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## Sharing the Wealth of Expertise

Greetings! For over a quarter of a century I have had the privilege of helping investors, entrepreneurs and individuals move forward with their business and financial affairs. This has meant countless occasions to observe, from a vantage point, what works and what does not, as well as strengths and weaknesses, triumphs and failures, and accomplishments and disappointments. The subjects and issues have included some of the most critical--investing, business management, wealth accumulation and preservation, taxes, and other business and financial subjects. This newsletter will offer the essence of the expertise accumulated over decades and the knowledge and experience gained in a lifetime.

Some ground rules and objectives regarding the newsletter: Less than an hour to read and absorb its message; a 100 to 1 ratio of value received to the time invested reading it; and savings of thousands of dollars each year, through money making ideas, investment wisdom, tax tips, savvy management, improved productivity, to mention a few. It should also help dispel apprehensions and provide peace of mind.

The feature story of this inaugural issue is business plans. Few subjects are more fundamental to business success than a solid business plan. It is not surprising to note that a staggering number of those who fail in business lack a plan, and majority of those who do succeed benefit from a well crafted one. This current issue tackles another intimidating subject and presents the reasons the IRS contacts a taxpayer, how to avoid it and what to do when a letter does arrive.

I hope this publication will make a contribution to the success and well being of so many.

Mehdi Rezazad

## BUSINESS PLANS

A business plan is the starting point for success and the first line of defense, perhaps the strongest, against failure. Success is never guaranteed and a business may still flop despite a plan. Unrealistic premises, weak strategy, and an outdated or poorly executed model are among typical causes of failure. Yet the presence of a well crafted business plan, founded on strong strategy, will go a long way in ensuring success.

For some, the idea of a business plan conjures up the image of a starry-eyed entrepreneur pursuing investors. It is true that it is difficult to attract significant funding without a well written plan. But business plans are not solely the domain of the risky, concept oriented businesses. Neither are they designed exclusively for fund raising. In fact, a traditional business relying on the founder's hard earned savings, and those of family and friends, make the need for a plan all the more critical. Similarly, the need for a business plan transcends size—startups, middle stage entities and established companies may differ in size but share the same mandates.

## IN THIS ISSUE:

**BUSINESS PLANS | TAX STRATEGIES | ASSET PROTECTION**

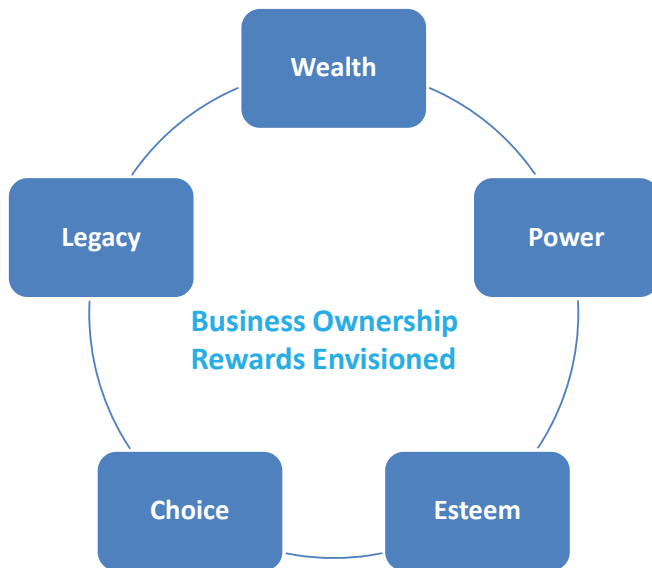


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## Compelling Reasons

The single most important reason to have a business plan is the enormous gains envisioned should the business succeed. Everything else follows this dictum. Financial gains are only the beginning and typically the foundation for other rewards. A tremendous increase in power, independence, and recognition, the ability to pursue lofty goals and enjoy life's luxuries are some of the more prominent results of business success.



Another key reason and perhaps equally significant is the massive investment one makes by launching a business. The capital invested in a business is not restricted to funds. Every self employed individual invests personal, emotional and political capital as well (see next graph.) Collectively, this truly represents most of what one possesses in life.

These factors can help explain why most entrepreneurs are so passionate about their venture, and why self employed individuals identify so closely with their business. With so much at stake, why would anyone not wish to possess a disciplined plan, founded on outstanding strategy, and to be carried out with passion, wisdom and determination?

There are even more reasons for owning a business plan:

**Higher Profits:** Too often, the process of documenting ideas and thoughts highlights opportunities, ranging from modest to dramatic, that would otherwise go unnoticed. A detailed plan brings to light many hidden items, leading to more revenue, better pricing, more effective cost control and an array of other improvements in both concept and execution. The net results is higher profits.

**Improved Management:** The rigorous process involved in composing and implementing a business plan serves to improve dramatically the goals and objectives, and the methods of achieving them.

**Risk Management:** Business plans are among the most effective tools for risk management, as they entail a careful consideration of perils and pitfalls inherent in charting a course.

**Fund Raising:** Whether seeking equity or debt, from institutional investors and financiers or family and friends, raising money is considerably easier and less costly in both financial and non-financial terms when armed with a sharp plan.

**Recruitment:** When hiring key managers and employees, sharing highlights of a well regarded business plan facilitates communication, and helps provide a competitive edge. Candidates will assign a higher value to being part of an entity with a solid blueprint and clear path.

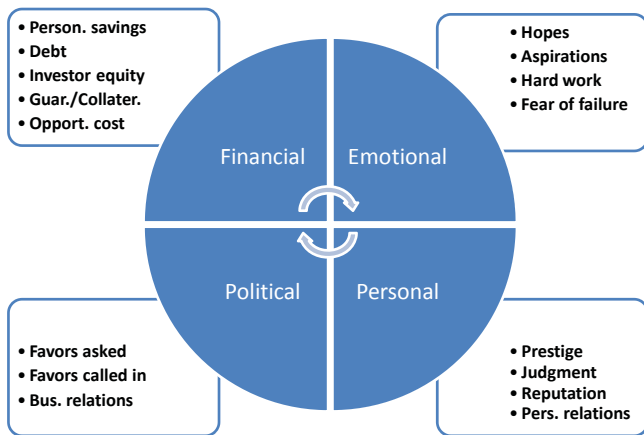
**Attracting Partners:** While many businesses can be started and run solo, others require one or more partners. This may reflect the founder's personality, the capital needs, the work load, the character of the business or other factors. Without a business plan, it is almost inconceivable to have an effective partnership or smooth operation, whether pre or post-launch.

**Top Advisors:** Every business owner will depend on the advice and input from a number of professionals throughout its existence. This includes bankers, lawyers, accountants, marketing pros, and to some extent key suppliers and customers. Depending on the company's size and age, it may also include board members and directors. The business plan can only aid and facilitate the flow of information and insight.

**Kitchen Cabinet:** Many business owners and entrepreneurs come to rely on input from family members, mentors, friends and colleagues. The business plan is a vital part of the ongoing communication and keeps everyone well informed.

**Exit:** The elements of a successful exit tend to evolve due to the ever changing conditions of the market and business environment. The method, timing and structure of an exit are never static. A well devised business plan, updated periodically, can address these dynamics.

**Centilion can help compose your business plan, improve the existing one, stress test concepts and assumptions, and bring fresh, objective perspective to the process.**



**Capitals Invested in Business**

**Reinventing the Business:** Even under normal conditions, a business may find the need to redefine its goals and mission to capture a larger portion of the economic pie. An up-to-date business model helps move with the times, and provides for nimbleness and agility in responding to paradigm shifts and mass trends.

**In preparing and updating business plans, Centilion maintains a special focus on revenue increase, cost savings, and tax reductions. This helps recoup our clients' investment in the business plan.**

## Updates to Business Plan

A business plan is a work in progress, and a repository of ideas and data. As new knowledge and experience are gained they should be fed back into the business model to help maintain its dynamism and relevance, and to adapt to the changing environment. There are some factors and occasions that accelerate the need for and the extent of the business plan updates. A sampling of such factors includes:

**New Markets and Products:** A business plan is essential to breaking into a new market or launching a new division, branch and product line. An update to the business plan will help refine the decision, and provide for smoother execution.

**Market Conditions:** Significant changes in market conditions, positive or negative, call for an update in the plan. A business whose plans do not reflect the realities of current market is in a precarious situation and likely to fail.

**Market Share:** Sizeable decreases in market share dictate revisiting the business plan. The business model usually reflects the best and brightest one has to offer. As such, it is essential to recapturing the lost grounds and to garner the largest piece of the market.

**Benchmarks:** The business plan serves as a system for generating, evaluating and communicating ideas, goals, objectives, actions and results. As new benchmarks are achieved and significant changes experienced an update is essential to help map strategy and maintain effective flow of information, guidance and advice.

**Valuation:** Though most valuations are based on historical performance and existing assets and liabilities, where the company intends to go and how it plans to get there has quite an impact on the entity's value. In the case of start-ups, the business model and projections provide the only meaningful guidelines.

## TAX STRATEGIES

### How to Avoid Being Contacted By The IRS

It arrives in an ominous looking envelope with a return address of United States Treasury. Some people don't think much of it and open it mechanically. Others feel their heart skip a beat. The subjects vary, ranging from trivial to surreal to downright dicey. The top reasons the IRS may contact you:

**Underpayment of Estimated Taxes:** If insufficient taxes were paid during the year, and exceptions do not apply, upon filing the tax return the IRS will calculate penalty and interest on the shortage and send a bill.

**Late payment of Taxes:** Penalty and interest are charged if taxes were paid late due to the missed or delayed installments, insufficient payment with an extension application, or unpaid balance when filing the return.

**Discrepancy in 1099s:** Frequently, the figures reported on the tax return do not agree with the IRS's copy received directly from payers. Taxpayers may fail to include one or more 1099s or report the wrong amount. (To eliminate chances of errors and omissions Centilion's e-organizer facilitates the direct download of 1099 amounts from most web sites.)

**Retirement Account Error:** Taxpayers roll over their IRA, SEP or 401K and the financial institution mistakenly reports it as a taxable withdrawal. Conversely, the custodian may report a withdrawal correctly as a taxable item, but the individual fails to report it on the return believing it to be tax free.

**IRS Error:** These may be due to computer glitches, processing problems and human error. Typical cases include IRS's failure to account for an estimated payment—often because taxpayer forgot to write on the check the social security number, or the tax type or the applicable year, or the IRS failed to carry over prior year's overpayment.

**Prior Tax Liability:** IRS may apply the refund to taxpayer's other outstanding tax liabilities. The IRS needs no permission for this action but must inform the taxpayer, hence the letter.

**Amended Tax Return:** A routine letter confirming the changes that resulted from the amendment.

**Technical/Math Error:** The IRS will contact the taxpayer if an error is found in the application of tax laws or in the calculations on the return. Current year estimated tax payments may need to be revisited if the adjustment changed the refund due from prior year, carried over into current year.

**Failure to File a Return:** The IRS will send a letter if it expects a tax return from an individual or business but does not receive it. The letter is not constructed in an accusatory manner and will be quite neutral making a simple inquiry. This is a very serious incident and requires extreme caution and prompt reply.

**Unreported Income:** Tax agencies typically send a letter of inquiry, before initiating an audit, if they discover unreported income. Setting aside 1099 discrepancies discussed above, this type of discovery may result from an audit of another taxpayer with business or employment relationship with the taxpayer receiving the notice. For instance, as a result of auditing a business, tax agencies may find the business has made a number of cash payments to individuals without filing the required IRS Form 1099-Misc. Other sources prompting the IRS inquiry may be disgruntled current or former employees and spouses. This list is by no means comprehensive and there may be other grounds as well. If you have reason to believe you may be in a risky position or the subject of an IRS investigation, Centilion can perform an assessment to determine the nature and extent of your exposure, and to initiate appropriate measures.

## What to Do When the Letter Arrives

Do not panic or assume your return is being audited. Email or fax the letter to your tax preparer, who will request some documents, correspond with the IRS and the matter is often resolved without further complications (in the event penalties are assessed, Centilion usually negotiates to have them waived.) The IRS will report the matter to the state tax agency if relevant. Sometime after, an adjustment letter from the state will arrive demanding additional payment or advising of a refund due.



## ASSET PROTECTION

There is no doubt that limited liability companies have greatly simplified business formation. There is another and a more subtle use for LLCs. Many attorneys advise that investors use LLCs to hold title to their investments. It is believed that when the ownership of certain assets is channeled through an LLC there is an additional layer of protection. This strategy is particularly useful in circumstances where creditor challenges may be more likely.

Some of the more prominent candidates for this added security are business and real estate investments. Under this scenario, an investor buying into a business partnership will form an LLC and have it own the investment interest. The same format applies to real estate investments such as rental and vacation properties. Be advised, however, that some jurisdictions charge extra tax for registering a property in the name of an LLC rather than an individual.

**Our next issue will focus on taxes and will offer valuable advice and tips to maximize tax deductions.**

For additional information regarding any subjects in this newsletter email [forward@centilion.com](mailto:forward@centilion.com) or visit [www.centilion.com](http://www.centilion.com).

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