

January 8, 2001

COMMENTS - JANUARY, 2001

ACCOUNTING AND AUDITING

No report this month

ADMINISTRATION, SYSTEMS AND EDP

Last year the average worker received about 30 e-mail messages a day and took about two hours a day to respond. That was a 50% increase over the prior year, and by 2002 there are projections daily e-mail will double again, requiring workers to spend up to 4 hours a day responding to their messages. Reasons for the e-mail proliferation are it is cheap, fast and effective. Of course, in light of projections, it is necessary to find ways to handle the e-mail overload or become entirely unproductive. Here are some thoughts on this subject:

1. Set aside a block of time twice a day to read incoming e-mail.
2. Turn off e-mail alert options since they disrupt your work routine.
3. Avoid repeated handling of e-mail by either deleting or filing the message once read.
4. Develop boilerplate types of responses to common e-mail messages which probably make up most of your e-mail traffic.
5. If your E-mail responses can't keep up with incoming traffic, answer the most recent messages first, then go to older ones as time permits.
6. Establish a "take home" file for long, complicated matters which require concentration and time for an appropriate response.
7. Set up a separate file for e-mail transmissions whose importance depends on subsequent events, and where the need for a response is uncertain.
8. Maintain a separate "suspense" file for incomplete e-mail messages where further information must be received before an appropriate response is feasible.

Although many firms now provide traveling employees with company credit cards to eliminate the need for cash advances, there are still many businesses which provide cash advances and require a detailed accounting by the employee upon his or her return from the trip. One problem in this case is to determine whether a cash advance is reasonable. Runzheimer International, a travel consulting firm, calculates the average cash advance for traveling employees to be \$571. Of course, this is just a ballpark figure, and the actual advance must reflect the length of the trip, the destination, possible entertainment of customers and other factors. There is little doubt use of company credit cards has many advantages over cash advances including reduction in administrative costs, enhancement of a firm's cash flow, and better control over actual travel expenditures.

FEDERAL REGULATIONS

The Occupational Safety and Health Administration (OSHA) indicates almost one-half of its surprise inspections were of businesses in what are deemed to be high-hazard industries that have been targeted by the Agency. Another 27% of inspections

stemmed from accident related complaints, and the remaining 28% came about because of referrals from other agencies or were follow-up visits to insure violations had been remedied. The Agency also revealed the most common violations by small employers (under 100 employees) dealt with:

1. Scaffolding requirements
2. Written hazard communication programs
3. Protection against falls
4. Respiratory inspection
5. Control of hazardous energy lookout/tagout requirements
6. Electrical, wiring methods
7. Excavation safety requirements

The information is useful because it highlights areas on which inspectors focus when making surprise visits or respond to safety complaints.

INSURANCE

If your firm is engaged in E-business, it is exposed to three unique types of risk. They are:

1. Content risks comprised of trademark and copyright infringements, libel, defamation and invasion of privacy.
2. Systems breach and security risk including theft of information, credit card data and trade secrets; systems damage; virus attacks resulting in denial of service.
3. Systems errors and omissions resulting from systems crashes and claims from customers and other users that they have suffered financial losses.

As a business owner who is currently utilizing the Internet or intending to do so, you must evaluate these risks, determine the extent to which you can absorb losses, and obtain insurance to protect against unacceptable risk. There are now insurance products able to deal with E-business risks.

LABOR RELATIONS

Having trouble finding middle managers? Why not consider giving a signing bonus? These bonuses, which were once reserved for top executives and for professional athletes are becoming commonplace. Recently, 29% of chief financial officers who were polled revealed their firms offer signing bonuses to attract middle managers to their firm. Only 3% of those who tried to use such bonuses found them ineffective. Alternatively, some firms offer a first-year bonus to get new managers on board. In either case, the practice is also used to keep starting salaries in check. Many of the firms offering the bonuses consider the one-time up-front payments less costly on overall labor costs than the impact of a higher starting salary.

Over the next decade, the number of older workers will increase 56% while those in their prime working years will decline about 5%. For most employers it means the work force will become grayer and more reliance will be placed on workers who would currently be deemed ready for retirement. Far-sighted business owners can maintain a stable workforce despite these changes by retaining the services of retired workers

and those approaching retirement and modifying their employee benefits to reflect the needs of an aging labor force. For example:

1. Modify retirement plans to provide for phased retirement of long-term workers.
2. Provide for full pension payments even though retirees work part-time.
3. Provide for flexible scheduling.
4. Permit telecommuting to facilitate the ability of older workers to remain active.

Employers must also recognize an older labor force will result in added labor cost pressures which must either be offset by enhanced productivity or passed on to customers. Now is the time to think about these issues and institute policies which will keep your firm competitive well into the future.

MARKETING

Are you making valuable use of the time callers are put on hold? Here is some information which may be useful in generating business:

1. Almost 20% of on-hold callers make purchases based on marketing messages heard while on hold.
2. 90% of on-hold callers prefer receiving on-hold messaging to other options such as music.
3. On-hold callers will stay on the line 2 ½ times longer with on-hold advertising than without it.
4. 30% of on-hold callers who hang up will never call back.

Based on this data, businesses that put a caller on hold and merely play music or provide the usual repetitive announcements are missing opportunities to increase their sales.

MONEY, BANKING AND CREDIT

If you use the Internet to open bank accounts, here is a word of caution from the FDIC. Some banks on the Internet use a different name than the name which is generally known. Therefore, customers opening an account and making a deposit may not realize they already have existing deposits in that bank. Despite the difference in names, the FDIC will aggregate all deposits in the same account holder's name for insurance purposes. Thus, if deposits total over \$100,000 and the bank gets into trouble, the depositor will only be protected to the extent of the \$100,000 limit. To help prospective depositors, the FDIC has urged banks to identify the bank by its official (legal) name in all advertisements. However, as an added precaution, before committing any funds via the Internet, you should obtain specific information as to the name of the bank of which the Internet bank is a division or subsidiary. Also, to make sure the account is FDIC insured, you may call the Agency's Division of Compliance and Consumer Affairs at 800-934-3342 to access a database of insured banking institutions, based on the legal name of the institution.

Having a cash flow problem? Here are some ways to free up cash:

1. Make sure your bank makes deposited checks available within no more than 2 business days.
2. Find out how late deposits can be made for same day credit to your account.
3. If it takes your accounting department a full day to post incoming checks, make photocopies for posting and deposit the checks at once.
4. Utilize lock boxes for deposits if you have numerous customers concentrated in areas distant from your headquarters.
5. Establish an invoice monitoring system so payments are made as late as possible within the invoice terms.
6. Avoid wire transfers to retain the advantage of the float.

These are just a few thoughts for speeding up cash flow. When we analyze a client's systems and procedures we usually come up with many other recommendations.

PENSION AND ESTATE PLANNING

- # A recent ruling by the U.S. Circuit Court of Appeals is of great importance to retirees. The Court held under the Age Discrimination in Employment Act (ADEA), a company may not provide health insurance for Medicare eligible retirees which is inferior to that provided for younger retired workers. Prior to this decision, many employers assumed that the ADEA only applied to active workers and not to retirees, and eliminated retiree health care benefits when Medicare eligibility started at age 65. Now, if the decision is not overturned, employers will be faced with the choice of increasing the benefits of older retirees, decreasing those of younger retirees, or terminating them for all retirees.

PERSONAL FINANCIAL PLANNING

- # The Better Business Bureau reports there are increasing complaints from people about phone calls from strangers claiming to be their credit card providers and asking for a portion of their credit card account number for verification purposes. Subsequently, erroneous charges appear on the person's credit card statements. According to the financial service industry, no bank or credit card company will ever make a call to a cardholder and request a part of the account number or the expiration date of the credit card. Such calls are made by people engaged in credit card fraud who have already obtained some of the digits in the account number from credit card slips which have been discarded and who are seeking to obtain the additional information. People who receive such calls are advised to obtain the caller's name, location and telephone number. Then call the Better Business Bureau and the credit card company to report the incident. Under no circumstances should any information be provided when such calls are received.
- # You should be aware the SEC recently adopted Regulation S-P. It prohibits brokers, dealers in securities, investment companies such as mutual funds and other financial institutions under the Agency's jurisdiction from disclosing non-public personal information about customers. One outgrowth will be you'll be getting more notices from institutions covered by the regs asking whether they may divulge information to third parties. If you are concerned about privacy, you should, of course, decline these requests.

If your business is subject to personal property tax, you will be paying excessive taxes if the assets the company owns are overvalued. Experts in this area suggest that the typical business can reduce the personal property tax bill by 15% by using the following recommendations:

1. Obtain itemized bills for all equipment costs so intangible costs can be unbundled and segregated from the equipment costs.
2. Before recording the property for tax purposes segregate the costs which add no value to the property such as special delivery costs, etc.
3. Physically inspect equipment to find assets no longer in use that can be abandoned or sold and removed from the property tax roll.
4. Avoid double taxation by removing original equipment from the tax roll when replacement property is obtained.
5. Utilize exemptions which often exist in connection with pollution control equipment or equipment used in research and development.
6. Examine equipment for unusual wear or technological obsolescence and argue for faster depreciation write-offs than standard depreciation schedules permit.

If you need help in challenging personal property tax assessments, we will be glad to be of assistance. In some instances the tax reductions can be significant.

REAL ESTATE

In general, commercial buildings may be depreciated using the straight-line depreciation method over a life of 27 ½ years. However, components of the structure which have a shorter life and can be segregated could be depreciated over a shorter period. In a recent situation, in a field service advice memorandum, the IRS indicated that raised flooring in an office building to facilitate the installation of wiring, plumbing and ventilation for a large computer systems was personal property eligible for a shorter depreciable life than the real estate because it could be removed quickly without causing significant damage to the structure. Accordingly, it assigned a five year recovery period, using accelerated depreciation for the cost of the flooring. It's frequently possible to identify building components which are not part of the real estate and, therefore, eligible for more rapid cost recovery.

TAXATION

Recently, in a situation involving a kidnapped child, the IRS told the parents they could take a dependency deduction only in the year the child was kidnapped and not for subsequent years in which the child was missing. The heartless decision caused a political storm, and the Agency has since reversed itself, and told the parents the exemption was available not only for the year in which the child was kidnapped, but also for subsequent years in which the child was missing. The IRS also indicated there is a presumption the parents incurred sufficient expenses for support of the child to satisfy the dependency support requirements when a child is kidnapped by someone other than a relative. Incidentally, ransom payments made to recover an abducted child are tax deductible as a theft loss if supported by written documentation.

The IRS reports \$611 million in Federal income taxes have been paid this year with credit cards. The fees which amount to \$35 on a \$1,000 tax payment; \$133 on a \$5,000 tax payment; \$262 on a \$10,000 payment, \$699 on a \$25,000 payment, and

so on. Many people ignore the fees because of the convenience of using a credit card, and to obtain frequent flier miles. We'd like to remind readers the fees range from about 2% to 3.5% of the tax payment and they are imposed in addition to the tax bill. If you consider the average frequent flier reward for using a credit card is only about 1% of the charge, use of a credit card to pay taxes makes lousy financial sense.

PAYROLL TAXES

No report this month.

Comments is an informative publication for our clients and friends of the Firm. It is designed to provide accurate information on the subject matter covered. We recommend you consult with your legal and other advisors to determine if the information is applicable in your specific circumstances. If these advisors are not available to you, please feel free to contact Barry N. Finkelstein, CPA at 972/934-1577 or e-mail at info@facpa.com.