

## Minority Share Interests: The Good, the Bad and the Ugly

A company is an entity, being or thing that exists separately and distinctly. It operates, even lives, apart from its owners and officers. It can enter into relationships, transact, borrow or lend, earn and spend, sue and be sued. It has a personality, a reputation, and it may flourish or fail. It even has superpowers – it can live forever. But like all superheroes, it has an Achilles' heel – it can't think or act for itself. Someone must "pull the strings," and the role of puppeteer is coveted. This is because the role offers meaningful perquisites. Yes, as the old saying goes, "uneasy lies the head that wears a crown" – but there's no shortage of applicants.

Perquisites can include salary, insurance, retirement benefits, expense account, company car, travel, ability to hire and fire others, and all the power and prestige of controlling and managing the assets and activities of a business. And the owners have much at stake in who manages their company. The value of their ownership interest will rise and fall, in part, on who is manager.

So the big question is: What determines who manages a private company?

Answer: Whomever the board of directors chooses.

Question: Who chooses the board of directors?

Answer: The shareholders.

Question: How do the shareholders choose the directors?

Answer: That's dictated by what is written in:

- a. Documents that govern the company, such as the articles of incorporation, bylaws and shareholder's agreement
- b. Statutes (laws) of the state under which the company was organized

*continued on page 4*



### ALSO IN THIS ISSUE

#### Special Section: Co-Ownership

- Shareholder Rights Checklist
- Controlling Owner Has a Meddling Minority?
- Minority Owner Unhappy with Management
- Q & A: Lost Stock Certificate
- Terms That Private-Company Owners Should Know

- How to Be "Manager of the Century"
- Stop Sociopaths from Driving You Insane
- Wanna Improve Profit? Everything's Negotiable
- Selling a C-Corp? Try These Tax Strategies
- Oh No, You're Still a C-Corp?
- **Book Review:** The One Thing You Need to Know

- Think Before You Link
- Deductible Travel and Entertainment Expenses
- 10%+ Owners Subject to Special Rules on Travel, Entertainment and Auto
- Don't Fall Prey to Tax Scams
- **Business Owner Survivor Spotlight:** Fred Rathjen, AmeriSpec
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# From the Editor

The feature topic of this issue is minority interests in private businesses – the good, the bad and the ugly. Our goal is simple – shed light on the facts. By doing so, scare away the waste, weakness and worry that breed in the dim light of ignorance and misconception.

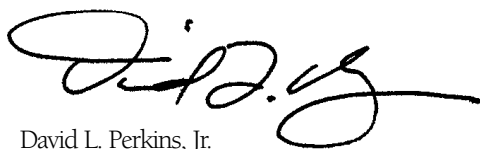
Maybe you own a controlling share and have small-interest co-owners. In the best cases, their interest serves the company well; provides a ready source of experience, talent and contacts – free of charge. On the other hand, some co-owners have totally unrealistic expectations of what it takes to run a profitable business. They just ask “where’s my distribution” and “what have you done for me lately.”

But look at it from the shoes of the minority owner. To them, it can be like having a second home they can’t ever visit. Owning it sounds pretty romantic, but it never quite lives up to its billing. At least you, as the controlling owner and president, get a good job out of it.

Whether you’re a controlling or non-controlling (“minority”) owner, you have much at stake in your investments – regardless of whether you paid dearly for them, inherited them or both! You must manage them well for both personal and financial reasons. It’s your responsibility. Doing so begins in developing a keen understanding of the facts. With the facts, you are released from wasting time and energy building structures on unstable ground. Rather, you’re empowered to deal with reality. To manage your investments by supporting them with structures built on firm ground.

The truth shall set you free.

Sincerely,



David L. Perkins, Jr.  
Publisher and Editor



David L. Perkins, Jr.

## TABLE OF CONTENTS

### *Special Section:* **Co-Ownership**

1 **Minority Share Interests: The Good, the Bad and the Ugly**

3 **Shareholder Rights Checklist**

6 **Controlling Owner Has a Meddling Minority?**

6 **Minority Owner Unhappy with Management**

6 **Q & A: Lost Stock Certificate**

7 **Terms That Private-Company Owners Should Know**

3 **How to Be “Manager of the Century”**  
Leadership

7 **Stop Sociopaths from Driving You Insane**  
Management

8 **Wanna Improve Profit? Everything’s Negotiable**  
Finance

9 **Selling a C-Corp? Try These Tax Strategies**  
Tax & Tax Planning

9 **Oh No, You’re Still a C-Corp?**  
Tax & Tax Planning

10 **Book Review: The One Thing You Need to Know**  
Management

11 **Think Before You Link**  
Management

12 **Deductible Travel and Entertainment Expenses**  
Tax & Tax Planning

13 **10%+ Owners Subject to Special Rules on Travel, Entertainment and Auto**  
Tax & Tax Planning

14 **Don’t Fall Prey to Tax Scams**  
Tax & Tax Planning

15 **Fred Rathjen, AmeriSpec**  
Business Owner Survivor Spotlight

16 **Corporate Finance and Merger & Acquisition Expertise**  
Business Purchase

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**SPECIAL SECTION**

**CO-OWNERSHIP**

# Shareholder Rights Checklist

- Was the corporation set up properly? Can you locate the certificate of incorporation?
- Can you locate the governing documents of the corporation – articles of incorporation, bylaws, and the stockholder agreement, if such exists?
- When and how are stockholders and shareholders meetings to be called? To what extent are the directors obligated to adhere to such and are they doing so?
- Does the state under which the corporation was organized have special statutes for closely held corporations? Does the company qualify and, if so, have they officially adopted them?
- Are the directors and officers complying rigidly with the provisions that maintain the liability shield so important to all shareholders?
- When and how are directors appointed?
- How many director seats are there and can the number be changed? If so, when and how?
- What is the term of each board appointment?
- List the shareholders and the percentage ownership of each. Is there a controlling shareholder? Is there a control group? How might you, or others, influence which directors are elected?
- Who may call a special meeting of stockholders? Directors? How can these be called?
- What constitutes a quorum of shareholders? Directors?
- What are the limitations to the directors' powers? Officers?
- How are motions brought before the board and/or shareholders at meetings? What is the protocol for voting? What constitutes passage and failure of a motion? A vote?

**LEADERSHIP**

# How to Be “Manager of the Century”

How should a leader behave? What should his or her priorities be? Jack Welch, legendary leader of General Electric and *Fortune* magazine's “Manager of the Century,” recently answered these questions in the *The Wall Street Journal* (Feb. 11-12). Here are his answers:

- When you become the leader of an organization, it's no longer about your personal success. It's about the success of others. The organization will succeed if everyone else is succeeding.
- The goal is to win. The means is the team. The method is personnel management – hiring, coaching, and firing when necessary.
- Tell the underperforming employee what he or she must do to improve. Then, either they keep improving or they don't. A real manager must be comfortable having these conversations. It's not easy, but it's right.
- Managing effectively is not very complicated. You don't have to have a high I.Q. Just get great people to stretch and reach for their dreams, and you'll get incredible performance.

**Minority Share Interests: The Good, the Bad and the Ugly, continued from cover**

Every shareholder in a private company should have these documents and know what they contain. They are unique for every private company.

If you own 100%, you'll want to know some things before you gift or sell shares. Based on what you find, you may want to change some things in the governing documents before you bring on co-owners. Maybe to enhance your control, power or protection.

If you own less than 100% but a controlling interest, you'll want to know whether your control is absolute or limited. If limited, where and how? Do

### Minority Share

"Minority share interest" refers to ownership positions insufficient to garner control. Most consider this to mean ownership interests of less than 50%. To be sure, the 50% threshold can be pivotal, but control or lack of control is not a switch that flips from green to red once ownership slips below 50%. Rather, it's a step – with degrees of control or lack of control gaining or slipping depending on number of owners, ownership percentages, state law, documents that govern the subject company, and even relationships between and among shareholders.

Why is this important to you, the owner of a private company? Just ask those who've been stung by these issues. Ask Jack Stanford, who founded and built Able Machine only to be fired one day by his ex-wife and brother. Or Karen Chamblis of Tart Bakeries, who gave shares to a longtime employee and then was sued for failing to treat him fairly. Or Jimbo Collins, who in the sale of his company was blackmailed by a minority shareholder who demanded more than his pro-rata share. Or David Barts, who spent 25 years in ignorance as a minority shareholder and thereby never got what was his full legal right. The list could go on and on until it circles the globe. But it doesn't have to include you. Read this issue of *The Business Owner* and take action.

you have any rights or powers to control who becomes an owner by the sale of stock owned by others? Is your ability to sell shares limited by an anti-dilution clause? Will you have to get approval to sell the company? What obligations do you have to your shareholders? What risk do you bear if you do not uphold these obligations? Under which scenarios could you lose control or expose yourself to personal liability?

If you own a non-controlling interest in a private company, you're weak but not powerless. To manage your interests properly, you need to know what's in the documents that

stipulate how the company is managed. You also should know pertinent laws of the state under which it was organized. It's not prohibitively complex; and it's only in knowing your rights and limitations to the rights of the other shareholders, directors and managers that you'll be able to protect your investment. By doing so, you can do your part to ensure that your weaknesses do not invite abuse.

**The Corporate Form:** Most businesses are organized as a corporation – C, S, LLC or professional. Corporations may be private or public and may be for-profit or not-for-profit. The corporate form is so popular because – unlike the sole proprietorship and partnership – it offers its owners a shield from personal liability. This means as long as the owners, directors and managers adhere to some basic requirements, the owners will not be liable for the corporation's debts. Shareholders are obligated to pay only for shares acquired – whether to the company itself (when the company issues shares) or to a secondary seller (whoever owned and sold the shares). The corporate form is also popular because it may continue to exist in perpetuity, meaning it may survive despite the passing of its owner(s).

Herein we'll use the terms company and corporation synonymously, meaning a

business organized as a corporation (C, S, LLC, professional).

A corporation is an entity of the state. This means that when a company is formed it is under the laws of a particular state. State law dictates how a corporation is formed, what is required and how it may operate. Corporate laws tend to be similar from state to state because most have modeled their laws after a template called the Model Business Corporation Act (MBCA).

A corporation is a legal entity separate and apart from its shareholders, with its own separate and distinct rights and liabilities. Even when a single individual owns 100% of the corporation's stock, the shareholder and the corporation are not the same but have a separate and distinct existence.

**Organizing Documents:** When a corporation is created, certain persons ("incorporators") execute and deliver to the Secretary of State (of the state in which they wish to incorporate) articles of incorporation. This filing contains very little information, typically just the name selected for the corporation, purpose of the corporation, number of authorized shares of stock, classifications of stock (if more than one), any special restrictions on the stock, the names of the incorporators, and the name and address of the primary representative. If it

is approved, the state will issue a certificate of incorporation and then the incorporators meet to adopt bylaws, elect officers, and transact any other business.

Almost every corporation has bylaws, which contain the rules and regulations for how the company is to be managed. The bylaws may

not contain anything contrary to or inconsistent with the state statutes (laws) or the articles of incorporation. Bylaws do

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**If you own less than 100% but a controlling interest, you'll want to know whether your control is absolute or limited. If limited, where and how?**

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**Minority Share Interests: The Good, the Bad and the Ugly, continued from previous page**

not have to be publicly filed, and many states allow the board to amend the bylaws. Generally, bylaws must contain:

- Requirements for annual meetings of stockholders; provisions for special meetings of stockholders; and selection, number, duties and terms of directors.
- When and how directors are to meet; selection and duties of officers; rights or prohibitions on making loans and borrowing, issuance of capital stock, distribution of earnings, amendments of bylaws, rights and obligations of members or stockholders.

What if the corporation was not set up properly, or managed properly? The shareholders, and potentially the officers and directors, may be held liable for the debts of the corporation.

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**If you own 100%, you'll want to know some things before you gift or sell shares.**

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**Management of the Corporation:** Shareholders of the corporation elect the board of directors ("directors"), sometimes called

trustees, who manage the corporation's affairs. The board appoints officers to run the day-to-day operations of the business. Directors and officers (collectively referred to as "management") need not be shareholders. But in most closely held private companies the majority shareholder will appoint himself as the sole board member and then, using his board authority, appoint himself to fill the officer roles.

**Shareholder Rights and Duties:**

Shares are a method of describing a proportionate interest in a corporation. Shareholders enjoy three rights:

1. To participate in control (as stipulated on the articles of incorporation, bylaws and state statutes)
2. To a proportionate share of the corporation's earnings
3. To a proportionate share of the corporation's net assets upon dissolution

So that shareholders may enforce their rights, law also grants to shareholders the right to information; to sue the

corporation; to sue a director or officer on behalf of the corporation; and to dissent.

Shareholders control the business by their right to elect directors to manage the ordinary business matters of the corporation, and by approving all extraordinary matters. Ordinary business matters include things regularly dealt with, such as hiring and firing of officers, borrowing and paying back money, and setting dividend levels. Items not considered ordinary that must be approved by the shareholders include changes to the articles of incorporation, sale or lease of all or substantially all corporate assets, and most mergers, consolidations, sale or dissolution of the business.

**Rights and Duties of Directors and Officers:**

Directors, as the shareholders' elected representatives, are delegated the power to manage the corporation's business. Directors are not expected to devote full time to corporate affairs. They have broad authority to delegate power to persons who will run the business' day-to-day activities. They do so by appointing officers such as president, vice president, secretary and treasurer. These officers, in turn, can hire additional employees to carry out the business' necessary tasks.

Directors and officers owe certain duties to the corporate entity and shareholders – obedience and loyalty to the company and all shareholders, and reasonable diligence in protecting the interests of same.

Directors, properly elected, have broad power to select and remove officers, determine capital structure, declare dividends and set management and officer compensation. Directors and officers shall not be held liable for poor performance but could be held liable if found to breach their fiduciary duties.

**Preemptive Rights:** A shareholder's proportionate interest in the corporation can be lowered by a non-proportionate issuance of additional shares or a non-proportionate purchase of shares.

Preemptive rights give shareholders some protection and may be found in state statutes or company bylaws.

**Transferability of Shares:** In the absence of a specific agreement, shares of stock are freely transferable. But stockholders of

closely held companies (i.e., private companies with few shareholders) often prefer to limit who may own shares and total number of shareholders. The former is to keep shareholders "friendly" and the latter is to keep the number below the threshold that would disqualify them for closely held corporation status. Such status enables corporate affairs to be managed in a more relaxed and less burdensome manner.

Most states allow transfer restrictions to be placed on shares of stock by provisions placed in the articles of incorporation, bylaws, or a separate shareholder or stockholder agreement. But most state statutes hold that such a restriction will be binding only if a notice is placed conspicuously on each stock certificate. If the corporation elects not to issue certificates as evidence of ownership, then a notice should be included in an information statement sent to purchasers and holders of stock.

**Fundamental Changes:** The board of directors has very broad powers to select persons who manage the company, set corporate policy, establish compensation for officers and managers, etc. But some actions would have such a substantial impact that

shareholder approval is required. Such actions include charter amendment (i.e., amendment of articles of incorporation and bylaws), sale or lease of all or substantially all assets of the business, mergers, consolidations, compulsory share exchanges, and dissolution. But approval typically requires a simple majority, or possibly a super majority.

**Dissenters' Rights:** Shareholders in a dissenting minority may not be able to block fundamental changes from taking place. But in some instances, shareholders may be able to dissent and recover the

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**Shareholders in a dissenting minority may not be able to block fundamental changes from taking place. But in some instances, shareholders may be able to dissent and recover the fair value of their shares.**

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*continued on page 7*

## Controlling Owner Has a Meddling Minority?

A non-controlling shareholder is being a real nuisance. You've explained to him or her that, as president, your obligation is only to do your best to manage the company; be loyal to the company and to your shareholders; to hold an annual meeting and to grant occasional access to the corporate books and records. You've been unable to get him or her to stop asking questions, questioning your decisions, offering suggestions, calling and dropping by. Your only real option is to buy him or her out.

Do you have a buy-sell agreement? Buy-sell rights or provisions in your bylaws (C-corp and S-corp) or operating agreement (LLC)? Buy-sell provisions in a stockholders' agreement (C-corp and S-corp) and member agreement (LLC)?

If you don't, you have almost no ability to force him or her to sell. You must entice him or her. The tough part is agreeing on price and terms. You might try some of the methods used successfully in buy-sell agreements. For example, if the shareholder is willing to buy you out,

consider a take-or-pay agreement. You flip a coin to select who names the per-share price. Once the price is named, the other person gets to either buy or sell at that price. If he or she is just a seller, then see if that person will agree to deciding fair market value by both of you selecting one appraiser who appraises the business. Then, the two appraisers agree on a third appraiser who reviews the two appraisals and pegs the value.

Finally, is the shareholder disrupting the business? Requiring the company to squander resources, such as labor, because of his or her actions? Harming the reputation of the company? Owners of closely held businesses have a duty of loyalty as well. Talk to an attorney skilled in private-company shareholder actions. □

*The following attorneys contributed their expertise to this article:*

*William O'Connor of Norman, Wohlgenuth, Chandler & Dowdell, PC.*

*Robert R. Peters of Jones, Gotcher & Bogan, PC.*

## Minority Owner Unhappy with Management

You're a non-controlling shareholder and you don't like the way the business is being managed. You've exhausted your efforts to communicate respectfully and clearly to the control person or group in an attempt to express your concerns and/or influence how the business is managed. You want to put someone else in charge of running the company.

Well, the business' top managers – president, vice president and secretary – are appointed by the directors. Directors are selected by the shareholders (S-corp and C-corp) or members (LLC). Can you get enough shares or units together to vote for new directors? If so, you might be able to influence which officers are selected. If the controlling owners will never go for that, then try buying additional shares in an effort to amass enough to control the board. If that's not possible, you could sell. But before you attempt to find a buyer,

does the company have a buy-sell agreement? Or buy-sell or transfer provisions in its bylaws (C-corp and S-corp), operating agreement (LLC), shareholder agreement (C-corp and S-corp) or member agreement (LLC)? If so, what is said about how shares may or must be bought and sold?

If you feel that your rights have been infringed upon, you might be able to take legal action. But be aware that it's not a crime to be stupid or incompetent. Your only case would be illegal or criminal activity. Has a director or officer breached his or her duties of loyalty and reasonable care in representing the interests of the company and the shareholders? Engaged in self-dealing? Padded his or her own pockets to the detriment of the company or shareholders? Seek the professional counsel of an attorney experienced in corporate law and corporate litigation. □

## QA Lost Stock Certificate

**Q:** I've lost the stock certificate that shows that I own shares in a private company. What can I do?

**A:** Your stock certificate proves ownership of shares in a company, much like the title to a car. The certificate is not the asset itself.

Every corporation is required to maintain a ledger of owners and certificates issued. As long as you notify the corporation soon after you discover the certificate is missing, you should have no problem getting a new certificate.

What if the corporation has lost or poorly maintained its stock registry? You might have a problem. The corporation will have to reconstruct a registry using information that should be in the articles of incorporation, minutes of shareholder and director meetings, other documents or correspondence, and certificates held by other shareholders.

Some corporations may elect not to issue certificates at all. They'll still maintain a ledger of owners and shares, but instead of mailing certificates they'll just issue an "information statement."

Keep in mind that, as a shareholder, you have the right to review – or have your representative review – the corporate books and records (which include the ownership ledger) with reasonable notice and during normal business hours. □



"I'm taxes."

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## Terms That Private-Company Owners Should Know

**Articles of Incorporation (or Certificate of Incorporation):** Instrument under which a corporation is formed. The contents are prescribed in the particular state's general incorporation statute.

**Bylaws:** Regulations, ordinances, rules and laws adopted by an association or corporation for its government.

**Board of Directors:** Elected representatives of the members or shareholders of an organization who are collectively charged with selecting and appointing the officers who will manage the day-to-day affairs of the business or organization.

**Business:** Commercial, industrial, service, or investment entity, or combination thereof, pursuing an economic activity.

**Closely Held Corporation (a.k.a. Close Corporation):** Corporation owned by few shareholders whose shares are not publicly traded.

**Control:** Power to direct management and policies of a business.

**Controlling Interest:** Ownership bloc sufficient to exert control through election of directors.

**Corporation:** Legal entity, organized under the laws of a particular state, consisting of an association of individuals (or other legal entities), which exists distinct from its members (shareholders), and is vested with the capacity for continuous existence irrespective of changes in its members. Includes C-corporations, S-corporations, limited-liability corporations and professional corporations.

**Directors:** See "Board of Directors."

**Majority Interest:** Informal term for Controlling Interest (see "Controlling Interest").

**Minority Interest:** Informal term for Non-Controlling Interest (see "Non-Controlling Interest").

**Non-Controlling Interest:** No power to direct management and policies of a business.

**Operating Agreement:** Document that defines, governs or restricts the rights of members of an LLC. Same as shareholder's agreement for C-corporations and S-corporations.

**Quorum:** Number of members of a committee, board of directors, meeting of shareholders, trustees, legislature or other body who must be present for the body to act. For a corporation, if quorum requirements exist, they are stipulated in the articles of incorporation, bylaws or state statutes.

**Shareholder:** One who holds (owns) shares (units of ownership) in a corporation.

**Shareholder's Agreement:** Document that defines, governs or restricts the rights of holders of shares of stock in a C-corporation or S-corporation. For an LLC, it's called an Operating Agreement. □

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### Minority Share Interests: The Good, the Bad and the Ugly, continued from page 5

fair value of their shares. To do so, they must comply with the dissenter's-rights statutes of the state in which the corporation is organized, which typically stipulate that the dissenter must:

- Notify the corporation in writing of the objection to the proposed corporate action before the shareholder vote
- Refrain from voting in favor of the proposed corporate action
- Make a written demand on the corporation, on a form provided by the corporation, within the time period set by the corporation, which may be no less than 30 days after the corporation mails the form

The dissenting shareholder who complies in full is entitled to an appraisal remedy, which results in payment by the corporation of the fair value of the shares immediately before the disputed corporation action was approved, plus interest. □

## Stop Sociopaths from Driving You Insane

They lie and manipulate, charm in one breath and back-stab the next, show little regard for how their words and actions affect others, and explode with rage over nothing.

Do you work with a sociopath? Here are the telltale traits:

1. **Jekyll & Hyde Personality:**  
You never know who is going to show up for work – Jekyll or Hyde. Their specialty is using people and leveraging every possible thing in a ravenous quest for power, recognition, asset acquisition and narcissistic indulgence. Sociopaths lie when it is just as easy to tell the truth.
2. **Charming but Not Very Nice:**  
They may have a charming and entertaining persona but exhibit an "above the law" and "certain rules don't apply to me" side. They justify their nonconformity by blaming others and accepting no responsibility.
3. **Disregard for the Rights, Feelings and Needs of Others:**  
They are opportunistic and unconcerned about how their actions affect others. It's "what's in it for me" regardless of cost.
4. **Lack of Empathy:** They show a complete lack of remorse and profound self-absorption. They are uncaring and insensitive at best, cruel at worst.
5. **Emotionally Shallow and Cold:**  
They are detached, dispassionate and emotionally aloof, showing little interest in others. They are prone to be melodramatic but devoid of any real emotion.

Here's how to cope.

Maintain rapport. The only way to deal with sociopaths is to stay close

*continued on page 10*

# Wanna Improve Profit? Everything's Negotiable

When I was a younger business person I wanted to be well-liked and do things right. Well-liked by vendors, customers, employees and investors. I wanted to solve not just my own problems but their problems, too. I'd pay bills in full even when a vendor failed to meet basic standards of performance. I'd coddle employees who did not give me reason to retain them. And I tried to "do things right," such as volunteer work for philanthropic causes.

Over the past 15 years, my focus has changed. I'm now free to spend more time on what is really important – building a successful business. I'm convinced that my old route was a recipe for failure. I no longer strive to please others. I simply try to please myself. I do so by consistently doing what I believe is right for all interested parties – me, my family, my employees, vendors, customers, investors, community, country and world.

There is a big difference. I know what I must do to please myself. I've given it a lot of thought. In contrast, I can never be sure what others want from me. Pleasing myself is much easier. There's much less uncertainty and the results are guaranteed. If I know how I want to live my life, and then live it, then I enjoy great personal peace and satisfaction.

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**I must protect my business and those who depend on it, and if that means standing up for what is right with a vendor or employee, then that's my duty. My call to help the weak and give to the hungry is exercised elsewhere.**

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For example, I believe that the best thing for my community is that I build a successful business. Then, once I secure success, I can spend more time and money serving in ways outside of my business, such as philanthropic endeavors. Some will not agree with this approach, but some do. If my goal was to please others, I'd be caught between the two. I've made my decision, and now I can live in peace – knowing that I'm doing what is best for me, my family, my employees, and my community.

Lou Holtz coached the Notre Dame football team while I was in graduate school there. He makes it very clear that he's not in a popularity contest. His goal is not to be liked but to build a winning football program. To do this, he's gonna drive the heck out of each player, coach, administrator and alumni in an effort to do all that it takes to succeed. It's not going to be easy and some

are not going to like it. But he believes that, when his players are older, they will look back and say, "Lou Holtz was a son-of-a-gun, but he cared for me and made me a better person."

I've also come to realize that I can't solve problems for people. People can solve only their own problems. My attempts to do so are simply arrogance. I have plenty of solving to do in my own life and affairs. Sure, if someone asks for my opinion or advice, I am obliged to offer it. If they deem my ideas to hold merit and be worth applying, then so be it.

There are plenty of opportunities each day to demonstrate trustworthiness and ability to pay. If I manage my business prudently and properly, enough will be said. But I now know that I must protect my business and those who depend on it, and if that means standing up for what is right with a vendor or employee, then that's my duty. My call to help the weak and give to the hungry is exercised elsewhere.

A logical extension of this is reflected in the title of this article. I assume that in business, people are "big boys and girls." They alone know what is right and wrong for them. They're fully empowered to say "yes" and to say "no" on the sole basis of what is right for them or theirs.

To build a profitable business today, you must be tough. Tough with expense reduction and revenue generation. In my experience in banking and financial services, I've seen the financials of thousands of businesses. The 80/20 rule holds true – 20% make all the money. The rest break even, or worse. To secure the future, you need to make money. In doing so, everything is negotiable (except ethics). I suggest that you don't buy a single item without negotiating for a discount.

If you have a hard time being cheap, consider that your ability to consistently lower costs may be your only hope for ensuring long-term viability. Also, ask yourself – if you were in the shoes of your vendor, would you rather get the call and hear the offer, or not get the call at all? □

## About the Publisher



David L. Perkins, Jr. owns, writes, edits and publishes *The Business Owner*, the newsletter of choice for more than 35,000 paid

business-owner subscribers who are serious about building wealth through successful private business ownership.

Perkins draws editorial ideas and inspiration from his daily work as a merger and acquisitions consultant, where he has advised on more than 100 purchase/sale transactions involving both private and public companies. His M&A consulting firm is Vercor, which has 10 U.S. offices and a European affiliate. Vercor specializes in sell-side representation of businesses valued between \$5 million and \$50 million (see [www.VercorAdvisor.com](http://www.VercorAdvisor.com)).

Perkins holds a BA in psychology degree from the University of Oklahoma and an MBA from the University of Notre Dame. He has formal training in business valuation. He also pulls editorially from prior experience in commercial real estate leasing and brokerage, commercial bank lending and private company financial management.

Perkins is the author of [A Concise Overview of Business Valuation](#) and co-author of [The Business Sale, An Owner's Most Perilous Expedition](#). Both may be purchased at [www.TheBusinessOwner.com](http://www.TheBusinessOwner.com).

Perkins is a professionally trained, content-rich platform speaker available for both keynote and breakout sessions. He is a Certified Toastmaster and a member of the National Speakers Association.

# Selling a C-Corp? Try These Tax Strategies

You own a C-corporation that you want to sell. You asked us not to beat you up for never switching to a pass-through entity and just help you reduce taxes. Okay, here you go:

1. **Sell Stock.** This is much easier said than done. Buyers justify purchase price from the after-tax cash flow they expect to earn. If you require the buyer to buy stock, the price will be a lot lower. Why? Two reasons:
  - a. The buyer's after-tax cash flow will be a lot lower because he'll inherit the tax basis in the acquired assets and his depreciation will, therefore, be lower.
  - b. The buyer will be exposed to much higher levels of contingent risk. As risk rises, price falls.

Sure, every once in a while a buyer comes along who has more money than sense. But it's very hard to get them to the closing table. And, as you know, there's no such thing as a free lunch.

That being said, if you're one of the few private companies that can attract a public suitor, publicly traded companies are much more willing to buy stock. This is because many of them are less interested in tax reduction or cash flow and more focused on maximizing near-term earnings. This will help your tax situation, but remember the free-lunch thing? Public companies usually want to pay you with shares of stock, not cash.

2. **Owner-Compensation Catch-Up:** Because you own a company organized as a C-corporation, you know that the way to get cash out is through compensation and benefits. Dividends aren't the ticket because they trigger a second level of tax. So, could this method be used to reduce double taxation in the sale of your business? Yes, it could. All you must do is figure out if you've been underpaid. If so, catch it up after you sell all the assets to the buyer but before you liquidate your company. So, if you calculate that you underpaid yourself by \$750,000, pay it to yourself as salary. You'll avoid the double tax on this amount. Of course, the IRS is not keen on pie-in-the-sky calculations that reduce their take. So you'll need to put together a defensible case. For example, obtain credible data on what was fair compensation for a person with your talent, experience and duties, and use that to calculate the underpayment.
3. **Personal Goodwill.** If you're actively involved in your business and a portion of your company's goodwill can be found to reside with you, personally, rather than with your company, then your company has no right to sell that portion of goodwill. Your "personal goodwill," which is your services, talent, cooperation, experience and know-how, must be purchased directly from you. By doing so, the buyer pays money directly to you and you thereby avert double taxation on that money. For more

information, see "Personal Goodwill" in the January-February 2006 issue of *The Business Owner Journal*.

4. **Stock-Buying Middleman.** You insist on selling stock and the buyer insists on buying only your assets – two sides that are diametrically opposed. God bless our free market, because darn it if there aren't some middlemen to step in, for a fee, of course. Yes, there are a few middlemen willing to buy your stock, immediately after you've sold all the assets and before you've filed your tax return. Your company will hold only the cash proceeds from the asset's sale and a big tax bill for depreciation recapture and gains. That's when the middleman steps in and buys your stock. He'll give you a price that is more than you would get if you simply paid the taxes and then liquidated by dividend. So the seller sells stock (or assets and then stock) and the buyer buys assets. How can the middleman afford to do this? Good question. Caution is merited because this arrangement does seem too good to be true. The few such firms that my partners and I have attempted to work with have not come through. These firms also have been unprofessional. On the whole, I don't recommend this strategy. □

Mark McGrath, CPA with Westbrook, McGrath, Bridges, Orth & Bray contributed to this article: [www.wmbob.com](http://www.wmbob.com).

## Oh No, You're Still a C-Corp?

C-corporation status offers few benefits but substantial drawbacks for the typical private-business owner. Why haven't you switched to an S or LLC? It's cheap and easy. Just file a form with the IRS. Talk to your financial advisor and if he or she agrees, get it done.

Of course, the problem with C-corporations is double taxation. This can hit you when you own the business, but the real killer is when you want to sell it. Buyers want to buy your assets, not your stock. That means you pay tax on the proceeds within your company and then again when you distribute the cash to yourself. That hurts. □

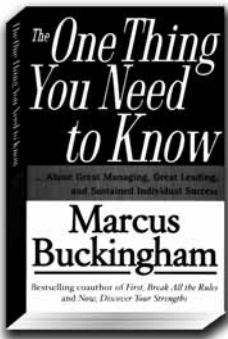
**"Everyone faces the world with different abilities and disabilities. But everyone has one goal in common – to break through their own barriers."**

Mark Wellman, Rock Climber  
(paralyzed from waist down)

# Book Review: The One Thing You Need to Know

Published by Free Press

I have issues with this book. First, are we really expected to take management advice from someone who looks like a shoo-in for the next James Bond? Second, the title reads as if it were generated by a computer that analyzed data to come up with a hot-selling title – content obviously secondary.



But as with Buckingham's other books, it's a compelling read: beautifully written, entertaining and thought-provoking. Makes you step back and question what you do and how you do it. Speaks to the big questions – how to be more productive, valuable, fulfilled and successful. You don't even have to worry about having to dig through the entire book to find the author's "one thing." No, the entire book presents, prods and then asks you to question conventional wisdom. Takes you on journeys that lead down, down, and then just when you think you've reached the end, down further to another "ah ha" moment.

The One Thing You Need to Know is chock-full of interesting and useful insights, all of which unfold around Buckingham's research-based answers to three key questions:

**Question 1: What is the one thing you need to know about great managing?**

**Answer:** *Discover what is unique about each employee, and capitalize on it for the good of the organization.*

Great managers make each employee feel he or she is the manager's highest priority. Make each feel supported, challenged and understood. They're great one-on-one coaches blessed with tact, timing and an instinct for human relations. Good at hiring right; making expectations clear; assessing strengths and weaknesses; identifying what each employee responds to best and how each learns most effectively.

**Question 2: What is the one thing you need to know about great leading?**

**Answer:** *Rally people to a better future.*

To do this, the leader must clearly see the future and how the organization will get there. Then, communicate it to the troops with vividness and clarity. Find and then practice the words, images and stories that clearly and compellingly paint the picture.

Great leaders know that every person faces fear – of death, loneliness, uncertain future, chaos and insignificance. Great leaders speak to these and provide clarity, reassurance and a reason to get excited.

Great leaders provide clarity about whom the organization serves. After all, how will the employees know what to do?

Great leaders make clear how each employee will be judged; how the entire organization will measure success (i.e., the one thing you need to measure); and what organizational strengths will enable the shared vision to be reached.

**Question 3: What is the one thing you need to know about sustained individual success?**

**Answer:** *Avoid the tasks that are not right for you.*

Know your own strengths and weaknesses and have the self-discipline to say no to opportunities that are not a good fit. From all the possibilities for your life, filter and find the few that will enable you to excel to the highest degree. Stick to the things that give you power, energy and enthusiasm. Stop doing the things that bore, frustrate and drain.

Target your learning to areas where you have some comparative advantage over everyone else. You want to be unique – unique means the only one.

Avoid focusing deeply on past struggles and instead focus on your achievements and replicate them. You'll find energy and enthusiasm.

How do you spot and eliminate your dislikes? All dislikes are not created equal. You need to get to the cause of your dislikes to know where to turn.

Specialization means you often need to partner with others. Bill Gates' true genius lies in his ability to find just the right partner at just the right time. Effective partnering is the quiet secret of the successful.

Buckingham's The One Thing You Need to Know will probe deep within you and could cause discomfort, but it's a journey worth taking. It might even make good on its mission to make you more happy, productive and fulfilled. Is this hard to believe? Read the book and see for yourself. □

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## Stop Sociopaths from Driving You Insane, continued from page 7

to them. They must trust you, listen to you and confide in you. You must maintain a relationship. It won't be fun, and will take a lot of self-discipline, but they probably will leave you alone and allow you, to some degree, to influence them.

Adjust your expectations. Your pain is largely the result of your unrealistic expectations. Your hope for a breakthrough is repeatedly dashed. Get over it. These people cannot form close, collaborative relationships. Get real and move on.

Get help. Sociopaths can be high performers. They might be great at sales, negotiations and finance. So if you employ one, you may not want to let him or her go. Consider hiring someone, such as an executive coach, to help the sociopath learn to get along in your workplace, and to help co-workers handle it, too. □

Jay Kent-Ferraro provided the expertise for this article. Dr. Jay, through his consulting firm Empowerment Technologies, provides executive coaching, training and human performance consultation. See [www.DrJayFerraro.com](http://www.DrJayFerraro.com).

# Think Before You Link

When you link your Web site with another, or cite a Web site in an article, e-mail or speech, your reputation is at stake. Just as your personal reputation will suffer if you associate with shady characters, your business reputation will suffer if you associate with Web sites that don't meet basic standards of professionalism, credibility, dependability and appropriateness.

But how do you know whether a Web site meets your standards? The quick answer is – thoroughly review the data on the site. In doing so, consider the following:

**Who's the Publisher?** Does the page or site have an "About us," "Philosophy," "Background" or "Biography"? If you can't find one, truncate the URL (Web address). Do this by deleting the end characters, stopping just before each / (leave the slash). Press enter and again look for information about the publisher. Continue this process, one slash (/) at a time, until you reach the first single slash preceded by the domain name. This is the page's server or publisher.

**Contact Information:** Does the publisher of the page or site make it easy for you to contact it? A "Contact Us" or "Customer Feedback" link should be prominent, disclose the identity of the publisher and offer various means of contact.

**Freshness:** In most cases, you're better off with frequently updated sites. The best way to assess this is to peruse the site. Look for dates on content and in articles. Some publishers place a "last updated" date at the bottom of each page, but many do not. But don't rely on the date listed at Internet Explorer's File | Properties or Netscape's Mozilla's View | Page. These dates can be updated automatically.

**Longevity:** When was the site first created? A site's longevity is a clue to its stability. But finding this can be difficult. As an alternative, look for the date when the site was first registered. This can be found at [www.NetworkSolutions.com](http://www.NetworkSolutions.com): Click the WHOIS button in the bottom navigation bar. Type in the domain name of the site to see various data, such as whom it was registered to and when.

**Focus:** Is the Web site committed to its purpose? If so, all of the content and links on the site will have quality and relevance.

**Structure:** Is the site well structured? Does it contain an index or table of contents?

**Advertising:** If there is advertising, is it professional, appropriate and secondary, or is it dominant, aggressive and random?

**Biases:** Are there any apparent biases? Racial, gender, religious, or other types? Even nonprofit sites with the .org suffix may be biased.

**Privacy Policy:** If the Web site requires the visitor to enter personal information, make sure the site has a privacy policy. For example, the American Heart Association, [www.AmericanHeart.com](http://www.AmericanHeart.com), offers its policy at the bottom of each page behind a link titled "use of personal information."

**Legal Disclosure:** Professionally managed Web sites have appropriate legal disclosures. Often this is just a copyright notice.

Other times they're disclaimers or, as in the case of the American Heart Association, an ethics policy and a conflict-of-interest policy.

**What Is the Domain Type?** Today more than 20 different domain extensions are available. Still, the domain type can say a little about the source. For example, .org is used mainly by nonprofits and .com and .net are used primarily by for-profit entities. .edu domains can be used only by accredited educational institutions. .gov and .mil can be used only by U.S. government and U.S. military units. Each country also has domain extensions that can be used only by citizens or organizations of that country. For example, .us, .uk and .de correspond to United States, United Kingdom, and Germany, respectively. □

Sources:

- > [www.Lib.Berkeley.edu](http://www.Lib.Berkeley.edu)
- > [Matthew L. Schreiner](#)
- > [David and Debbie Daniels of InterNetworks](#)

**"Beaten paths are for beaten men."**

*Gary McCord*

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# Deductible Travel and Entertainment Expenses

Generally, to be deductible, an expense must be both ordinary and necessary for the business. Travel expenses, for tax purposes, are ordinary and necessary expenses of traveling away from home for your business, profession or job. Ordinary means common and accepted in your industry, trade or profession. Necessary means helpful and appropriate for your trade or business. It does not have to be required or indispensable to be considered necessary.

If the purpose meets these standards, all your travel costs are deductible: tickets for airline, taxi, bus, boat (if by luxury boat, there are special rules), tips, shipping fees (if the materials you need require special shipping), automobile, lodging, meals (subject to 50% limit), etc.

You can deduct the travel expense of someone who goes with you if that person:

- Is your employee or business associate, and
- Has a bona fide business purpose for the travel, and
- Would otherwise be allowed to deduct the travel expense

Whether you're on a trip or at home, you can deduct entertainment expenses, including meals, if they are ordinary and necessary and meet one of the following tests:

**Test 1 – Direct:** This test is met if the main purpose of the entertainment was business; you did engage in business; and

you had more than a general expectation of getting income or some other specific business benefit. If the business discussions were just incidental to the entertainment, this test is not met. If the activity itself would make it hard to conduct business, e.g., hunting, fishing or nightclubbing, it likely does not meet the test.

**Test 2 – Associated:** The entertainment was associated with active conduct of your trade or business and occurred just before or after a substantial business discussion.

Entertainment includes any activity generally considered to provide amusement or recreation. Meals are considered a form of entertainment. If you entertain business and non-business individuals at the same event, you must divide your expenses between business and non-business. But spouses' expenses incurred entertaining the spouse of a qualifying business guest are deductible. Be careful about tickets to events because you generally can deduct only up to the face value of tickets purchased – unless the expenditure meets certain charitable-cause criteria.

The deductibility of entertainment expenses, including meals, is limited to 50% unless the purpose is charitable.

If you use a car for business purposes, you can deduct the expenses. You can use the standard mileage rate or the actual car expenses. If you want to use the standard mileage rate, you must

*continued on next page*

## How to Prove Certain Business Expenses

Type	Amount	Time	Place or Description	Business Purpose and Relationship
<b>Travel</b>	Cost of each separate expense for travel lodging and meals. Incidental expenses may be totaled in reasonable categories such as taxis, daily means for traveler, etc.	Dates you left and returned for each trip and number of days spent on business.	Destination or area of your travel (city, state or other destination).	Business purpose or benefit gained or expected to be gained.
<b>Entertainment</b>	Cost of each separate expense. Incidental expenses such as taxis, telephone, etc. may be totaled daily.	Date of entertainment.	Name and address where entertainment took place. Type of entertainment.	Business benefit gained; nature of the business discussion or activity; when the business occurred (before, during or after the entertainment); persons who took part in business activities; persons who took part in entertainment; description of each person and why it makes sense for you to entertain them.
<b>Transportation</b>	Cost of each separate expense. For car expenses, the cost of the car and any improvements, date you started using it for business, the mileage for each business use, and the total mileage for the year.	Date of the expense. For car expenses, the date of the use of the car.	Your business destination.	Business purpose of the expense.

# 10%+ Owners Subject to Special Rules on Travel, Entertainment and Auto

Business owners have to be very careful with business-related travel and entertainment expenses. Improper and undocumented expenses deductions or reimbursements can result in heavy penalties and a tax audit of the company and its executives and owners.

Here are the major rules to help you comply and avoid penalty:

- All 10%+ owners and family members employed by the business must fully itemize and document all travel, lodging, meals, and entertainment expenses. Family means you, spouse, parents, children, grandchildren, and siblings.
- You cannot deduct expenses for your spouse accompanying you on a business trip unless he or she is an employee of the company and his or her presence has a bona fide business purpose.
- For expenses over \$75, you need receipts. Under \$75, no receipt needed – just record the expense, business purpose, time, place, individual entertained and business relationship. Exception: for lodging expenses, receipts must be obtained no matter the amount.
- 10%+ owners cannot use the per-diem rate for deducting business meals and lodging.
- You cannot use the company car to commute to and from work unless the value of the personal use is included as taxable income on your W-2. There are special rules for other company employees; check with your accountant.
- You cannot take a personal tax deduction for business expenses for which the company **could have** reimbursed you.
- You cannot claim a tax deduction for travel, lodging, etc., for seminars and workshops when the primary purpose is vacation and enjoyment rather than education and/or sales.
- Owner and non-owner employees must keep contemporaneous records to substantiate all tax deductions.

That includes a mileage log of each car use, including the driver's name, purpose of trip, miles driven, and the date of each trip. These entries also should separate business from personal use.

- If an employee receives a reimbursement but does not properly itemize and document the expenses, the employer must include the reimbursed amount on the employee's W-2.
- If an employee uses a company-owned auto for personal reasons, you are responsible for including the dollar value of that personal use on the employee's W-2.
- If you reimburse yourself or an employee for more than the IRS allowed per-mile rate for business use of a personal auto, the excess reimbursement is taxable income to the recipient.
- On auto expenses, you must represent on your company's tax return that adequate records have been kept.

If you or any employee fails to provide proper documentation of travel, auto or entertainment expenses, the expenses are not tax deductible by the company unless reported as taxable income on your W-2 or the employee's.

**What to do:** Avoid denied deductions and penalties by adopting a written company policy that requires full documentation of expenses: (a) within a specific period (usually monthly) and (b) before you or the employee receives reimbursement. □

**“Whatever you do, do it so well that they will come back to see you again ... and bring someone with them.”**

*Walt Disney*

## **Deductible Travel and Entertainment Expenses, continued from previous page**

have used this method in the first year that the automobile (or truck) was available for your business use.

**Don't Overlook Small Deductions — They Add Up:** You don't have to obtain a receipt for a deductible travel and entertainment expense under \$75, but you do have to keep a record of the expense and business purpose, including time and place, individual entertained and business relationship. Over the course of a year, the small deductions can add up. For example, let's assume that you fail to deduct small expenses on 100 occasions throughout the year. Let's also assume that they average \$20 each and half are subject to the 100% deduction limit and the other half are subject to the 50% deduction limit. That's \$1,500 of tax-deductible expenses. Assuming your tax rate is 40%, you've overpaid your taxes by \$450. Assuming you have a 5% pretax profit margin, that's the after-tax equivalent of \$15,000 in revenue!

Here's the formula:

$$\frac{\text{TAX DOLLARS SAVED}}{(1 - \text{Tax Rate}) \times (\text{Profit Margin } \%)} = \text{Sales Equivalent}$$

Here's the calculation:

$$\begin{aligned} & \$450 / [(1 - .40) \times 5\%] \\ & \$450 / .6 \times .05 \\ & \$450 / .03 \\ & \$15,000 \end{aligned}$$

**Split Expenses:** If you have expenses that are partly for business and partly for personal, you can deduct the business part. For example, if you borrow money and use 70% of it for personal and 30% for business, you can deduct 20% of the cost of the money. The same goes for your home and auto. □

# Don't Fall Prey to Tax Scams

Everyone must pay taxes. After all, it costs a lot of money to pay for the services provided to each citizen by our governmental entities. Services such as police, ambulance, fire, roads, bridges, parks, health, welfare, representation, diplomacy and defense.

Every citizen is also entitled to minimize his or her tax burden by taking legal deductions and adjustments. But those who are willing to go to extremes to avoid tax can fall prey to con artists who will fleece them and leave them subject to fines and jail time for tax fraud.

**Those who are willing to go to extremes to avoid tax can fall prey to con artists who will fleece them and leave them subject to fines and jail time for tax fraud.**

The IRS recently released warnings about the following major tax scams:

**Return Preparer Fraud:** Dishonest return preparers attract new clients by promising large refunds. Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees. Taxpayers should choose carefully when hiring a tax preparer. Remember, no matter who prepares the return, the taxpayer is ultimately responsible for its accuracy.

**Zero Return:** Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholding and then write "nunc pro tunc" – Latin for "now for then" on the return. They often do this with amended returns, hoping the IRS will disregard the original return in which they reported wages and other income.

**Trust Misuse:** Unscrupulous promoters urge taxpayers to transfer assets into trusts as a means for reducing taxes. But some trusts don't deliver the promised benefits. More than 200 active investigations are under way, and three dozen injunctions have been obtained against promoters since 2001. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering into a trust.

**"IRS Has No Right!":** Tax scam promoters try to convince taxpayers of outlandish theories, such as these: The Sixteenth Amendment concerning congressional power to levy and collect income taxes was never ratified; wages are not income; filing a return and paying taxes are merely voluntary; and being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Don't believe these claims.

**Credit Counseling Agencies:** Taxpayers should be careful with credit counseling organizations that push aggressive debt repayment plans, claim they can fix credit ratings, or impose high setup fees or monthly service charges that may add to existing debt.

**Abuse of Charitable Organizations:** This one usually entails a taxpayer "moving" assets or income to a tax-exempt organization and claiming a deduction but never actually relinquishing control over the assets or income. In another version, the

taxpayer "contributes" a historic-facade easement to a tax-exempt conservation organization.

**Offshore Transactions:** Despite a crackdown by the IRS and state tax agencies, individuals still try to avoid U.S. taxes by illegally hiding income in offshore banks and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing, annuities or life insurance.

**Employment Tax Evasion:** These schemes instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. Such advice is based on an incorrect interpretation of Section 861 and other parts of the tax law. Employer participants also can be held responsible for back payments of employment taxes, plus penalties and interest. Employees who have nothing withheld from their wages are still responsible for paying their personal taxes.

**"No Gain" Deduction:** This scam convinces filers to deduct their entire adjusted gross income (AGI) on Schedule A. The filer lists his or her AGI under the Schedule A section labeled "Other Miscellaneous Deductions" and attaches a statement to the return that refers to certain court documents and includes the words "No Gain Realized."

**Zero Wages:** Taxpayer attaches to his or her return either a Form 4852 (substitute Form W-2) or a "corrected" Form 1099 that shows zero or little wages or other income. The taxpayer may include a statement indicating the taxpayer is rebutting information submitted to the IRS by the payer. An explanation on the Form 4852 may cite "statutory language behind IRC 3401 and 3121" or may include some reference to the paying company refusing to issue a corrected Form W-2 for fear of IRS retaliation.

**Form 843 Tax Abatement:** This scam rests on faulty interpretation of the Internal Revenue Code. It involves the filer requesting abatement of previously assessed tax using Form 843. Many using this scam have not previously filed tax returns and the tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program. The filer uses the Form 843 to list reasons for the request.

**Phishing:** This is a technique used by identity thieves to acquire personal financial data to gain access to the financial accounts of unsuspecting consumers, run up charges on their credit cards or apply for new loans in their names. Often through the Internet, criminals pose as representatives of a financial institution or the IRS and send out fictitious e-mail correspondence in an attempt to trick consumers into disclosing private information. If you're not sure a contact from the IRS is authentic, call 1-800-829-1040.

Suspected tax fraud can be reported to the IRS using IRS Form 3949-A, Information Referral. Download it from the IRS Web site (IRS.gov) or call 1-800-829-3676 to have it mailed to you. The person filing the report is not required to self-identify, although it is helpful to do so. The identity of the person filing the report can be kept confidential. The person also may be entitled to a reward.

Always remember – if it sounds too good to be true, it probably is. □

# Fred Rathjen, AmeriSpec

As a construction engineer, he flew all over the country building restaurants for McDonald's and, later, for Sbarro. But traveling takes its toll, so he began looking for a better way to use his training and talent.

"I decided to go into marketing ... and built my own marketing business from scratch," says Fred Rathjen. "But it didn't really tap into my passion. I began to, once again, look for other options."



Fred Rathjen

To be sure and to get it right this time, Rathjen set certain criteria that any new venture would have to meet.

"I had built my marketing business from the ground up," explains Rathjen. "I didn't want to do that again. I wanted to buy an existing company and hit the ground running."

When he found an AmeriSpec home inspection business for sale, it fit his construction background. Because it was already established, it met that criterion. And with his marketing experience, he felt he could make the business a success. He purchased it and, indeed, hit the ground running.

That was more than five years ago. Rathjen now can look back and spot things he did well, and things he'd do differently.

**"We're now booked four months out for presentations. She had worked for me for two years before this conversation and she was a diamond in the rough. She's now vital to our marketing and highly effective," he says.**

"I changed the culture a little too quickly for some of my employees, so I ended up losing more of them than was necessary," he says. "I look back and can see I should have taken my time and made a slower transition to what I wanted the business to be."

Rathjen says he can see that he made one other mistake, too: "About 60% of my business comes from repeat business. I see now I raised prices too soon. I lost clients that would have returned time and again."

While recognizing his mistakes, he also takes a moment to reflect on the wise choices he made along the way.

"The smartest thing I did was realizing a hidden talent in an employee," says Rathjen. "I happened to say to one of the ladies who works in my office that I needed to block out more time to consistently market. As it was, I'd market for a while, bring in orders, and then spend my time fulfilling and servicing. I'd drop the marketing, until one day I'd look up and we'd have no new orders. It was a cycle that was ineffective and stressful."

"She asked what type of marketing was required," says Rathjen, smiling. "It's simple. I just drop off brochures at potential clients' offices and set up appointments to do presentations."

The employee, who normally did office work, told Rathjen she was willing to visit prospects and set up appointments. So they put together a plan.

"We're now booked four months out for presentations. She had worked for me for two years before this conversation and she was a diamond in the rough. She's now vital to our marketing and highly effective," he says.

Today, Rathjen has four employees and has learned to wear many hats. Although he prefers to do inspections himself, he is now inspector, businessman, human resources director and boss. His business has grown and he rates his success a 7 on a scale of 1 to 10.

"I am very optimistic about the next few years," says Rathjen. "I have every intention of growing my business and I have the knowledge and experience I need to achieve my goals."

While Rathjen looks positively toward the future, he shares advice his dad gave him when he was growing up:

"If you keep doing what you are doing, you are going to keep getting what you're getting."

That means change, but as Rathjen now says, make those changes slow and steady. Don't be in such a rush that you lose employees and clients. □

**"Winning is not a sometime thing, it's an all the time thing. You don't win once in a while. You don't do the right thing once in a while. You do them right all the time. Winning is a habit. Unfortunately, so is losing."**

Vince Lombardi

## Coming Up in *The Business Owner*

- |  |   |
|--|---|
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| Effective and Economical<br>Phone Systems                  | Installation Sales  |
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| Taking Your Company Public:<br>Dream or Reality?           | Don't Get Sued When Trying to Collect                             |
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