

Management

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Tick Tock, Tick Tock

There's Still Time To Save A Bundle In Taxes

The tax deadline is just around the corner. Luckily, there are year end strategies you can implement to help reduce your business's tax liability.

Want A Big Write-off?

Have you made, or do you plan to make, a major equipment purchase this year? If so, ask your CPA about the Section 179 expensing election, which allows you to write off the entire amount in the year you place the asset in service. The Economic Stimulus Act of 2008 increased the Sec. 179 limit for initial year expensing to \$250,000 (from \$128,000) for 2008.

The expensing election begins to phase out dollar for dollar when asset acquisitions for the tax year exceed \$800,000 (up from \$510,000 before the act).

The new higher limits apply only for calendar year 2008 or a business's fiscal year that begins in 2008. You can claim the expensing election currently only to offset the business's net income, not to reduce net income below zero.

You may also qualify for the act's 50% bonus depreciation provision for certain qualified property acquired and placed in service in 2008. (This is on top of the Sec. 179 expensing.) Property that qualifies includes tangible property with a recovery period of 20 years or less, computer software purchased by the business, water utility property, and qualified leasehold improvement property.

Need To Defer Taxable Income?

If your business uses the cash method of accounting and you expect to be in the same or a lower tax bracket next year, consider deferring taxable income into

2009 and accelerating deductible expenditures into 2008. You can cut checks before year end to pay for deductible business expenses, or you can charge them on credit cards (not including store revolving charge accounts) before year end to create 2008 tax writeoffs, even though you won't pay the actual credit card bills until 2009.

You may want to also defer some of your billings until the end of the year. Doing so enables you to be paid — and taxed — next year.

Got A Retirement Plan?

Your company can deduct contributions to qualified retirement plans in the tax year benefits accrue, regardless of whether you use the accrual or cash method of accounting. For example, you can contribute and deduct up to \$46,000 per participant to a simplified employee pension (SEP) plan in 2008. You can open and contribute to a SEP as late as the extended due date of your 2008 return. If you establish a solo 401(k) plan before Dec. 31, you may be able to contribute and deduct up to \$51,000 for yourself if you'll be 50 or older by year end.

By establishing a defined benefit pension plan, you can contribute and deduct even more, depending on certain factors. Keep in mind that this plan generally works best for high earners age 50 and older. And, depending on your business, you might have to make contributions to employee accounts in addition to your own.

With any retirement plan, be sure to consider what may need to be contributed for your employees both this year and in the future, before you create a new plan.



Anticipate Losses

If you project a taxable loss for your S corporation, consider putting more cash into the company to ensure you have sufficient basis to deduct the entire loss on this year's return. Why? S corporation shareholders can't deduct corporate losses that exceed their basis in the stock they own and loans made to the corporation.

With proper planning, you may be able to pass business losses through to your personal tax return and use them to offset highly taxed income from other sources.

Don't Delay

It's not too late to take advantage of these and other tax-saving strategies to increase your deductions and decrease your tax bill. Tax laws can be complex, however, so be sure to review your overall tax strategy with your CPA. □

Export Markets: They're Yours For The Taking

Want to find high-growth opportunities for your company? Consider exporting. Exports have been growing two to three times faster than the domestic market, and more than two-thirds of the world's purchasing power now resides outside of the United States, according to the U.S. Small Business Administration Office of International Trade.

Add to this the hypergrowth seen in emerging markets such as China and India, and it's apparent that at least parts of the world may be hungry for your goods and services. Positioned correctly, your company can tap into this huge demand.

Make A Plan

Developing a successful exporting business begins with a business plan similar to that of any new business undertaking, but with some special areas of emphasis. Consider your goals, for example. Why are you pursuing an export strategy? Is it to expand sales, increase economies of scale, improve margins, reduce seasonal fluctuations or for other reasons?

Next, determine what products or services you

produce that would be attractive to foreign customers and in what countries. Be prepared to adjust your product specifications to meet foreign needs. A classic example of a botched exporting attempt by an American company was when it tried to sell conventional boxed cake mixes in Japan only to realize that few Japanese households had ovens!

Understanding foreign markets requires market research into what is needed in which countries, the competitive situation, growth rates and what customers would be willing to pay.

You'll also need to decide how to reach the target customers. If you wish to export *directly* to your target countries, you'll have more control over the process and potentially larger margins when volumes grow.





However, you'll need to acquire expertise in many aspects of export marketing and are likely to incur significant startup expenses.

Many businesses choose *indirect* exporting through an export management or trading company instead. These organizations can take care of many of the technical aspects including financing and payment, shipping, and, depending upon the arrangement, helping with actual sales activity.

Whether you choose a direct or indirect approach, the Internet has made overseas sales activity much easier and less expensive. Products can be promoted and orders taken almost as easily as they can domestically. The Internet has also made the mechanics of exporting, such as shipping and tariffs, much simpler.

Get Expert Advice

Exporting to foreign markets involves a number of risks and hurdles that aren't present in the United States. You'll be faced with different legal systems, customs regulations, distribution networks, currency fluctuations, payment methods and tariffs.

Luckily, the federal and many state governments make it their policy to support export activities and make many resources available at little or no cost. The Department of Commerce's Commercial Service, the Export-Import Bank, and the Small Business Administration provide many services, along with those of 16 other federal agencies, through export.gov. There you can find

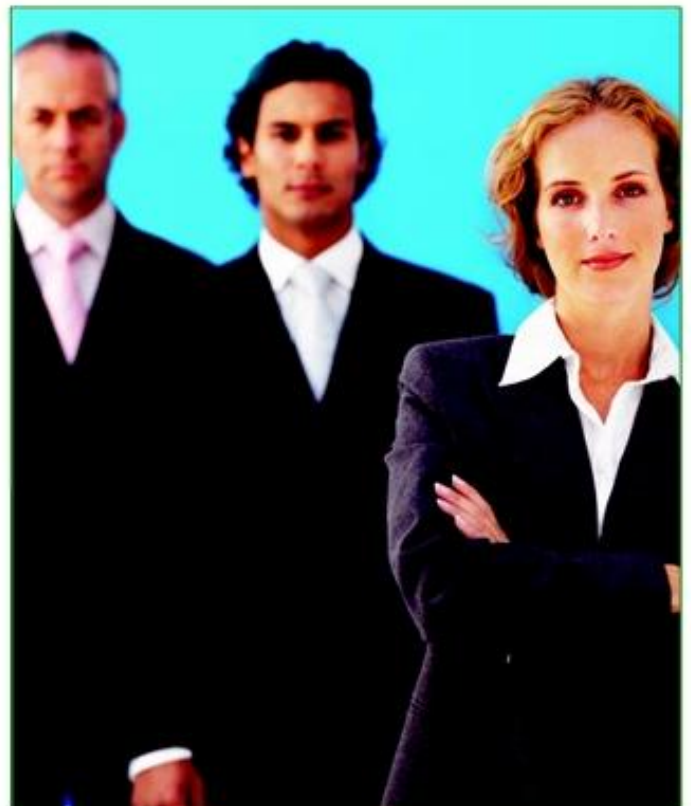
help on specific market opportunities, financing, export business plan development and other topics.

State international trade offices also can provide help through sponsoring overseas trade missions and fairs. Trade associations often have export assistance resources, and export marketing companies can offer significant support. Consultants also may be valuable — particularly if they're very familiar with your industry or a region you want to penetrate. Ask your professional advisors and industry colleagues for referrals.

“You'll also need to decide how to reach the target customers. If you wish to export directly to your target countries, you'll have more control over the process and potentially larger margins when volumes grow.”

Take The Plunge

When it comes to exporting, the timing may never be better. The weak dollar, widespread use of the Internet and exploding world demand all make international opportunities better than ever. Of course, there are risks as well, but exporting is definitely worth considering. □



Worth Its Weight In Gold

Building Long-Term Relationships With Your Employees

Low turnover is important to the success of most companies. Employees who've been with you for years are likely to be very proficient at their jobs. Plus, they've probably developed long-term relationships with your customers, suppliers and other stakeholders and understand how to keep them happy.

Because high turnover increases recruitment costs and results in decreased productivity, creating an environment that fosters worker retention is a challenge worth taking on.

Compensation And Benefits

Money alone won't keep employees loyal and onboard, but it can definitely play a part. In addition to making sure your base compensation is competitive, keep employees from fleeing to your competitors by using length-of-service time as a factor in determining annual increases and bonuses.

On the benefits side, you can promote longevity by shortening vesting periods for 401(k) matches or other retirement plan contributions, and use length-of-service-based vacation accruals to reward long-term service. Employee stock ownership plans (ESOPs) may help promote worker longevity because these arrangements give participants a piece of the company pie — namely its profits.

Empowerment Goes Far

Most employees like to have as much control as possible over their work situations. Pushing decision making to the lowest possible level is a good way to show you trust your workers. For example, empower customer service personnel to solve common customer issues without the help or approval of higher authorities.

Empowerment also applies to the work environment. Allow your employees some flexibility in their work hours and give them the option to work from home occasionally. Many, if not most, employees want a satisfying job and career, but they also want to have ample time and energy for family and other outside interests. Workers also need support and flexibility at times of special needs, such as when a parent or child needs extraordinary attention.

Regarding benefits, consider offering a “cafeteria-style” package that gives employees the opportunity to choose the benefits that will be of greatest value to them and their families. Some workers may choose to buy additional vacation days, for instance, while others may opt for higher levels of health insurance coverage, educational assistance or larger retirement plan contributions.



Training To Promote Growth

Many employees value having opportunities to obtain additional skills and add new challenges to their jobs. Formalize growth and development plans for all worker levels starting with initial orientation.

You may want to include short, in-house training sessions as well as outside seminars for more advanced instruction. Many companies have had great success with formal mentoring programs, where those in upper management groom younger workers in how to move up the ranks and assume supervisory roles.

Of course, your employee growth and development plans should accommodate both the company's needs and the employee's interests. Also, try to create a culture that regularly recognizes workers for their achievements. This can go a long way toward minimizing turnover.

Hiring And Beyond

Creating a low-turnover organization starts with focused recruitment and hiring practices that find quality employees who are a good match with the long-term opportunities available in the organization. Then it's up to your company's managers to help make them successful and satisfied members of the team who are committed to sticking around. □

Peace Of Mind At A Difficult Time

“Deathbed” Estate Planning Strategies

Facing the reality that a loved one is dying is difficult for all concerned. But when the loved one’s legal and financial matters haven’t been taken care of, family members also face the challenge of quickly making critical financial decisions. The good news is that there are “deathbed” estate planning strategies you can implement now.

Administrative Tasks

To get started, determine whether your loved one has executed a will and durable power of attorney for property. The power of attorney gives you or another agent authority to handle a broad range of financial transactions. If they exist, have your loved one review the documents to see whether changes should be made and, if so, have his or her (or your) attorney revise them.

If a will doesn’t exist, now is the time to draft one. Keep in mind that executing one at this point — regardless of your loved one’s competency — may be difficult because deathbed wills are more likely to be successfully challenged. To offset potential challenges, get a doctor to certify that your loved one is competent, if such is the case, and have the doctor witness the signing of the will. If there’s no surviving parent, be sure to appoint a

guardian to any minor children your loved one has. If you don’t, the courts will appoint one.

Tax-Saving Strategies

Giving monetary gifts is an effective deathbed estate planning strategy. There are exclusions from the gift tax that allow your loved one to make tax-free lifetime gifts without tapping his or her \$1 million gift tax exemption. The funds are removed from your loved one’s estate (if given within three years of his or her death), which reduces the estate taxes. Here are several ways to give:

Cash and property. Using his or her annual exclusion, your loved one can make an unlimited amount of gifts of up to \$12,000 per recipient in cash or property. Keep in mind that these gifts can be considered “incomplete” upon death. That is, they aren’t considered gifts until the recipient has accepted the gift, ideally by cashing the check and causing the amount to be debited from the originating account.

In most states, the power to make such gifts to close relatives must be specifically given in the power of attorney — particularly if the donor is incompetent.

Tuition and medical expenses. Your loved one can gift an unlimited amount to pay someone’s medical or educational expenses, provided that payments are made directly to the health care provider or educational institution. When gifting a child’s or grandchild’s educational expenses, only tuition is covered for the exemption. Medical expenses reimbursed by insurance aren’t covered.

Depreciated assets. Selling assets that have depreciated in value, such as securities or real estate, may allow the capital losses to be deducted on your loved one’s final income tax return, against capital gains and additionally up to \$3,000. If a depreciated asset remains in the estate, the beneficiary must use the current market value as the basis, erasing the capital loss.

Irrevocable life insurance trust (ILIT). This trust offers tax benefits because it keeps the insured’s life insurance proceeds out of his or her taxable estate. And if structured properly, your loved one can use his or her annual exclusion gifts to fund it. Keep in mind that an existing insurance policy must have been transferred to the ILIT at least three years before the insured’s death. If the ILIT buys the policy for its current value, you can avoid the three-year rule.

Added Protection

Is a “no-contest” clause included in your loved one’s will? If not, your family could be subjected to lengthy probate delays and costly litigation should a beneficiary challenge the will.

A no-contest clause is a will provision that penalizes a beneficiary — possibly with the loss of part of his or her inheritance — who makes such a challenge. It doesn’t guarantee that the will won’t be contested, but it might dissuade a beneficiary considering such litigation, particularly if he or she stands to lose something of value.

Ultimately, state laws (where the will is being probated) dictate the rules of such a challenge, and the judicial view of no-contest clauses isn’t consistent in all states.

Perilous Pitfalls

Although many people include family limited partnerships (FLPs) as part of their estate plan, you should generally avoid establishing an FLP for someone who is dying. It's likely to raise suspicions with the IRS that the partnership was established to avoid taxes and not for legitimate business purposes. Court cases have ruled in favor of the IRS in such situations.

Also avoid gifting your loved one's appreciated assets. Instead, for tax purposes, leave his or her rental properties, homes and stocks as inheritances. The cost basis of

inherited assets is the fair market value of the property on the date of the loved one's death. The cost basis of gifted assets usually is the same cost basis that the giver had.

Strategies For Security

Advance estate planning — when a person is of sound mind and in good health — is the best estate planning. But, as you can see, there are strategies you can implement at the last minute to enhance your family's financial future. □

Campaign Contribution Basics

With the campaign season in high gear, you may wish to financially support the candidates or party of your choice. Just be sure you adhere to campaign contribution rules.



Most individuals (except foreign nationals and federal contractors) may contribute, either directly or through a voluntary political action committee (PAC). Contributions from labor unions and corporations, whether for-profit or not-for-profit, are banned. And if you're the sole owner of an incorporated business, all contributions must be from your personal funds, not those of the business.

You can contribute up to \$2,300 per election to a federal candidate or his or her campaign committee. General elections and primaries are considered separate elections.

With presidential candidates, there can be only one \$2,300 contribution for all primaries together. For the general election, if a presidential candidate accepts federal funds, you can't make a direct contribution. But you can contribute up to \$2,300 to his compliance fund, which is used for legal and accounting expenses. You may also contribute up to \$2,300 for any presidential candidate who is not a federally funded Democratic or Republican nominee.

Other campaign contribution limits you should be aware of include:

- \$5,000 per calendar year to a PAC,
- \$10,000 per calendar year to a state or local party committee,
- \$28,500 per calendar year to a national party committee, and
- \$108,200 in total contributions over a two-year period. (Of this amount, no more than \$42,700 can be directed to individual candidates and no more than \$65,500 to PACs or parties.)

All contributions over \$100 must be made by check. No anonymous cash contributions may be made for over \$50. Contributions of goods or services are subject to the same limits as direct monetary support.

For more information on campaign contribution rules go to fec.gov and also check your state rules.