GUMBINER SAVETT INC.
ASSURANCE • TAX • BUSINESS ADVICE

SOLUTIONS + PERSPECTIVE

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Smart Business Practices for Start-up Entertainment Companies

You have a start-up entertainment company, and like most entrepreneurs, you want it to be successful. Although you can't predict how successful your movie or media venture will be, set your company up using established business practices to help get off on the right foot.

The Strategic Plan

A map of near- and long-term goals and how to reach them lies at the core of most companies. If you do not have a strategic plan or have been lax about updating your existing plan, creating or updating your plan should be a top priority.

The scope of your plan will be specific to your goals, and to some degree the changes your experience as you grow. But basic principles used by most businesses apply to entertainment companies as well. Pay particular attention to each strategic goal's return on investment.

For instance, consider the resources required to a marketing campaign using social media. You'll need to consider the employee hours involved relative to your allocated budget. Working through the financial implications of ideas can help your entertainment company avoid the kind of initiatives that sound good in theory but are unlikely to provide returns — financial, social or otherwise.

Using SMART Principals

Many companies use "**SMART**" principles when setting their strategic goals. Such principles help leaders focus on priorities and create achievable objectives.

Specific: To be SMART, a goal must first be *specific*. Goals should be as clear and detailed as possible. Include names, dates, locations, processes and requirements for completion.
Measurable: Goals also should be *measurable*. Clearly identify the outcome you're seeking. For example, if you need corporate sponsor, your goal might be "Find at least three sponsors before the end of the calendar year." Simply wanting "some sponsorship" isn't measurable — or motivating.
Attainable: Additionally, your goals should be *attainable*. Set goals that are within your control. Although it would be great if you could grow 50% this year over last, is it really within the realm of possibility?
Realistic: And they must be *realistic*. While there's nothing wrong with dreaming big, it pays to be realistic. Focus on initiatives that you're both willing and able to pursue and that you believe you can accomplish. But be careful not to lowball your goals and shortchange opportunities.
Timely: Last but not least, goals need to be *timely*. Building in a time factor is essential to staying on track. Time frames can vary by goal and can be tricky in entertainment but necessary.

Coordinate Your Plan with Your Budget

You probably already developed an annual budget, but how closely does it follow your strategic plan? Established companies use budgets to support strategic priorities, putting greater resources behind higher priority projects.

Shreedhar Kothari, CPA
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Smart Business Practices for Start-up Entertainment Companies

Businesses also routinely carry debt on their balance sheets in the belief that it takes money to make money. This is tough concept for start-ups and needs to be monitored, but it's possible to operate so lean that you shortchange your efforts. Although bare-bones budgets are unavoidable with young companies, consider putting some muscle behind your more promising initiatives as your finances improve.

Applying for a loan could provide you with the funds to grow. Building up your reserves also will help provide the additional cash flows essential to pursuing strategic opportunities in the future.

Allocating for Professional Advice

Successful companies usually budget for experienced professional advice. Although start-up companies typically see these costs as something they can't afford, it typically will save you money in the long run. A lawyer, bookkeeper and accountant will help keep your business on the right track.

Paying for professional advisors is particularly critical when you're embarking in major fundraising. Banks and investors want to know that the money they provide will be allocated and tracked properly. They will also want to "look under the hood" so solid financials and legal documents are critical.

Embrace Flexibility

For creatives, moving forward or being flexible is usually something you can embrace. These traits are critical in business as well. Just remember to apply best practices, both new and traditional, on the growth path of your start-up entertainment company.

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Gumbiner Savett Recognized by the Los Angeles Business Journal

Gumbiner Savett Inc., a Santa Monica-based full-service accounting, taxation and consulting firm, was recently named the twentieth largest "Accounting Firm" in the city by the Los Angeles Business Journal. The full list of top accounting firms was published in the February 13-19, 2017 issue.

"At Gumbiner Savett, we strive to be a leader in the accounting and finance community in Southern California", said Rick Parent, Managing Director at Gumbiner Savett Inc. "We are honored to be recognized again this year by the Los Angeles Business Journal, and look forward to the future as we continue to provide excellent service to our clients."

The Los Angeles Business Journal (LABJ) is an award-winning weekly business publication covering the Los Angeles region. LABJ's "Lists" provide data and statistics on top-ranked Los Angeles companies across all industries.

Gumbiner Savett Inc. received a number of honors in 2016, including recognition by INSIDE Public Accounting as a 2016 "Top 200" firm and by Accounting Today as a 2016 "Regional Leader".

By Gumbiner Savett Editorial

9 IRA Tax Tips for the 2016 Tax Year

Taxpayers often have questions about Individual Retirement Arrangements, or IRAs. Common questions include: When can a person contribute, how does an IRA impact taxes, and what are other common rules.

The IRS offers the following tax tips on IRAs:

Age Rules. Taxpayers must be under age 70½ at the end of the tax year to contribute to a traditional IRA. There is no age limit to contribute to a Roth IRA.

Compensation Rules. A taxpayer must have taxable compensation to contribute to an IRA. This includes income from wages and salaries and net self-employment income. It also includes tips, commissions, bonuses and alimony. If a taxpayer is married and files a joint tax return, only one spouse needs to have compensation in most cases.

When to Contribute. Taxpayers may contribute to an IRA at any time during the year. To count for 2016, a person must contribute by the due date of their tax return. This does not include extensions. This means most people must contribute by April 18, 2017. Taxpayers who contribute between Jan. 1 and April 18 need to advise the plan sponsor of year they wish to apply the contribution (2016 or 2017).

Contribution Limits. Generally, the most a taxpayer can contribute to their IRA for 2016 is the smaller of either their taxable compensation for the year or $5,500. If the taxpayer is 50 or older at the end of 2016, the maximum amount they may contribute increases to $6,500. If a person contributes more than these limits, an additional tax will apply. The additional tax is six percent of the excess amount contributed that is in their account at the end of the year.

Taxability Rules. Normally taxpayers don't pay income tax on funds in a traditional IRA until they start taking distributions from it. Qualified distributions from a Roth IRA are tax-free.

Deductibility Rules. Taxpayers may be able to deduct some or all of their contributions to their traditional IRA. See IRS Publication 590-A**Saver's Credit.** A taxpayer who contributes to an IRA may also qualify for the Saver's Credit. It can reduce a person's taxes up to $2,000 if they file a joint return. Use Form 8880, Credit for Qualified Retirement Savings Contributions, to claim the credit. A taxpayer may file either Form 1040A or 1040 to claim the Saver's Credit.

Rollovers of Retirement Plan and IRA Distributions. When taxpayers roll over a retirement plan distribution, they generally don't pay tax on it until they withdraw it from the new plan. If they don't roll over their distribution, it will be taxable (other than qualified Roth distributions and any amounts already taxed). The payment may also be subject to additional tax unless the taxpayer is eligible for one of the exceptions to the 10% additional tax on early distributions.

myRA. If a taxpayer's employer does not offer a retirement plan, they may want to consider a myRA. This is a retirement savings plan offered by the U.S. Department of the Treasury. It's safe and affordable. Taxpayer's may also direct deposit their entire refund or a portion of it into an existing myRA.

Taxpayers should keep a copy of their tax return. Beginning in 2017, taxpayers using a software product for the first time may need their Adjusted Gross Income (AGI) amount from their prior-year tax return to verify their identity. Learn more about how to verify your identity and electronically sign your tax return at Validating Your Electronically Filed Tax Return.

By Gumbiner Savett Editorial

$ Steps to Stopping and Starting a Construction Project

Gumbiner Savett Inc. has been working with the construction industry since we opened our doors in 1950. I have seen many ups and downs in the industry throughout the years and in these uncertain economic times, many construction projects have been put on hold — sometimes indefinitely and other times for a relatively short duration. If you find yourself in such a predicament, here are four steps to stopping and restarting a project effectively:

1. Demobilize in an organized manner. When a job shuts down, you may rush your people, materials and equipment off site, leaving any existing project elements exposed to the weather. This could lead to safety concerns and increased work time when the job restarts. Instead, create a formal demobilization plan that outlines withdrawal procedures, names those responsible for the removal of assets and materials, and mandates the inspection of existing job elements. Also look into negotiating with the project owner to allow you to perform compensated work to stabilize the job site.

2. Secure the project. The weather isn't the only thing that could damage a dormant job site. Thieves and vandals could seize the opportunity to take or destroy elements that are in place, again creating safety pitfalls and additional work should the project restart. Minimal or no security measures could also allow children (or others) to wander on-site and into harm's way. Your first defense against intruders is proper fencing. Be sure the job site is completely closed off with stable fencing, secure gates and plenty of warning signs. (On a related note, you may want to remove signage reflecting your company's logo to prevent bad PR.) In addition, consider fire protection measures if remaining elements could be set alight.

3. Check your insurance. One of the biggest challenges of a stopped job doesn't happen on-site but back at the office. That is, you'll need to ensure that your insurance is both in effect and effective. If you're participating in an owner-controlled insurance program, check with the owner about whether it intends to continue coverage. You may need to contact your own broker to negotiate some gap coverage. And if you sponsor your own contractor-controlled insurance program, determine what kind of coverage to provide going forward and how to handle subcontractors involved in the job.

4. Reassess safety, deadlines upon restart. When the project eventually restarts, follow your formal withdrawal plan in reverse. Inspect the stability of existing project elements and reintroduce materials, equipment and workers onto the site gradually, safely and strategically. Additionally, reconsider your deadlines. The owner may want to accelerate the job schedule to make up for lost time. But rushing your work could lead to defects and breakdowns that cost you time and money. If the time frame looks unfeasible — or too expensive — negotiate the additional costs with the owner.

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Planning to leave your IRA to someone other than your spouse?

By Gumbiner Savett Editorial

An IRA can be a powerful wealth-building tool, offering tax-deferred growth (tax-free in the case of a Roth IRA), asset protection and other benefits. But if you leave an IRA to your children — or to someone else other than your spouse — these benefits can be lost without careful planning.

"Inherited IRA" stretches tax benefits

Surviving spouses who inherit IRAs are permitted to roll them into their own IRAs, allowing the funds to continue growing tax-deferred or tax-free until they're withdrawn in retirement or after age 70½. Beneficiaries *other* than your spouse, such as your children, are treated differently.

To take full advantage of an IRA's tax benefits, nonspouse beneficiaries must transfer the funds directly into an "inherited IRA." Although the beneficiaries will have to begin taking distributions by the end of the following year, they'll be able to stretch those distributions over their life expectancies, allowing earnings to grow tax-deferred or tax-free as long as possible.

Your children or other nonspouse beneficiaries won't have this option, however, unless you name them as beneficiaries (or secondary beneficiaries) of your IRA. If you leave an IRA to your estate, your children or other heirs will still receive a share of the IRA as beneficiaries of your estate, but they'll have to withdraw the funds within five years (or, if you die after age 70½, over what would otherwise be *your* remaining actuarial life expectancy).

If you name multiple nonspousal beneficiaries (several children, for example), they'll have to establish separate inherited IRA accounts by the end of the year after the year of your death in order to take distributions over their own life expectancies. If they miss the deadline, they'll have to use the *oldest* beneficiary's life expectancy.

Be aware that, unlike other IRAs, inherited IRAs aren't protected from creditors in bankruptcy.

Inherited IRA rules

The following special rules apply to an inherited IRA:

- The IRA must be a new IRA set up for the specific purpose of receiving the inherited account.
- The IRA must be specially titled in the deceased account owner's name.
- No other contributions may be made to the IRA.
- No other amounts may generally be rolled into or out of the IRA.
- Required minimum distributions will need to be made over the beneficiary's life expectancy starting the year after the IRA owner's death.

An accounting professional can help you decide how to address your IRA in your estate plan.

How an ILIT can benefit your family

If you're concerned about your family's financial well-being after you're gone, life insurance can provide peace of mind. Going a step further and setting up an irrevocable life insurance trust (ILIT) to hold the policy offers additional estate planning benefits.

Asset protection

If you're concerned about your heirs' money management skills, an ILIT may be the answer. Why? Your loved ones won't receive the proceeds directly, as they would if they were the policy beneficiaries. Rather, they're the beneficiaries of the trust, and the trust controls when they receive proceeds.

You can also establish conditions for distributing funds from an ILIT. For example, you might instruct the trustee to withhold funds from a beneficiary who drops out of school or develops a substance abuse problem.

A properly drafted ILIT can also protect trust assets against your and your beneficiaries' creditors, particularly if it's established in a state with favorable asset protection laws.

Estate tax savings

Placing your life insurance policy in an ILIT removes it and its proceeds from your taxable estate. Contributing an existing life insurance policy to an ILIT constitutes a taxable gift to the trust beneficiaries of the policy's fair market value (which generally approximates its cash value). With the combined gift and estate tax exemption currently at $5.49 million, now may be a good time to make such a gift.

Future ILIT contributions to cover premium payments will be taxable gifts. You may, however, be able to apply your annual gift tax exclusion to reduce or eliminate the tax — provided the ILIT is structured appropriately and certain other requirements are met.

Bear in mind that a repeal of the federal estate tax has been proposed by President Trump and the Republican-led Congress. A repeal or other estate tax law changes could have a significant impact on an ILIT's estate tax benefits.

Drawbacks

An ILIT does have some significant limitations you need to be aware of. After you transfer a policy to the trust, you can no longer:

- Change or add beneficiaries,
- Assign, surrender or cancel the policy, or
- Borrow against or withdraw from the policy's cash value.

In addition, you're not allowed to alter the ILIT's terms or act as trustee.

Nevertheless, you can design the trust to adapt to changing circumstances and provide that children or grandchildren born after you establish the trust be automatically added as beneficiaries.

By Gumbiner Savett Editorial

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