

July 8, 2001

COMMENTS - JULY, 2001

ADMINISTRATION, SYSTEMS AND EDP

Although the Internet enhances business efficiency by giving workers increased and faster access to information, people and resources, it also creates opportunities for misusing this medium for personal purposes during work hours. According to one recent study, almost two-thirds of small- to mid-size companies have had to discipline workers for violating company policies regarding Internet use. When the executives were asked about the best ways of curbing abuses, the responses were:

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| 1. Install software to block unauthorized web surfing | 37.7% |
| 2. Establish management surveillance systems | 37.1% |
| 3. Have employees self-regulate Internet activities | 22.3% |

Incidentally, a survey by the Society of Financial Service Professionals reveals 58% of employees believe it is wrong to surf the net while working and 50% believe it is wrong to send personal e-mail from work. On the other hand, only 33% believe it is appropriate for companies to monitor e-mail. Has your firm developed a policy for Internet use by employees during business hours?

FEDERAL REGULATIONS

Airlines and travel agencies selling tickets over the Internet have been cautioned by the Justice Department to include "fuel surcharges" as part of the base fare advertised. In order to make the fare more attractive, the surcharge is frequently shown in fine print in the "additional rules" section of the offering. Of course, when comparing fares, travelers should realize that unlike excise and airport taxes, the "fuel surcharges" are merely a gimmick that increases the actual transportation cost.

INSURANCE

Regardless of whether you live in a flood prone area, many experts advise homeowners to obtain flood insurance. The reason: water damage coverage provided by the homeowner's insurance policy usually applies to "falling" water such as rain, whereas damage caused by "rising" water is treated as flood damage which is only covered by Federal flood insurance. The problem comes about because the cause of water damage can be interpreted differently. For example, if there is a major storm that uproots a tree which falls on your home, there are two possible interpretations. The insurance company's claims adjuster may conclude wind driven rain knocked over the tree. Since this is falling rain, damage would be covered by the homeowner's insurance policy. Conversely, the adjuster may conclude rising groundwater loosened the roots, causing the tree to fall. This would be rising water or flood damage covered only by a flood insurance policy.

LABOR RELATIONS

For those lucky enough to still have appreciated stock options, donating the options to a charity may be an effective tax strategy. In general, the three objectives of people who make such donations are to support a worthy philanthropic purpose, to reduce income taxes and to avoid significant capital gains taxes. Here are some key aspects of utilizing this approach:

1. To be able to make a charitable gift of options they must be owned outright (vested).
2. The donation permits the giver to take a tax deduction against adjusted gross income for the fair market value of the stock, rather than for the option price which is much lower.
3. By donating the options directly, rather than exercising them, selling the stock and donating the proceeds, the donor avoids a capital gains tax liability.
4. The date of the donation, is the date on which the options are re-registered in the charity's name. When cash is given, the date is the date of the gift.
5. If you are uncertain which charity to benefit, or if you want to benefit a number of charities, an alternative approach is to set up a donor advised fund. This enables you to distribute the options at a later date, but the assets placed in the fund cannot be returned to you.

MARKETING

The National Retail Federation reported last September, 15.5 million households made online purchases and the average person spent a total of \$272. What are they buying, and how much are they spending?

	<u>Average Price</u>
Apparel	\$111
Computer goods	256
Consumer goods	130
Entertainment	56
Food & wine	62
Gifts & flowers	60
Home & garden supplies	86
Toys & hobby items	57

According to the Federation, small ticket items such as apparel and office supplies are selling best on the Internet, with almost 40% of all sales representing small-ticket merchandise. In order of volume, books, music CDs and tapes, travel services, computer software and apparel, are the most popular online purchases. Annual online spending reached an average of \$705 per person last year and is expected to increase to \$1,130 by 2001 according to some projections.

MONEY, BANKING AND CREDIT

Many people have concerns larger commercial banks share personal information about their customers with other firms from whom they obtain fees in exchange for the data. These fears are not unfounded. But, now there is information that

thrift institutions and small commercial community banks are also engaged in information sharing. According to Bankers Systems, Inc., 77% of large commercial banks share customer data, 58% of larger thrifts and community banks also engage in this activity. However, consumers may be excessively worried confidential data will be transmitted to third parties without their knowledge. Banking regulations dealing with privacy require banks to notify customers whenever information about them is shared with a third party. This enables the customer to refuse permission for the information to be used. Of course, it is always possible banks inadvertently violate the privacy regulations because they fail to recognize a particular activity is covered. If you are uneasy, it may be a good idea to ask your bank whether it shares customer information. Even better, determine a bank's policy at the time of opening an account.

PENSION AND ESTATE PLANNING

If you retire from a publicly-held company, you're likely to have accumulated employer stock in your tax deferred retirement plan. You should be aware, rather than rolling the employer stock into an IRA or selling it and rolling the proceeds into the IRA, you can withdraw the stock from the plan. Although you will owe ordinary income tax on your cost, this strategy may save you taxes in the long run. If you hold on to the shares, no tax will be due and the stock is no longer subject to the minimum distribution rules. If you eventually sell some or all of the shares, the difference between your cost and the sales price is a capital gain, but it will be treated as a long-term gain which is subject to only a 20% tax. Alternatively, you might roll the stock over into an IRA within 60 days after it is distributed, then sell the stock and reinvest the proceeds in order to diversify your holdings. This strategy allows you to lower your risk and obtain continued tax deferral with respect to the stock and other holdings which were rolled over, but remember, as distributions are made from the IRA, they will be taxed at ordinary income tax rates.

PERSONAL FINANCIAL PLANNING

Most people don't question the charges shown on their credit card statement so long as they know their card wasn't lost or stolen. But there may be a false sense of security. Some sophisticated criminals have managed to tap into the telephone lines used by stores to transmit credit card information to payment authorization services in order to steal vital credit card information such as credit card numbers, customer names, dates of birth, etc. The stolen data is then transmitted to accomplices in another country who use it to run up large purchases and make cash withdrawals. The only way to avoid paying for the erroneous charges is to maintain copies of documents underlying all charges you made and comparing them to the monthly statements. Unfortunately, many people don't take these precautions and wind up paying for merchandise they never purchased or end up in disputes with the credit card company because they cannot substantiate the transactions they initiated and differentiate them from phony charges.

REAL ESTATE

Seniors who are "equity rich" but "cash poor," may own an appreciated home but live on a limited monthly income. The solution to ease their financial strain could

be a reverse mortgage. Reverse mortgages are loans available to people 62 and over to enable them to continue living in their home. Here, the lender provides a monthly payment to the homeowner which is ultimately repaid from the equity in the property when the home is sold by the owner or the owner dies. Possible benefits of these loans are as follows:

1. The funds obtained can be used for any purpose.
2. Lack of income requirements make anyone eligible to apply.
3. The borrower will never be required to repay more than the value of the home even if he or she lives in the home beyond the normal life expectancy.

Conversely, reverse mortgage have the following disadvantages:

1. The cost of setting up a reverse mortgage is usually greater than for other mortgages.
2. Interest rates tend to be higher than for other types of mortgages, and the interest accrues and is compounded over the life of the loan.
3. While the proceeds are tax-free, they could make people ineligible for such public benefits as Medicaid or Supplemental Social Security Income.

Unfortunately, reverse mortgages are often used as vehicles for fraud and abuse. Seniors have often been victimized by excessive fees, unusually high interest rates and a variety of other schemes by even large well-known lenders. Accordingly, anyone contemplating use of a reverse mortgage would be well advised to discuss the arrangement with a professional financial and tax advisor before any documents are executed. He or she can then review the terms of the arrangement, to see if they are reasonable, apprise the individual of the consequences of such an arrangement and possibly offer other options that might be more suitable in meeting the person's objectives.

TAXATION

- # The IRS acknowledges it uses the Internet to gain information about companies it intends to audit. The surveillance is primarily of the company's web site, to assess information that may be useful in the audit process. Now it is broadening its focus to also include Internet surveillance of not-for-profit organizations such as churches and charitable organizations to check whether their activities conflict with tax rules for not-for-profit organizations. As more people get on the Internet, the IRS will undoubtedly monitor activities of individual taxpayers as well, to ferret out money laundering and other illegal schemes. If businesses or charitable organizations don't want to compromise their privacy, they should assess the information that's on their web site and its impact on maintaining confidentiality.

PAYROLL TAXES

- # The IRS ended the monthly tax deposit requirements for about 1 million small businesses at the beginning of the year. Companies that have less than \$2,500 in quarterly employment taxes can make their deposits on a quarterly basis. Formerly, the limit for quarterly deposits had been \$1,000 in quarterly employment taxes.

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