

COMMENTS - FEBRUARY, 2002

ADMINISTRATION, SYSTEMS AND EDP

It was only a short time ago companies flush with profits were renting as much office space as possible over the longest term available as a hedge against inflation. Unfortunately, with the turn in the economy, many are now sitting with empty space which is an ongoing drain on company resources since there are few tenants available to whom the unused space can be sublet. In fact, managers are very reluctant today to make any long-term commitments for office space. Now, several REITs and technology firms are trying to take advantage of the situation by developing "flexible" office space. This is comprised of fully furnished office space which can be leased for just a few months, together with equipment such as work stations. Among the advantages:

1. Companies won't be saddled with a long-term commitment if economic conditions deteriorate and they no longer need an office in a particular locale.
2. Ability to establish an office in any of the "flexible" office space centers at a moment's notice and immediately engage in business activity.
3. Flexibility to expand or diminish the office space requirements on a continuing basis.
4. Enhancement of cash flow since there is no investment in furnishings and equipment.

In light of the experience of recent months use of "flexible" office space appears to merit attention.

According to the annual survey of small and mid-sized businesses by National Small Business United, there was a significant surge in the use of technology by these businesses in the year 2000. According to the survey:

1. 88% of small and mid-sized businesses own computers.
2. 15% of these businesses have access to their network from outside the office.
3. 55% of the businesses have web pages, compared to only 32% in 1998.
4. 23% are selling goods and services online.

To avoid falling behind competitors, we urge management of small and mid-sized firms to monitor technology developments and to discuss adoption and utilization of new technology with us from a cost/benefit standpoint.

FEDERAL REGULATIONS

Under the Federal Wage and Hour Law which was enacted 60 years ago, covered

employees are required to be paid extra compensation for hours worked in excess of 40 hours per week. However, many employees would prefer to have additional time off rather than money. Accordingly, legislation has been introduced in Congress, that would enable workers to choose between overtime pay or extra time off when they are entitled to overtime compensation.

INSURANCE

Loss of data due to a power outage, equipment failure or a virus attack can be disastrous for any business and recovery may be an extremely costly process. But are businesses covered by their regular property insurance policy? In general, although courts have held the cost of recovering lost business data is covered by such insurance, insurers are likely to fight tooth and nail to avoid paying a claim. That's why experts recommend if data is lost, claims for recovery cost should be made quickly. This negates the insurer's ability to deny payment for filing an "untimely" claim and arguing by the delay, the insured forfeited its right to collect. Of course, in today's electronic world, while your primary concern should be with loss prevention and the establishment of sound systems and procedures which would prevent data loss in the first place, to avoid potential problems if claims occur, e-commerce insurance should be obtained to cover both equipment and data.

LABOR RELATIONS

E-learning via an in-house computer may be a desirable means of providing continuing education for your employees. Among the advantages over sending someone to another location to obtain training are:

1. Enhanced staff productivity because travel time is eliminated.
2. Increased employee loyalty because more frequent educational opportunities can be provided.
3. Course materials and content will be immediately available for review when ordered, so waiting and delays are eliminated.
4. Convenience, since training would be available 24-hours per day and could be scheduled to conform to the employer's personnel needs.
5. Information from a broader variety of sources is usually available, enhancing the quality of the educational materials.

Of course, e-learning also has some disadvantages. These include, lack of human interaction in the learning process, unsuitability of the material for e-learning because of its complexity and limited concentration skill of the trainee. Despite the possible drawbacks, e-learning may well be an efficient means of enhancing your workers' skills.

MARKETING

Here's some advice for online shoppers. Make a print-out of the web page you order from! It will come in handy if you subsequently have a dispute with the seller about the price, product description, shipping terms or other specifications with respect to the product you

purchased. The electronic version of the web page you ordered from can be altered at any time leaving you with little evidence to support a claim the transaction was incorrect. This is not a problem if you order from a hard copy mail order catalog.

MONEY, BANKING AND CREDIT

If you are engaged in business or going to Europe for recreation in coming months, be aware the Euro went into circulation on January 1, 2002. Here are some of the details:

1. The Euro began circulating on January 1st, and most euro-zone countries will permit circulation of both the euro and their national currencies through February 28, 2002. However, the cutoff date for circulation of national currencies is February 17th in France, February 9th in Ireland and January 28th in the Netherlands.
2. Although 15 countries comprise the European Monetary Union, only 12 countries will comprise the euro-zone. They are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain, and their cash currencies will be converted into euro banknotes and coins.
3. Following are the denomination of euro bank notes which will be circulated: 5, 10, 20, 50, 100, 200 and 500 euros. There will also be eight euro coins in circulation. They will be in denominations of 1, 2, 5, 10, 20 and 50 cents, and 1 and 2 euros.
4. While the euro bills will be identical for all euro-zone countries, the coins will carry the same European face on one side. Member states will have their own motifs on the other side, but the coins will be accepted throughout the euro-zone
5. Euro banknotes are available at cash machines and banks beginning January 1, 2002, and retailers started giving change in euros on the same date.

To obtain further information, you can go to the European Central Bank's Web site at www.euro.ecb.int.

PENSION AND ESTATE PLANNING

Although, under the new tax law, estate taxes will drop to zero by 2010, in 2011, they go back up to 55% unless Congress takes action to extend the repeal. In effect, the repeal passed by Congress lasts for only one year. Similarly, the exemption which was \$675,000 for 2001 and which increased to \$1 million for 2002 and to \$3.5 million by 2009 will also drop back to \$1 million in 2011. In light of this uncertainty, people need to continue to engage in estate-planning with their professional tax advisor and they should also continue to make annual gifts to children (the exclusion is \$10,000 in 2001 and \$11,000 in 2002 per donor per beneficiary) which results in lifetime transfer of wealth.

PERSONAL FINANCIAL PLANNING

A win-win strategy if you are in a high tax bracket is to donate appreciated securities to a charitable organization. Not only will you be able to obtain tax deductions for the full market value of the appreciated stock, but you won't be taxed either, on the appreciation of the shares. But make sure you have held the securities for more than 12 months or your

deduction will be restricted to your tax basis in the securities, i.e. usually your cost.

REAL ESTATE

Historically low mortgage interest rates require homeowners to consider whether mortgage refinancing makes sense. You may be a candidate if you:

1. Have a high interest rate loan.
2. Have an adjustable rate mortgage which you'd like to convert to a fixed mortgage.
3. Want to convert from one adjustable rate mortgage to another with lower interest and better features.
4. Wish to build equity in your home more quickly by obtaining a shorter term mortgage.
5. Need to tap some of the equity in your home for a major financial outlay such as your children's education.

In general, refinancing may make sense if:

1. Your current mortgage rate is at least 2% higher than current mortgage interest rates.
2. You do not intend to move from your home over the near term.
3. You are willing to forego larger tax deductions and pay more taxes in exchange for lowering your overall housing costs.

According to the Joint Committee on Taxation, 28.5 million taxpayers with incomes ranging from \$50,000 to \$200,000 itemized their deductions when filing their tax return for 2000. In addition there were another 6.6 million returns with incomes below \$50,000 and 3.4 million with incomes above \$200,000 where taxpayers itemized. The data has led the Committee to project for 2001, there will be 42.4 million returns filed containing itemized deductions. As a rule, according to the General Accounting Office, most people end up with a lower tax liability when they itemize because their eligible deductions would exceed the standard deduction. It estimates the typical taxpayer who uses the standard deduction overpays taxes by \$610.

The IRS has released the average amount of itemized deductions taken for 1999 and here are the numbers based on taxpayer adjusted gross income:

<u>Income</u>	<u>Contributions</u>	<u>Taxes</u>	<u>Interest</u>	<u>Medical</u>
\$15,000-\$30,000	\$1,619	\$2,200	\$5,886	\$5,137
\$30,000-\$50,000	\$1,774	\$2,991	\$6,247	\$4,992
\$50,000-\$100,000	\$2,282	\$4,918	\$7,544	\$5,950
\$100,000-\$200,000	\$3,727	\$9,262	\$10,806	\$10,494
\$200,000 +	\$19,454	\$36,692	\$21,735	\$32,695

While this data is useful in giving taxpayers an idea of the average tax deductions claimed at

various income levels, readers are cautioned the IRS may require substantiation and much of the information is matched against information returns provided to the IRS.

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.