

Disbanding Your Investment Club (and How To Keep Your Club Going!)

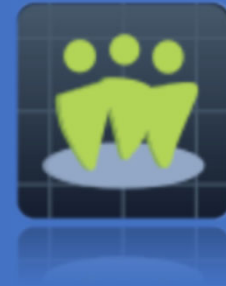
APRIL 2023



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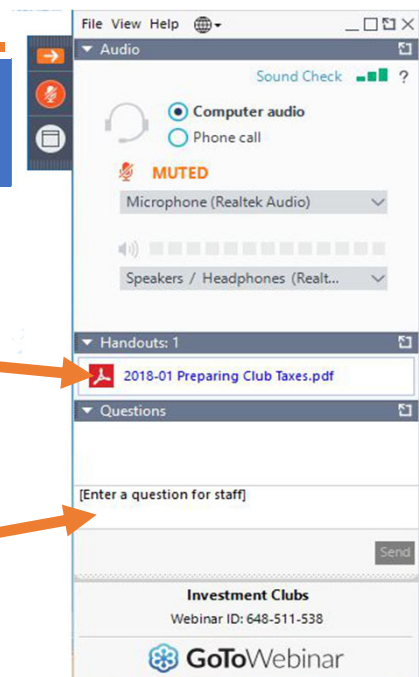
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Handout & Questions

Handout in PDF
format is available
in Handouts tab.

Type questions in
Questions box.



TIPS TO KEEP YOUR INVESTMENT CLUB GOING STRONG

DON'T DISBAND UNTIL YOU TRY THESE!

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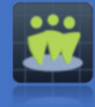
Don't Overcomplicate Your Accounting



- Treasurer burnout is often factor in club dissolution.
- Keeping treasurer's job easy is important so anyone can take over.
- myI CLUB has best tools for club accounting & operations, & best support if you have questions.
- Check File Storage in your club website for resources on getting started & club accounting/operations.

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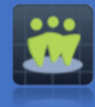
Keep Accounting Simple (Part 1)



- Don't use dividend reinvestment.
 - Complicates tax preparation upon sale of reinvested securities.
- Don't levy late fees.
 - Members who pay late or miss payment only hurt themselves over time.
- Avoid problem securities.
 - ETFs, Mutual Funds, REITS, MLPs, Royalty Trusts, Commodities, Precious Metals all create issues with taxes & accounting.

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Keep Accounting Simple (Part 2)



- For non-cash mergers/acquisitions, consider selling before deal is complete.
 - Eliminates need for complicated accounting entries.
- Don't print monthly reports.
 - Members can access reports on their own in myICLUB.com.
- Simplify/reduce expenses.
 - For expenses like BI membership, especially if club disagrees on handling as club expense, keep them "off the books" (treasurer collects checks from members & submits all together, instead of writing check from club account).

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Keep Portfolio & Books in Shape



- Don't own too many stocks.
 - 20-25 is plenty for most clubs to achieve good diversification.
 - No stock should be less than 3%.
- Reconcile books monthly.
 - Small errors can compound quickly & become more difficult to diagnose.
- Audit books annually.
 - Club members help find problems, become acquainted with accounting methods.
- File club taxes annually!

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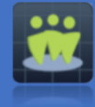
Maintain Focus on Portfolio Fundamentals



- History shows that clubs with best discipline earn best returns.
- Long-term target should be to outperform broad market.
 - Use myICLUB Benchmark Performance Report to review real long-term performance.
- Scattershot approach to portfolio-building with random collection of securities is less effective than using defined strategy to earn long-term capital appreciation.
 - Avoid parking cash, trying to time market, buying lots of dividend/income stocks, investing in securities other than common stocks.
 - Club portfolios should be managed similar to equity mutual fund, not as personal portfolio.

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Streamline Club Operations

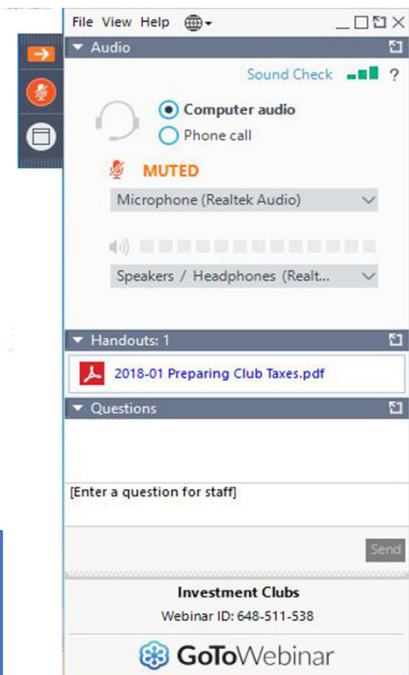


- If meeting monthly is too frequent (especially for clubs with mature portfolios), meet every other month or quarterly.
- Use online or hybrid/online meeting model.
- Distribute portfolio management & stock research work to committees instead of involving every member in every activity.

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QUESTIONS?

USE QUESTIONS BOX IN WEBINAR APPLET



HOW TO DISBAND YOUR INVESTMENT CLUB

IF ALL ELSE FAILS, HERE'S HOW TO DISSOLVE YOUR CLUB

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How to Dissolve an Investment Club



- Vote to disband should be conducted in accordance with terms in club's partnership agreement.
- Make sure to comply with all local, state, & federal reporting & tax requirements.
- See myICLUB FAQ #50 for complete instructions:
 - www.myiclub.com/faq/article.aspx?id=50&category=1&parent=0

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Choose Your Closing Date



- Can dissolve partnership at any time of year, **however:**
- Disbanding can take several months to complete (much longer than many clubs anticipate).
 - Rushing to complete at year-end may not work as hoped.
- IRS deadline for filing is 15th day of 3rd month following date operations ceased.
 - Disbanding in Q4 may require paper filing & may be easier (though more expensive) to disband in following Q1.

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Be Mindful of Pending Dividends



- Avoid receiving cash/shares because club held security past record date.
- In myICLUB, check upcoming security ex-div & payment dates in Calendar.
 - Check Portfolio box to see upcoming ex-dividend & payment dates & sell shares prior to record date.
- Turn off dividend reinvestment.
 - Much easier & less expensive to deal with cash than additional fractional shares.
- If necessary, enter expected dividend in myICLUB in advance of receipt – date *before* withdrawals are processed (& don't cash any checks before money is in account).

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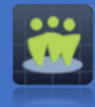
Be Mindful of Pending Expenses



- Make sure to account for any expected future expenses such as myICLUB renewal & Club Tax Printer purchases.
- Pre-pay if possible.
- If not, reimburse in advance treasurer/officer who will make purchase at appropriate time.

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Paying Members in Cash



- Selling all shares & paying out in cash is usually quickest & easiest.
- However, will generate immediate capital gains & losses for club, which will be passed through to members, & which members will report on next personal tax returns.

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Paying Members in Cash & Shares



- Transferring shares to members is more complicated, but may confer tax benefits to receiving members.
 - When shares are transferred, unrealized capital gains are recorded in club books (accounting entry is in Complete Journal).
 - For members receiving cash-only in club termination, those gains are realized right away & shown on their Withdrawal Report.
 - For members receiving shares of stock in club termination, those gains are deferred until they sell those received shares.
 - All capital gains liabilities are passed through to members & will eventually be reported by members on their personal tax returns.

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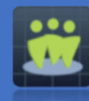
Paying Out in Cash & Shares



- Determine which shares members would like to receive.
 - Note that club's unrealized capital gain/loss in particular shares is irrelevant to receiving member – basis of shares are adjusted upon transfer (more on this later).
- Usually best to sell shares held at loss (members will receive immediate benefit of capital losses).
 - Go to myICLUB > Accounting > Members, & click Withdrawal Scenario Calculator.
 - Choose any member & click Calculate button.
 - myICLUB will show stocks suggested for transfer to member, & then stocks which would generate capital loss.
- Sell any other shares that no member wants to receive.

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Confirm Brokerage Policy For Share Transfers



- Brokerage may only transfer to members who already have personal accounts.
 - Member can usually easily open account at some brokerage.
- Brokerage may charge fee to transfer shares to another brokerage.
 - If all members are transferring shares & there will be no cash-only withdrawals, enter expense to account for this fee **before** entering any withdrawals.
 - If 1 or more members are receiving cash-only withdrawals, fees can be entered separately as part of each member's withdrawal.
- Brokerage may only transfer whole shares.
 - If so, sell fractional shares before processing member withdrawals.

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2 Ways of Determining Shares to Be Transferred



1. Give shares of each company to each member based on % ownership.
 - Likely to be massive headache for treasurer—in 15 member club with 15 securities, giving each member shares of each of 15 securities means treasurer will have to make 225 separate transfers the brokerage.
2. Have members select securities they are most interested in receiving.
 - Sell shares of securities no one wants.
 - Could have members rank their choices.
 - If only 1 member expresses interest in particular stock, can designate it for them.
 - If multiple members express interest in same stock, determine who has priority, perhaps by lottery.

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Entering Final Member Withdrawals



- Enter withdrawals as close together as possible:
 - Multiple Cash-only Withdrawals can be entered on same day.
 - Only one Cash+ Stock Withdrawals can be entered per day.
- After all income/expense transactions are entered & club is certain that no other transactions will be need to be recorded, create final Securities Valuation.
- Begin entering any Cash + Stock Withdrawals (one per day). Make Announcement/Transaction date & Payout Date be the same.
- On next day after last Cash + Stock Withdrawal, enter Cash-Only Withdrawals.

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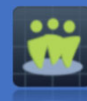
Final Withdrawal Pitfalls & Warnings



- Sometimes, clubs will make preliminary partial withdrawals to all members, then make final withdrawals to close out.
 - If you use this strategy, only distribute cash in 1st withdrawal, never distribute stock.
- Sometimes, clubs will withdraw all members but one (treasurer), then process final withdrawal for that one member.
 - If you use this strategy, do not span new tax year.

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Cash-Only Withdrawals



- If no shares are to be transferred:
 1. Sell all Securities.
 2. Enter all "Sell" transactions into myICLUB.
 3. Record all final transactions, including dividends, income, expenses, etc.
 - **Check dividend schedule for stocks so you do not receive dividend after checks are cut.**
 4. Create Securities Valuation for day *after* all transactions have been entered.
 5. Print/Share **Member Status Report** on last valuation date.
 6. Withdraw all members one day *after* last valuation date.
 - Do NOT charge withdrawal fees. Make Payout date same as Announcement/Transaction date.
 7. Print/Share Withdrawal Distribution Reports for all members.

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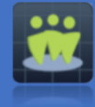
Capital Gains for Transferred Shares



- If members receive securities, cost basis of lots transferred to members are adjusted according to members' basis in club.
 - Club's basis in those shares is not used, however club's holding period (long-term vs. short-term) remains same after transfer to member.
 - Member will be liable for taxes on capital gains if/when those shares are sold.
 - See www.iclub.com/faq/Home/Article?id=414 for more.
- Brokerages may not be familiar with partnership regulations.
 - Be sure to remind members that **adjusted basis of transferred shares is shown on member withdrawal reports.**
 - Members will use that information after selling those shares to report capital gains liability, **not what brokerage may report.**

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If Money Received After Withdrawals Entered



- 3 choices for handling money after withdrawals have been entered:
 1. Delete all final member withdrawals, enter transaction(s), create new valuation, re-do all member withdrawals.
 2. OR handle as “Treasurer’s Bonus,” deleting & re-doing only their final withdrawal as above.
 3. OR handle as charitable donation.
- Clearly document how club handles these monies.
- See myICLUB FAQ #473:

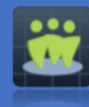
www.myiclub.com/faq/article.aspx?id=473&category=1&parent=0

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FILING FINAL CLUB TAX RETURNS

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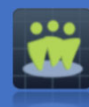
Useful Reports for Disbanding & Tax Prep



- Final Withdrawal Distribution Report for each member
- Valuation Statement used to disband club.
- Income & Expense Report & Balance Sheet.
- Transaction Report for entire year to date.
- Each member's entire Individual Valuation Units Ledger.
- Security Transactions History or Individual Security Ledger for each stock sold or distributed to members.

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IRS Final Filing Requirements



- IRS requires filing final form 1065, K, K-1 & related schedules by **15th day of 3rd month following date operations ceased.**
 - Use **myICLUB Club Tax Federal - Final** to generate final “short year” return.
- Do not wait until next year's return deadline, unless above deadline falls at end of year & final Form 1065 & related schedules for current tax year have been released by IRS (generally September – December).
 - In that case, you must use those forms to file final return, which may require filing on paper.

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Prior to Preparing Tax Return



- All members should now have been withdrawn & all account balances are zero.
- Perform **Allocation of Income & Expenses** for **current** year.
 - myICLUB > Accounting > Utilities > Allocate Income & Expenses.

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Producing Final Tax Return in myICLUB



- Click on **Taxes** tab & purchase Club Tax Federal - Final as well as for any states for which club needs to file final return.

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Enter Cost Basis of Sold Securities



- If brokerage can provide information that would normally appear on 1099 at end of year, use that information.
 - If not, fill in cost basis figures calculated by myICLUB as shown on Individual Securities Ledger.
- Check 'Basis not reported' & 'No 1099 received' options **only** if brokerage can verify what will not appear or not be reported on 1099.
- If any doubt, use cost basis information from myICLUB.

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Finalize Return



- After tax forms have been generated, you will be returned to page that shows up after clicking **Go** button.
- Forms will look same as full-year return except:
 - Only include information from January 1st to date of club dissolution (when last member check was written).
 - "Final Return" box will be checked onn Form 1065 & on each partner's K1 form.

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File IRS Return



- To e-file, scroll down & click **e-File Short Return** button.
 - Information sent to IRS includes dates club was active from 1st of current year until date of final withdrawal.
- To print & mail forms:
 - Fill in date fields at top of 1065, K-1 & other forms to reflect that club was in operation from January 1st until date withdrawal checks were cut for members.
 - Use mailing that provides proof of receipt.

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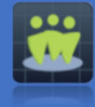
Prepare & File State Final Returns



- Requirements for state final partnership returns vary.
- Process of generating is similar to Federal tax filing.
- See www.myiclub.com/state_warning.aspx for exceptions (primarily for states that do not support e-Filing of short year final returns).
- Do not neglect complying with your state's regulations.

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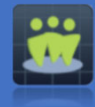
Terminate State/Local Registration



- If club is registered with state or filed DBA business certificate with local authority, notify them of club's termination.

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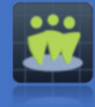
What to Keep after Club Closes



- Treasurer/other officer should keep:
 - Tax-related records for 7 years (& in no case fewer than 3 years).
 - For any years when club did **not** file 1065, keep those records **forever**.
 - Copies of tax returns kept forever.
- IRS rules for recordkeeping:
 - www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Recordkeeping

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Closing Out myICLUB Website

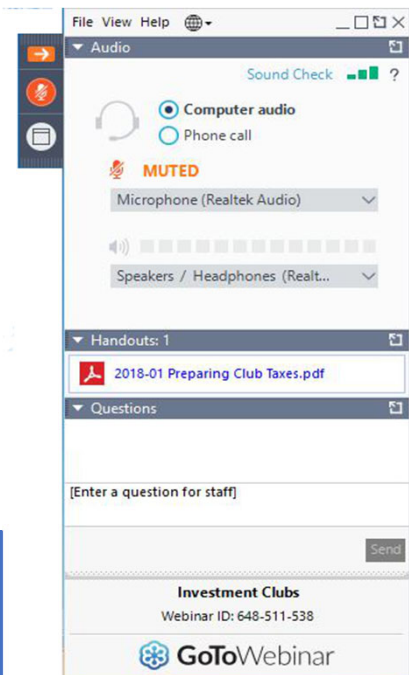


- myICLUB club & data will be removed from our servers after period of time once subscription expires.
 - Once data is purged, no one can access website or data, not even myICLUB technical support.
- For club's permanent records, save the following:
 - Download all files in File Storage using File Takeout feature (all files are compressed in *.ZIP file).
 - Export complete data file after all transactions entered (from Accounting > Utilities). If needed, file could be re-entered in myICLUB to access historical transactions.

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QUESTIONS?

USE QUESTIONS BOX IN WEBINAR APPLET



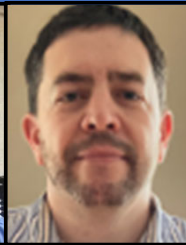
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