

Budget Best Practices in a ▶ Struggling Economy

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About me

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Agenda



Creating a budget



Creating new habits



Opportunities to reduce expenses



Increasing revenue



Questions

Budget



BUDGET

- ▶ *budg - et*
 - ▶ Noun - an estimate of income and expenditure for a set period of time
 - ▶ Verb - allow or provide a particular amount of money in a budget
 - ▶ Adjective - inexpensive
- ▶ It's one thing to "budget"
- ▶ It's another thing to HAVE a budget
- ▶ Without a budget, it's easy to rationalize a purchase that ends up more expensive than needed
- ▶ Example: Buying a \$1,000 printer when a \$500 printer will do, and where the saved \$500 can benefit the business elsewhere



Poll Question #1

- ▶ Do you already have a budget?



Budget

Creating a budget

- ▶ Most ideal:
 - ▶ Monthly approach/Quarterly approach
 - ▶ Use prior calendar year to set baseline
 - ▶ Round off amounts so that you know you have reviewed the numbers
 - ▶ Determine if you want to see expenses spread evenly throughout the year, or reflected as they occur seasonally
 - ▶ Then adjust amounts for oddities and unusual occurrences during the prior year
 - ▶ Example:
 - ▶ You're using 2019 as a baseline
 - ▶ The 2018 harvest was large, and you had more juice than you typically do, and in early 2019 sold bulk wine that resulted in higher than normal income in January of 2019

Creating a budget (con't)

- ▶ Projecting income:
 - ▶ Be conservative
 - ▶ Be specific - separate income by sources (your P&L should already have this level of detail, if it doesn't - time for a change!):
 - ▶ Wholesalers
 - ▶ Tasting Room
 - ▶ DTC/Online Sales
 - ▶ Wine Club
 - ▶ Events
 - ▶ Etc.
 - ▶ Example: In 2019 you had merchandise sales from your gift shop in your tasting room, but in 2020 you won't be able to achieve the same level of sales because of COVID closures



Poll Question #2

- ▶ Which bookkeeping software do you use?

Creating a budget (con't)

- ▶ Bookkeeping software like QuickBooks or QuickBooks Online
 - ▶ Great budgeting tools where it makes the process very simple
 - ▶ Easily run reports to compare budget-to-actual
- ▶ Excel - export a monthly profit and loss into Excel, then you'll reformat it
 - ▶ You'll have to manually add in actual expenses as the year goes by
- ▶ Can I start a budget mid-year?
 - ▶ Yes! It's never too late!



Creating a budget (con't)

- ▶ Be aware of relationships - changing one expense and how it affects another
 - ▶ Example:
 - ▶ If payroll costs decrease, then payroll taxes should also decrease



Creating new habits



Good Habits

- ▶ Check in with your budget regularly!
- ▶ Bookkeeping should be kept as current as possible
- ▶ Update for changes as they occur
- ▶ Whether it's running the report in your software, or updating an Excel spreadsheet, viewing your Budget-to-Actual amounts tells you what is truly happening on your "budget path forward"



Bad Habits

- ▶ Looking in the “rearview mirror”
- ▶ Letting several months go by without reviewing budget-to-actual
- ▶ Allowing bookkeeping to fall behind by weeks or months

Budgeting vs. Tax Planning

- ▶ Budgeting is not synonymous with tax planning or strategizing
- ▶ Budgeting focuses on cash coming in and cash going out
- ▶ Tax planning is designed to minimize a tax liability through a variety of opportunities (credits, new deductions, timing, etc.)



The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. The shapes are primarily triangles and polygons, creating a dynamic, layered effect. The central area is white, providing a clean space for the text.

Opportunities to reduce expenses

Insurance Policies - Workers Comp



WC is a commodity, no matter how much a business pays, they receive the same coverage



The goal is to pay the least you can, and be aware of your experience modification (this leads to discounts you receive or premiums you pay for coverage)



Also be aware of base rate changes, if one of your class codes has a decrease in the base rate, you should see it when you renew



Are you in a safety group?

Workers Comp 2019 Base Rate (for renewals prior to 10/1/2020)

Class Code	2018 Base Rate	2019 Base Rate	Change
0031 - Berry or Grape Farm	2.88	2.66	-21.5%
2143 - Winery & Drivers	4.78	3.88	-18.8%
8043 - Retail Store	1.23	1.27	3.3%
9071 - Restaurant	2.03	1.84	-9.4%
8809 - Executive Officer	0.22	0.19	-13.6%
8810 - Clerical	0.14	0.13	-7.1%
8742 - Outside Sales	0.31	0.29	-6.5%

Workers Comp 2020 Base Rate (for renewals after 10/1/2020)

Class Code	2019 Base Rate	2020 Base Rate	Change
0031 - Berry or Grape Farm	2.66	2.08	-8%
2143 - Winery & Drivers	3.88	3.39	-12.6%
8043 - Retail Store	1.27	1.18	-7.1%
9071 - Restaurant	1.84	1.78	-3.3%
8809 - Executive Officer	0.19	0.19	Flat
8810 - Clerical	0.13	0.12	-7.7%
8742 - Outside Sales	0.29	0.29	Flat



Insurance Policies - Workers Comp

- ▶ If you have a broker review your policy, ask them what next year's experience modification will be for your business - they know a year in advance and you can budget for changes.
- ▶ Questions to ask yourselves:
 - ▶ Do you know what pricing tier your workers comp rates are in?
 - ▶ Do you know what multiplier the carrier is putting on your rates?
 - ▶ Do you drug test, if so are you receiving the 5% drug free credit?

Insurance Policies - all others!

- ▶ Revisit all business insurance policies:
 - ▶ First - underwriters are willing to write policies mid-term to gain business, and the premiums are very low right now
 - ▶ Second - you may be overpaying:
 - ▶ Business coverage - brokers give free reviews to ensure your coverage is adequate and you're not paying for more than you need
 - ▶ If you had a broker do an analysis - did they give you copy? Usually they spend at least several hours on it, and you should have a copy!
 - ▶ This includes:
 - ▶ General business - when did this last get updated to make sure the limits are appropriate?
 - ▶ Umbrella - will this handle gaps in coverage?
 - ▶ Liability - is this right-sized for recent changes to how you run your business?
 - ▶ Auto/Property - do you have a fleet of vehicles? Has the fleet changed in size?

Insurance (con't)

- ▶ Coverage - should you lower limits? Discuss with broker - they can discuss risk with you
 - ▶ Increase deductibles which decreases premiums
 - ▶ Are you getting the benefit of multi-policy discounts? Are your policies spread out?
 - ▶ Are you included in a safety group for workers comp that ensures the lowest rate?
 - ▶ If one broker reviews all policies, they can tell you if you are over-insured, duplicating coverage or have a gap



Recurring costs



Payroll

If you have flexibility, and are running it every 2 weeks, can you switch it to twice monthly?

Changes from 26 paychecks to 24 paychecks, saving on payroll service costs, and now following a monthly schedule (easier to budget)



Retirement plan administration

Depending on the administrator, there are opportunities to reduce costs

Have you asked your payroll service provider if they offer this service?

Retirement

MONTHLY 401K





Recurring costs (con't)

Payroll overtime hours

Is an hourly employee putting in overtime that's absolutely necessary?

Do other employees have capacity that could be put toward tasks to assist those that are incurring overtime?

Recurring costs (con't)

▶ Bank fees:

- ▶ Review all accounts to ensure they are meeting minimum requirements to avoid fees
- ▶ Are you using multiple banks? Is this necessary?
- ▶ Can you consolidate your business accounts to a single bank for better management and potentially lower fees?



Download more graphics at www.psdgraph.com

Recurring costs (con't)

- ▶ Rent:
 - ▶ Are you paying for offsite storage space? Is this a cost that could be avoided if your existing space was better organized or cleaned?
- ▶ Point of Sale and merchant service costs:
 - ▶ Are you tied to your POS vendor and the payment processor?
 - ▶ Have your monthly statement reviewed by a competitor to tell you if you are paying above average merchant services fees for accepting credit cards and online sales
 - ▶ Payment processors are very competitive right now





The Supply Closet

- ▶ Check this space out, how many nonessentials have been amassed?
- ▶ Pockets of excess non-essential goods
- ▶ IT Equipment Depot - do you have extra cords, power strips, hard drives and monitors all around with limited knowledge of the total inventory and what could still be used or sold
- ▶ Lean approach
 - ▶ Do you need a two-month or two-year supply of something?
 - ▶ How quickly can you get it if you run out?

Suppliers

- ▶ Discussions with major suppliers (chemicals, yeast, bottles, corks, other closures, etc.)
 - ▶ They may be able to offer bulk discounts with the commitment to repeat business at a certain volume, and thus not require one large order





Debt

If your bank or lender has not already reached out to you, start the conversation now



Monthly debt payments are part interest and part principal

Refinancing at this time locks in historically low interest rates

You could keep your monthly payments the same but shorten your term

You could lower your monthly payments and lengthen your term to preserve cash




Poll Question #3

- ▶ Did your bank or lender already reach out to you about historically low interest rates and refinancing opportunities?



Debt (con't)

- ▶ Don't take on unnecessary debt!
 - ▶ Put together a cost-benefit analysis including potential revenue forecasts before incurring additional debt
 - ▶ Example - a new piece of equipment that was a planned purchase
 - ▶ Financing the costs of vineyard expansion
 - ▶ New crush pad, tanks, bottling line, etc.
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Vendors

- ▶ Be sure of your terms if you come close to falling behind on paying vendors
- ▶ Communicate directly with your vendors if a payment is going to be late
- ▶ Ask for extension of time to pay before they start charging interest
- ▶ Request interest charges be waived if possible on late payments (doesn't hurt to ask!)



Tips

- ▶ Delay unnecessary purchases - always ask if the purchase is absolutely necessary at this time
- ▶ Equipment - instead of a large purchase, can this be rented? Do you need it year round? This can be an additional revenue stream for a neighboring business, and they may be very eager to rent their equipment.



Oversight of spending



How many business credit cards do you have?



How many individuals are authorized to make purchases on behalf of the business?



Consider increasing oversight of business spending to avoid frivolous purchases (leading to altered behavior)

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Increase revenue



Poll Question #4

- ▶ Have you increased your tasting fees since the wineries were allowed to reopen?

Additional revenue streams

Do you have space that you're not using? Is it of value to someone else for rental/storage?

Do you have assets (bottling machine) that are unused for a large part of the year that you can rent and bring in additional revenue?

Do you have old equipment that you have replaced with newer technology, but have not sold the older equipment?

Do you produce any waste that is of value and can be sold?



Questions?

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