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COMMENTS - JANUARY, 2002

ADMINISTRATION, SYSTEMS AND EDP

- # Just about everyone is familiar with color-coded files. They are designed to increase filing accuracy and productivity because the different colored labels speed up locating the file. But, have you considered the same approach for filing computer diskettes? You can achieve color-coding by either buying diskettes in different colors to identify content or by utilizing different colored labels on the diskettes to provide information about diskette content, period covered, etc. It's even possible to use color coding for electronic files which are accessed by desktop computers.

- # Companies are frequently reorganizing, changing locations, shifting employees around within the office or to offices at other locations. It's logical businesses are gravitating toward the use of wireless networks which allow much greater mobility than traditionally wired ones. However, while wireless offers many advantages, there are also pitfalls which must be dealt with to avoid serious data communications problems. For example:
 1. Users must be trained to constantly back up files and to monitor battery power.
 2. Coverage must be mapped out within the office to determine where there are strong signals and where there may be weak spots which require installation of redundant transmitters.
 3. If there are cordless phone systems or other electronic appliances in use, it must be determined the frequencies differ to prevent interference with the wireless system.
 4. All wireless laptops, hand-held and cell phones must be carefully inventoried since they are more vulnerable to theft or other criminal use.
 5. Equipment selection should be based on need rather than cost to maximize the benefit for the firm.
 6. Evaluate security requirements since wireless systems are often more vulnerable to security breaches than wired systems and may need additional security features.
 7. Consider the use of wired/wireless compatible software for existing systems to enhance communications between wired and wireless networks.

These are all matters which need to be resolved before a decision is made to switch to a wireless network.

FEDERAL REGULATIONS

Were you aware of the numerous local "TRIAD" cell phone programs throughout the United States? The programs provide older Americans with a free cell phone which is pre-programmed to dial 911 with the touch of a single button. To find out whether such a program exists in your community, contact your local sheriff's office or police department; your Local Area Agency on Aging; your local U.S. cellular retail store (listed under Cellular Services in the Yellow Pages, or call TRIAD's National Office at (800) 424-7827, ext. 305. Having one of these phones can be a life saver for an older person in an emergency.

INSURANCE

Many renters believe the landlord's insurance protection protects them from losses to their personal property stemming from fires, floods and other events. Unfortunately, landlords' insurance policies almost never cover personal property owned by tenants, so it is important to determine whether such insurance is required. Personal property includes furniture, electronic equipment, clothes, kitchen appliances and a variety of other items. If you decide the items have considerable value, you should obtain a renter's insurance policy. Not only will it provide protection for your personal property, but, you'll also be protected for physical damage you might cause to the property. Since a typical renter's insurance policy costs in the range of \$100 per year, it is inexpensive protection which can set your mind at ease.

Rapidly rising health insurance premiums now represent anywhere from 5% to 7% of total compensation based on industry and occupation. These added costs often cannot be absorbed by the employer, increasing pressure to have workers pay the additional cost. According to estimates by one consulting firm, the average percentage of health care premiums paid by covered workers in 2000 was 14% for single coverage and 27% for family coverage. Thus, firms whose workers contribute significantly less to their insurance costs, could reasonably ask employees to share a larger portion. Alternatively, you might want to consider some other cost containment possibilities. Here are some thoughts:

1. Obtain bids from several carriers before renewing health care policies.
2. Make a utilization review based on claims history to evaluate the use of benefits, and cancel those which employees seldom use.
3. Provide medical savings accounts so employees can pay insurance premiums with pre-tax dollars. The pay set aside will also reduce overall compensation, reducing employer and employee payroll taxes.

MARKETING

The likelihood of making a sale to a prospective new customer is about 20%. However, the likelihood of making a successful sale to a former customer can rise to about 40%, depending on the circumstances of the former customer's departure. This suggests it is a mistake to forget about lost customers, and continuous efforts should be made to regain their business. A proper approach towards for winning back former customers is to:

1. Determine the reason for the customer departure (customer's or your firm's decision).
2. Assess the customer's current needs and your ability to fulfill them.
3. Establish a customer recovery plan (acknowledge previous shortcomings in writing and indicate improvements made to your products and service).
4. Make personal telephone contact and be prepared to offer incentives to win back the customer if there is an indication of interest based on step 3.

The chances are your firm will have substantial information regarding former customers which can be used to develop a data base from which likely prospects for your customer recovery strategy can be culled.

MONEY, BANKING AND CREDIT

Remember when we were told the new technology that ushered in the era of e-commerce would make us a checkless society? Well, believe it or not, the total number of checks being written is growing. In 1998, 47.1 billion checks were written, whereas in 2000 the number increased to 68 billion. Corporate checks still account for 44% of all corporate payments for online transactions followed by credit cards and corporate purchasing cards, according to American Express. However, if so-called check electronification proposals are adopted, check payments are likely to be processed much faster than currently. Under the proposals, checks would be approved and settled through electronic funds transfer (EFT) networks similarly to the way personal identification number based debit card transactions are processed. Check electronification using an EFT system involves swiping a check through a check reader and routing an account number to the check issuer for authorization. Besides the faster processing advantage, proponents of check electronification believe the process will lead to significant reductions in check fraud and in check processing costs for retailers as well as result in a revenue boost for check issuers. Of course, it will also eliminate the one or two day float check issuers now routinely enjoy before a check clears. At any rate, announcements of the demise of the check were definitely premature.

PENSION AND ESTATE PLANNING

Here's some good news from Uncle Sam. Beginning this year, the annual gift tax

exclusion goes up from \$10,000 to \$11,000. Thus a married couple could give up to \$22,000 in tax-free gifts to as many beneficiaries (children, grandchildren, parents, etc.) as they like without incurring any inheritance tax liability. The increase in the annual exclusion results from inflation indexing that is based on the year 1997.

Let's face it: The affluent times we had enjoyed during the past decade have resulted in many immature young adults. Parents who have the good fortune of leaving behind inheritances, need to keep this in mind to avoid having the inheritance squandered. If there is concern, one approach is to create an irrevocable trust into which the assets are placed, and to provide distributions to the child(ren) must be made over a number of years. Then, if a beneficiary has inadequate experience or wisdom to handle an initial distribution responsibly, there will be substantial assets left to be used in a wiser fashion. People who make these types of arrangements can discuss the reasons with their children to avoid anger or disappointment. When clients have built a long-term relationship with a CPA or an attorney, such issues can be discussed freely and provisions can be made to insure wealth preservation.

PERSONAL FINANCIAL PLANNING

If you are a small business owner who is a sole proprietor or if you receive your income from a pass-through entity such as a partnership or S-corporation, the Economic Growth and Tax Reconciliation Act contains a number of favorable provisions. For example:

1. Lower tax rates will enable you to retain a larger share of the income.
2. Pension plan incentives will allow you to compete more effectively in finding and keeping highly qualified employees.
3. Special "catch-up" provisions will permit you to set aside more money if you had been negligent in funding a pension.
4. Lower estate taxes in coming years and total repeal in 2009 will conserve business assets by reducing the need for expensive estate planning, such as the establishment of insurance trusts.

Unfortunately, there are also new problems and matters that were not dealt with. For example, estate taxes could be fully reinstated before 2010 or the repeal which occurs in 2009 could be extended, making it virtually impossible to engage in sound estate planning. The issues of full and immediate deductibility of self-employed health insurance; increased expensing of section 179 property and expanded opportunity for small businesses to use the cash basis of accounting have not been addressed by the legislation. Hopefully, these issues will be tackled by Congress when the overwhelming issues of self-defense and dealing with terrorism have been concluded.

Do you intend to start a sideline business? One of your key decisions will be to determine whether or not the business should be incorporated. While many factors enter into this decision, from a payroll standpoint incorporation is generally undesirable. Here are the reasons:

1. A corporation has to pay its share of FICA taxes on your pay. Although you would get a refund of your share of Social Security taxes if your earnings on your regular job and the sideline business exceed the Social Security wage base, you do not get a refund of the Medicare portion and your corporation would not get a refund of its share of the payroll taxes paid on your behalf.
2. On the other hand, if the business is unincorporated, you as the owner, would be subject to self-employment tax which is double the rate an employee pays in social security and Medicare tax. However, if your earnings from other employment exceed the Social Security wage base you would not be subject to any self-employment tax on the earnings from the sideline business.
3. If your business is not incorporated and you employ one or more children under age 18 in the business, you would not be subject to FICA taxes on the child(ren)'s earnings. Conversely, if the business is incorporated, these taxes would have to be paid.

We are frequently consulted by executives and others with sideline businesses or by people starting new full-time businesses to determine the advantages and disadvantages of incorporation or the use of special types of organizational structures such as S corporations or limited liability company arrangements.

REAL ESTATE

It's possible to finance the purchase of a boat or a recreational vehicle and obtain a tax deduction as well. This can be done if you use a home equity loan to finance the purchase. Interest on home equity loans up to \$100,000 is tax deductible. Furthermore, if the boat or recreational vehicle has sleeping, cooking and toilet facilities, it could qualify as a second home, and if the loan is secured by the boat or vehicle, you may be able to obtain the same tax deductions that are available on vacation home mortgages.

TAXATION

The IRS has listed the 10 most frequent Form 1040 tax return errors for the year 2000. They were:

1. Failure to include the spouse's social security number.
2. Failure of taxpayer ID numbers or names of dependents to match IRS or Social Security Administration records.
3. Mismatching of taxpayer identification numbers or names of dependents.

4. Listing of incorrect primary social security numbers.
5. Use of incorrect surnames for dependents.
6. Incorrect computation of the earned income credit, taxable amount of social security benefits, child tax credit, tax refunds or amounts owed.
7. Failure to report non-taxable earned income from W-2s.
8. Use of invalid tax return preparer ID numbers.
9. Use of incorrect or illegible social security numbers on Schedule SE.

Many of these returns were carelessly filled out by tax preparers. To avoid mistakes and the consequent hassles with the IRS, we suggest that only a trained professional, such as a CPA, be utilized for tax return preparation.

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.