away mice and rats, and the IRS approved it as a business expense. A bodybuilder claimed a deduction for the cost of the body oil that he used in competitions, and again the IRS allowed it as a business expense.



## Learn What Employees Want From Leaders

What do your employees really want? Jumping to conclusions isn't safe, but to be a better manager, remember these basic truths about everyone who works for you:

- **"I want to feel important."** No one wants to feel like a number, interchangeable, and easy to forget. Get to know your employees as people; find out what makes each one unique and show them you're paying attention to their individuality.
- **"I need encouragement."** Even the best employees continue to flourish and grow with positive feedback. Let them know what they're doing right and how they can keep performing at a high level. They'll notice and keep up their efforts.
- **"I want to believe in you."** Employees want to know they can trust you — your knowledge, your expertise, and your word. Show your commitment to helping them succeed and grow by listening, answering questions honestly, and keeping your promises.
- **"I want to succeed."** Most employees want to do a good job, even if they don't necessarily want to advance to upper management. Explain your expectations clearly, and give them the training and support they need so they know you're invested in helping them succeed.
- **"I want to be motivated."** Yes, motivation springs from inside, but employees want to be told why they should complete a project or improve quality in terms that make sense to them. Emphasize the job's value to the organization, as well as the benefits the employee will enjoy — personal satisfaction as well as more tangible rewards — to unleash their enthusiasm and commitment.



## Choose The Right Goal

Most experts emphasize the importance of setting goals if you want to succeed in life. But that raises the question: What's a worthwhile goal? A goal should reflect your values, of course — what you really want to achieve, not what you should want, or what other people think you should do. Whatever goal you pursue, follow this constructive advice:

- **Make it positive.** State your objective in affirmative terms: What you will do ("Eat balanced meals every day"), not what you won't do ("Stop eating chocolate"). Remind yourself of what you want, not what you're denying yourself.
- **Take a step-by-step approach.** Start with the big picture, but then determine what you have to do to get there. Break your plan down to the smallest level of detail; think of what you can do every day to get yourself a little closer to your target. Focus on things you can control: You can't make your book a best-seller, but you can write two pages every day, so concentrate on that.
- **Set your sights high.** Be realistic, but ambitious. There's no glory and small value in accomplishing a goal that doesn't require any effort. Remember that even if you don't reach your objective, what you learn along the way will make you a better person.



### Are You In Need of a Qualified Tax Pro?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.



### Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at (732)-902-2929 or email me at [info@caballerocpas.com](mailto:info@caballerocpas.com). Perhaps I'll feature you in a future issue!

## SAM WALTON'S RULES OF BUSINESS

**S**am Walton, the founder of the Walmart chain, had 10 rules for building a business. According to Walmart.com, the following are principles that have enabled the company to experience more than 40 years of success:

- **Commit to your business.** Walton says you have to believe in it more than anybody else. You have to have passion. Love your work and do it the best you can every day.
- **Share your profits with all your associates and treat them as partners.** This will make the people who work for you perform beyond your wildest expectations. "Behave as a servant leader," he advises.
- **Motivate your partners.** You have to constantly think of new ways to motivate your partners.
- **Communicate everything you possibly can to your partners.** "The more they understand, the more they'll care," Walton says.
- **Appreciate everything your associates do for the business.** "Nothing else can quite substitute for a few well-chosen, well-timed, sincere words of praise. They're absolutely free and worth a fortune."
- **Celebrate your successes.** Have fun. Find humor in your failures. Loosen up.
- **Listen to everyone in your company.** "Try to get them talking," he advises. The ones who really talk to the customers are the ones who really know what's going on.
- **Exceed your customers' expectations.** "Give them what they want — then give 'em a little more," he says.
- **Control your expenses better than your competitors.** You can survive a lot of mistakes if you're efficient.
- **Swim upstream.** Ignore the conventional wisdom; find your niche by going another direction.



## Ask These Questions To Start Moving Forward

**Y**ou can't plan every step on your road to success, but a general idea of the path you want to take will help you immeasurably, especially when the unexpected happens. Start planning your route to the top by answering these key questions:



- **What are your assumptions?** Clarify what you know — and don't know — about how people succeed in the field you've chosen.
- **What do you want to do?** Think about what you're interested in creating or selling. Just as important, identify what you don't want to do.
- **Where do you want to live?** Can you relocate if necessary? Are you willing to make that effort?
- **What's your potential?** Identify the skills you have to offer, and determine which of your talents have the most promise. Are you prepared to make an investment in developing your expertise further?
- **What's your competitive advantage?** You'll do best if you can offer something better than anyone else — and if you're willing to work to make yourself even more competitive.
- **What rewards do you expect?** Have a good idea of what financial goals you can reasonably look forward to, as well as what emotional satisfaction and fulfillment will make your efforts feel worthwhile.

## Quotes:

"Success means doing the best we can with what we have. Success is the doing, not the getting; in the trying, not the triumph. Success is a personal standard, reaching for the highest that is in us, becoming all that we can be." — **Zig Ziglar**

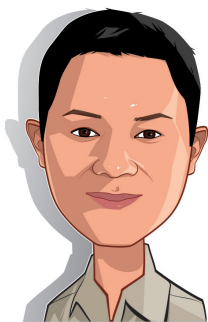
"The ladder of success is best climbed by stepping on the rungs of opportunity." — **Ayn Rand**

"Management is, above all, a practice where art, science, and craft meet." — **Henry Mintzberg**

"Too many people spend money they haven't earned, to buy things they don't want, to impress people that they don't like." — **Will Rogers**

"If you wish to influence an individual or a group to embrace a particular value in their daily lives, tell them a compelling story." — **Annette Simmons**





**Alvin Caballero, CPA**  
**Caballero & Associates CPAs**

**The Main Street Accountant**  
*... For all your main stream needs*

228 Bridge Street  
 Metuchen, NJ 08840  
 732-902-2929  
 info@caballerocpas.com  
 www.caballerocpas.com

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## Share Your Ideas With Solid Communication

Even your best ideas are useless if you can't share them effectively. Whether you're trying to explain the idea to your staff or sell it to potential investors, you need to be able to make other people understand exactly what your idea is and what it can do for them. Remember these tactics:



- **Practice your pitch.** Start by explaining your idea to your family, friends, even strangers. Pick people who will be supportive and others who are likely to be negative so that you learn how to respond to both.
- **Know your audience.** One size does not fit all. Practice tailoring your basic message so any audience can grasp its potential.
- **Check often for understanding.** Ask, "Are you following me?" or "Do you understand?" Make your listeners paraphrase your thoughts so you can be sure they're catching your drift.
- **Use your audience's words.** If someone asks, "So, it's like Elmer's glue?" and your concept is nothing like that at all, explain how it differs from the glue instead of reaching for a totally new analogy.
- **Don't go overboard.** Pick the most salient points to explain. Don't overwhelm listeners with more information than they need.

## The Psychology Behind Bad Decisions

Why do good people do bad things? Sometimes they make bad choices at work or at home. Check out these psychological explanations (from the MSN website) for wrongdoing:



- **Self-image.** People with a strong sense of their own identity tend to be less likely to break the rules. Conversely, those who see their identities as determined by their environment may feel less responsible for their actions.
- **Social bonds.** In an organization, employees who feel like cogs in a machine, detached from their employer's goals and values, are more likely to commit infractions.
- **Nicknames.** Using innocuous nicknames for unethical acts ("creative accounting" instead of fraud, for instance) can make those actions feel more acceptable.
- **Compensation.** People who have always played by the rules may decide that since they've been good all their life, they deserve something for themselves.
- **Reaction.** When people feel mistreated at work or at home, they may react by breaking rules — stealing, cheating, etc.