

January 2008 Management Article A 2008 Tax Plan to Make Sure You Retire Rich

When I do consulting work for businesses, I continue to find owners who manage their operations with a fanatical devotion to avoiding taxes. ALL TAXES. I hate taxes, but it's a mistake to focus so much energy on minimizing taxes that writing the smallest possible check to the IRS becomes the alter upon which larger business objectives get sacrificed.

In most cases, taxes can be dramatically reduced with proper management. There are many ways to minimize taxes, most legitimate, some not so legitimate.

Instead of making all the money they can and managing their taxes, many business operators manage their income (sales) so that they have just enough to pay their expenses and live comfortably. These operators reason that if they increased sales, a large portion of the added income would go to Uncle Sam. In the meantime, they don't replace their equipment (that would trigger depreciation, a non cash expense, and even annual write-offs, but would require an outlay of cash). Nor do they continue to improve their facilities or equipment. They also don't take risks and spend money to grow the business.

Sound familiar?

Small business owners are, overall, fiscally conservative. Many of us are close to debt free, but we may be capital constrained. I would say 80% of the operators I've consulted for make enough to be comfortable. Yet few have a plan to make sure they stay that way when they retire.

This month I'm about writing business owners asking them to be open to the possibility of maximizing their income and investing the extra in income producing assets that can create a comfortable retirement.

As a consultant, I've run across some heartbreaking situations. I've seen operators who are 60 years old and unable to sell out because their operations aren't profitable with growing sales. Sadly sometimes these owners don't sell until the business turns sour. Then, they can't or won't offer terms to a young buck who wants to try to turn it around. Often, the once prosperous operators are left with only the value of the land their businesses occupied.

What creates these situations? Here's a common denominator: Almost all of these operators managed their businesses to avoid making TOO much money because of the tax bill the added income would trigger.

What would be so bad about doubling your annual income to \$500k, giving Uncle Sam \$100k, leaving you \$400k? That's still \$150k more than you were going to have. If you invest the extra \$150k in income producing assets, you'll create \$3mm worth of assets over 20 years, not counting interest earned or appreciation. Even at a 10% return on capital, those assets would throw off \$300k per year in perpetual income.

One operator told me he stashed away all his money, over \$300k. For 30 years, his money was not working for him. It never appreciated, he never got any interest, and what should have been millions,

was still \$300k at retirement time. That's more conservative than most of us, but aren't we doing the same thing on a lesser scale by imposing a limit on our earnings so that we won't pay too much in taxes?

It's okay to think about how to minimize your tax bill, but also think hard about how to grow your business and invest the profits in income producing assets. Make a resolution in 2008 to consider the possibility of earning a LOT MORE even if it means paying more in taxes.

Work with your accountant to legally shelter that income and grow it. I put most of mine in real estate. Although I seemed dumb to some people because I paid a little too much for some real estate, today, I look like a genius because the tenants have paid for the properties I purchased and now they are still producing income for me every month.

Keeping the desire to limit your tax bill in proper perspective is the first step to an even more prosperous 2008. How much better could you live by earning the most you can, paying the taxes you have to, and investing the surplus to create a life-long income?

Remember, only you can make BUSINESS GREAT!

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