

Our mission is to shepherd as many business owners as possible to fulfillment of their goals and their ideal lifestyle.

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Your Business: Piggy Bank or Gold Mine

by

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Jack had been in business for 30 years. According to him, he went into business to “create a better life for myself and for my family”. Over the years, he had invested considerable time and effort in his business, not to mention plenty of sleepless nights worrying about employee issues, payroll, competition, the economy—you get the picture. You can understand why Jack felt entitled to take out a handsome salary. The salary was nice, but the perks were even better. He paid for as many personal expenses with corporate dollars as he could think of. The only challenge was how to book the withdrawals so he could call them a tax deduction. This was his idea of tax planning. That strategy allowed him to enjoy the perks without an increase in salary which came with additional tax. And then there were the special purchases. He saw things he wanted - cars, boats, planes, fancy vacations, vacation homes, and all sorts of goodies that he felt he “deserved”. After all, he had made many sacrifices. All he had to do was grab cash from the piggy the bank, that is, write himself a check from the corporate account.

At tax time, he would pay little or no tax because he was booking all these personal expenses as business expenses. Life was good. His CPA might have mentioned that he needed to be able to document all those business expenses, but other than that, his accountant put up no resistance. His company showed little or no profit so he didn't pay much, if any, tax. His CPA was his hero. In the CPA's defense, his job was to prepare tax returns and financial statements so there was little or no discussion about how to grow company value, or, more prudent ways to increase personal wealth.

This strategy, worked fairly well, until Jack was ready to retire. You see, Jack just assumed that his business had real value because it had provided such an affluent lifestyle for him. The fact that he often received solicitations from mergers and acquisitions advisors, private equity groups, and other seemingly interested parties, created a sense of security. But when the time came to put his business in play, he got a dose of reality.

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His company was not worth nearly what he thought it was worth. Turns out that he thought he was a business owner when in fact, what he owned was a job. He was self-employed. Rather than reinvesting prudently in his business, he used his business to fund his personal lifestyle. He had turned what could have been a pot of gold into a piggy bank. His strategy of stripping the company of cash, rather than reinvesting in it, had considerably reduced its value.

Jack had a few alternatives. He could sell the company for what the market was telling him it was worth. That would have meant a come down in lifestyle for the rest of his life. Or, he could rearrange his personal financial situation, reduce his salary and perks, and invest wisely in his company. This would allow him to grow the company and hope it was well-positioned when the market peaked to attract top dollar. While Jack really didn't want to work much longer, he felt that getting the business in shape was the better option. So that's what he did. To learn why this was a wise decision, read [Jack Goes for the Gold](#).

Joan M. Ridley is president of Business Wealth Solutions, a Dallas based advisory firm that consults with business owners about how to successfully leave their business. Please visit our website at www.businesswealthsolutions.net. Call us today at 214.692.9192 for a complimentary meeting to learn how we can help you get where you want to go. Ask for our complimentary brochure.