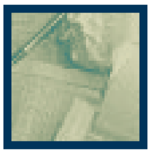
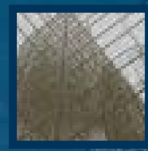
Winter 2002/2003



TAX

FINANCE

TECHNOLOGY

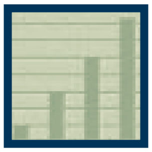


GROWTH

BUSINESS INSIGHTS

INSIDE

Are You The Face Of Your Business?



CHARTING YOUR FUTURE

If you're spending all your time toiling on the front lines with your employees or sitting at a desk trying to work your way through a mound of paperwork, it's time to get up and get out.

One of the most valuable roles a business owner can play is to get out of the office and promote the business to customers, prospects, and other stakeholders. It's time to become the "face" of your business.

Remember Dave from the Wendy's commercials? Dave Thomas successfully put a human face on his business. Even after his death last year, folks remember the successful advertising campaign that made him the face of Wendy's restaurants.

No Secret Recipe Needed

There is no secret formula and you don't have to be a "glad handing" extrovert to be your company's best marketing tool. Many owners get started by simply increasing the time they spend with customers.

If you own a retail business, get out on the sales floor or go along when a customer takes delivery. Some of the most popular restaurants are those in which the chef interacts with patrons instead of staying behind those swinging doors. Learning what customers like and dislike is time well spent. Plus they'll remember the personal attention they received.

Personal involvement is also important in business-to-business services. For example, Tom is the owner of a small commercial construction firm. Even though he has excellent foremen and project managers, Tom periodically attends weekly progress meetings with the customer's project manager. They all know Tom and have developed a personal relationship with the owner, which creates goodwill for the business. He knows their concerns. It's no wonder that Tom's company keeps getting repeat business even when he isn't the lowest bidder.

Another strategy is to join a business owners' networking group. These groups are great places for meeting prospects and trading leads. Participating in community organizations can reap similar benefits. All things being equal, people just like doing business with people they know.

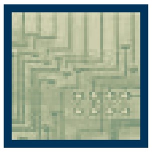
Capitalize On Your Expertise

Becoming prominent in one's industry is also an effective way to bring in new business. Look for opportunities to take on a leadership role in a trade association or other industry group. Make yourself available as a speaker on topics related to your business. Contribute articles to publications targeted toward your customer base. You might even follow in the footsteps of Dave from Wendy's. Under the right circumstances, you may, personally, become an effective part of your company's advertising.

If this all just seems like common sense, it is. Unfortunately, many owners don't take the time or make the effort. Get to know your customers, prospects, and community and let them get to know you. They'll know you care about their needs and the success of your business. You'll have your finger on the pulse of the marketplace and be ready to take advantage of the opportunities that come along. ■

INSIDE

Web Conferencing:
A Powerful, Proven Business Tool



COMPUTERS

Web conferencing offers a powerful new way to host an interactive presentation – whether it's for a sales presentation or for employee and customer training. While it will never take the place of an in-person visit, a Web conference may be the next best thing. Utilizing the Internet to display a PowerPoint-like presentation or to share the contents of your computer screen with audience members can convey much more information than a telephone call but at a fraction of the cost of a videoconference. And Web conferencing requires no capital investment, special equipment, or technical expertise.

How It Works

While there is some variation among vendors, most follow a similar model. All parties in the conference connect via the Internet to a server that hosts the conference. Each person is given a Web address to connect to, a conference number to enter, and a password.

Participants can either view the presentation at their desks or setup a PC and projector in a conference room for group viewing. A special applet is automatically downloaded onto the presenter's PC that enables his or her PC screen to be seen by everyone else participating in the conference. While most Web conferencing software has the capability to support voice, the majority of conferences utilize a regular telephone conference call for interactive audio. Participants either ask questions through the conference call or enter them in a window on their PC screen. The questions then appear on the presenter's screen. Some Web conferencing tools also have limited ability to share live or recorded video.

Major Web Conferencing Providers

WebEx Meeting Center, www.Webex.com

Centra eMeeting, www.centra.com

eRoom, www.eroom.com

Genesys Meeting Center, www.genesys.com

Latitude Meetingplace, www.latitude.com

Placeware Conference Center, www.placeware.com

Raindance Web Conferencing Pro, www.raindance.com

Spartacom Webdemo, www.spartacom.com

Web conferencing's two main applications are to show and discuss presentation slides such as PowerPoint or to demonstrate a computer application. Both capabilities work very well for sales presentations and training. While face-to-face interaction is important in sales, Web conferences can be an efficient way to supplement onsite customer visits, particularly if customers are located over a wide geographic area.

From a customer-support perspective, Web conferencing can be an effective way to teach a class. While Web conferencing can be used in many training situations, it's tailor made for computer application training. If your business either provides this type of training for out-of-town customers or receives it from distant vendors, Web conferencing can significantly cut travel costs and time and be as effective as onsite delivery.

Affordable And Flexible

Web conferencing is most frequently sold on a subscription basis and is entirely managed on the vendor's own servers. Prices can vary significantly by vendor, but are often in the $100 per seat per month range. In other words, you can host as many Web conferences per month as desired with up to five participants for $500 per month. A few vendors also offer a pay-per-use plan, such as one that charges 45-cents-per-participant, per minute.

Some vendors license the software to high-volume customers to place on their own servers and use on an unlimited basis. Audio conferencing costs are extra – some Web conferencing services offer it and some do not.

Despite the fact that this is a fairly new technology and is continually being improved, many companies are already using Web conferencing to increase interaction with customers and decrease their costs.

We can help you determine whether utilizing Web conferencing will benefit your company. ■

Looking For Money In All The Right Places

PROFIT IMPROVEMENT

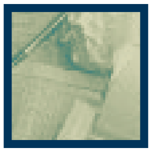
With all the emphasis on angels and alternative financing sources, you may overlook commercial banks as a viable resource for your next business loan. However, if you qualify for a loan, bank financing can provide funds at attractive interest rates without the loss of control that many other funding alternatives entail. Getting a bank loan means being able to find the right banker and then putting forth a proposal that meets the bank loan committee's requirements.

Follow these steps to find the money you need...

1. ***Develop a high-quality business plan.*** This is a prerequisite for any type of funding. Your business plan should include well-developed financial projections and explain exactly how much financing is needed, what it is needed for, and how it will be repaid. The plan should also describe the business opportunity and the qualifications of the management team. The quality of management is a key consideration in any financing decision. Be sure to have the plan reviewed by an objective outside party before presenting it to a banker.
2. ***Develop a track record.*** A business plan is much more credible if it's backed up by a record of success. Show that your business has been on a growth track, has met its goals, and has a good credit record. If it's a start up, show a relationship to your management team's accomplishments in previous ventures.
3. ***Find the right banker.*** Many experts advise cultivating banking relationships well before you need to ask for a loan. Different banks tend to focus on different types of businesses and loans. Even individual bankers within the same bank have different areas of expertise and different personalities. It's crucial to find a banker with whom you can develop a good relationship. Your CPA, attorney, and other advisors can help identify bankers that would potentially be interested in your business. Once you have a list of several, interview them to assess their level of interest and compatibility. As part of the process, ask for their advice. They generally love to give it, and their input can be very valuable in tailoring your plan to give it the best chance for success.
4. ***Be able to show that you have significant equity.*** As a general rule, bankers do not want to finance businesses in which the owner doesn't have a major personal investment. Unless the business has a long successful track record, they will want to see that you, your partners, family members, or other associates have made a major investment in the business before they make theirs.
5. ***Identify collateral or guarantees.*** Collateral is a particularly challenging problem for service businesses. They often don't have the type of assets that manufacturers do to secure the loan. You may need to be prepared to pledge some personal assets.
6. ***Consider an SBA loan.*** If you can't qualify for a conventional bank loan, consider applying for an SBA guaranteed loan. The SBA loan process has been streamlined and is probably easier and quicker than you think. There are certain banks that specialize in SBA loans and participate in special SBA programs, such as the Community Express program. These institutions know the ins and outs and can expedite processing.
7. ***Be persistent.*** If you have a solid plan, don't give up if you've been turned down. Keep networking and making contacts until you find the right match.

We can help you put together your next financing plan. Call on us for assistance in working through the steps necessary to get the loan you need. ■

Need To Beef Up Your Workforce?
Consider Disabled Workers



HUMAN RESOURCES

Even when the economy is taking a breather, many entry level jobs can be difficult to fill. Once the economy starts rolling again, experts predict a long-term shortage of workers of all types based on demographic trends. Tapping into the historically underutilized pool of disabled workers can provide a loyal and productive group of employees to help meet your staffing needs.

Untapped Potential

Based on several surveys, the United States has between 29 and 43 million persons of working age who are classified as having a disability. Within this population, the unemployment rate is 50%, and many individuals who are working are underemployed.

Studies have shown that disabled workers are much more loyal than the work force as a whole. And perhaps because they have historically had a difficult time finding employment, the turnover rate for disabled employees is a fraction of that of other employees. They also have lower than average absentee rates. In fact, research has also found that disabled workers can be just as productive as their able bodied counterparts.

Dealing With The ADA

The Americans with Disabilities Act (ADA) requires that all businesses that employ more than 15 employees make reasonable accommodations for disabled employees. The ADA scares many business owners who are concerned that they will have to spend large sums of money to comply. However, both in practice and legal challenges, this has generally not been the case.

A business doesn't have to hire individuals whose disabilities would prevent them from performing fundamental aspects of the job, nor is it required to hire someone whose disability would put him or other workers in danger.

According to a Harris survey, 69% of disabled workers require no special accommodations on the job. Even when worker accommodations have been required, another study found that the average cost of making the

accommodation was only $250, and that over 70% were accomplished for less than $500. There are also special tax credits and deductions available to help pay for the cost of accommodations.

Recruiting And Training

In many communities, there are a number of government and private agencies that are good sources for locating disabled employees. To find an organization in your area, consult the National Employer Assistance Referral Network (www.earnworks.com or 1-866-327-6669). These organizations often have funding and training programs to assist companies in training new disabled employees. Additional assistance with successfully employing disabled workers and complying with the ADA is available through a national network of technical assistance centers (1-800-949-4232).

While you may run into some red tape, the benefits of hiring disabled workers can greatly outweigh the costs – helping you develop the fully staffed, high-quality workforce you need. We can help in the process by identifying the tax benefits you are entitled to when you open your doors to disabled workers. ■

It's Just What The Doctor Ordered

With healthcare costs skyrocketing, everyone's looking for ways to save money. The IRS recently established rules for a new type of medical reimbursement account that just might help – Health Reimbursement Arrangements, or HRAs.

HRAs are employer-funded accounts that reimburse employee medical expenses. Untaxed at the employee level, reimbursements are tax-deductible by the employer when paid to the employee. An HRA account reimburses the same type of expenses as a Flexible Spending Account (FSA), such as co-pays, deductibles, office visits, and prescriptions. Expenses related to cosmetic services would not be eligible for reimbursement.

Employees may request reimbursement for medical expenses at the time services are rendered, accumulate them for reimbursement in the future, or save the funds in the HRA for retiree health benefits. Because funds accumulate from year to year, employees decide when and how to best spend their medical benefit dollars.

How Do HRAs Work?

An employer establishes an HRA by adopting a formal plan. As eligible expenses are submitted, the employee's personal account is reduced and paid to the employee on a non-taxable basis. At the end of the HRA coverage period, a new period begins with additional employer funding available. Here's how an employee can benefit from an HRA plan:

Example: Bill's employer began an HRA program to complement a new high-deductible health plan. The health plan for family coverage has a deductible of $2,400. The HRA provides $800 each year for everyone selecting this coverage.

Bill knows he will spend $100 per month just for prescriptions and doctor visits for the family. He elects to add $1,200 to his FSA account and use the HRA for unexpected expenses. Bill has effectively eliminated his risk of loss in his FSA plan since his known expenses are at least $1,200. And, if something unexpected happens, the HRA is there for expenses above the $1,200 FSA election.

Tailor HRAs To Objectives

There are three ways that employers can enhance their benefit package while lowering or capping health benefit costs.

1. Implement a high-deductible health insurance plan. With this approach, premiums decrease and the employer will save money. However, employee satisfaction may erode, causing turnover and higher recruiting and training costs. An HRA could turn the tide in the employer's favor.

By making part of the deductible increase available to employees each year through an HRA, employees have more control over medical expenses and less risk of paying deductibles with after-tax cash. The employer will have less insurance expense and only be liable for a small portion of each employee's HRA account each month.

2. Eliminate the "use-it-or-lose-it" rule associated with the Health FSA. Employees are skeptical about having more dollars deducted from their paycheck – even if they save taxes. Add in the risk of loss on unused amounts, and a lot of employees won't sign up for the employer's FSA. With the employer "guarantee" in the form of an HRA, employees are more likely to participate. Better participation means the employer saves on overall healthcare costs and payroll taxes, while the employee saves on both social security tax and income tax.

***3.* Fund retiree benefits.** With this approach, your employees may use their HRA for current expenses or build up their account for expenses after retirement, such as long-term care insurance. Benefit costs for current employees are capped and there is no need for additional funds for employees at retirement.

HRAs Enhance FSAs

One plan design usually doesn't fit everyone's needs. By adding an HRA to your Health FSA, you have more choice in deciding how much to spend on benefits and how the benefits are delivered to your employees. Employees have a greater say in how their benefit dollars are spent. An HRA is a great way to meet these needs and boost your benefit package. Call us for more information. ■

Are Your Agreements Doing What They're Supposed To?

TAX PLANNING

Agreements can be a tax minefield. They may not have been set up to meet your tax goals and there may be one, or more, tax bombs ready to explode.

Problems can arise in a variety of ways. Maybe you worried so much about getting "the deal" down on paper that you didn't focus on the tax consequences. Even if existing agreements properly reflect the tax treatment you desired, recent tax law changes or changes in your business or family status may render that treatment incorrect or unwanted now. For example, does your buy/sell agreement indicate that the value of the business will be an agreed upon value? If so, has this value been updated recently?

Identify Documents With Tax Impact

The first step is to identify documents for an Agreement Review. The following types of agreements are typical: shareholder (or partner/member), buy/sell, employment, non-qualified deferred compensation, consulting, and leasing. Look at everything. Agreements may be interrelated, or some adverse tax effect might be lurking in the employment agreement instead of the shareholder agreement.

When looking at employment agreements, don't forget about non-owner key employees. Their agreements may also impact the company's tax situation.

Determine Tax Objectives

Reflect on your tax goals as they relate to each document and the action it calls for; and also consider your overall tax objectives with regard to your business and financial planning. This may include major goals, such as transitioning your business and having enough cash to retire comfortably, as well as minor goals, such as rewarding a key employee or getting cash distributions sufficient to make quarterly estimated tax payments.

Let us review your agreements to see if they are consistent with your tax goals. Your retirement planning, estate planning, or planning for your children's education may also be affected. This review may also point out other areas that need planning to minimize adverse tax effects. For example, a stock option plan may not need revision of the document, but may indicate the need for AMT tax planning in order to avoid a true tax bomb.

What To Look For

It's impossible to anticipate everything, but here are some things to look for. And remember, what's *not* in a document may be just as important as what is.

- Is life insurance set up correctly?
- Is capital gain treatment maximized?
- Is there a plan for determining asset values upon sale or transfer?
- If buy/sell is computed by formula, does the formula meet tax requirements and is it updated as frequently as needed?
- Is compensation maximized?
- Are other payments to owners maximized?
- Do you, or other owners, have goodwill or other assets/intangibles which are held at the individual level (and which should be documented)?
- S corporations
  - Should there be provisions for the cut-off election?
  - Should there be limitations on transfer to ineligible shareholders?
  - Are distributions adequate to cover estimated tax?
- Partnerships
  - Is indebtedness allocation consistent with allocations of distributions and tax attributes? Are there any basis or at-risk problems for partners?
  - Do distribution provisions for dissolution comply with tax requirements and still properly reflect the business deal between the partners?

If you haven't had your agreements reviewed lately, now is the time to get it done. Defuse those tax bombs by addressing the tax treatment and by monitoring for needed changes over the years. As always, we're here to help. Call us. ■

Don't Be Caught Unaware... State Taxes Deserve Attention

For years, state taxes have commanded little respect. They were just that annoying add-on at tax time that increased your overall tax bill. Now, states are becoming aggressive, and sometimes downright contentious, in their pursuit of the almighty tax dollar. A good example is the recent fraud indictment against a Tyco executive charged with cheating New York out of more than a million dollars of sales tax.

In their desperation to gain tax funds, states have become more systematic in their efforts to collect their "fair share." And, with more companies doing business in multiple states and more individuals owning investments in other states – a collision with the state tax collector may be inevitable.

State vs. Federal

In the past, most state tax rules followed federal. Now, more states are picking and choosing which federal rules to follow. State differences can cause tax effects you weren't anticipating. These variances are found in areas such as S corporation status, depreciation deductions, net operating losses, and other deductions. The recent 30% bonus depreciation change is a prime example. Congress added this break in March 2002, but some states are resisting the new law.

Another example would be the estate "pick-up" tax. Many state inheritance taxes were based on the maximum federal credit allowed for state death taxes. With the 2001 change to the federal credit, states recognized that they would begin to lose money. Some states are rewriting their laws to recapture that money – possibly resulting in an overall death tax *increase* for taxpayers.

Got Nexus?

When do states get to tax you or your business? Usually they rely on "nexus." Nexus means you have some element of business or investment present in that state. The states' definition of nexus is getting broader… and more people are paying tax in more states. For example, if you have a salesperson who spends only 2 days in Michigan on sales calls, your company may owe Michigan tax.

Not only does the definition of nexus differ from state to state, but one state may define nexus differently for different types of taxes. You might have nexus for sales tax purposes, but not for income tax. We can assess your situation to see if you have nexus in a particular state, and how to avoid it or how to rearrange your activities in the state to minimize taxes.

States Are *Not* Created Equal

States have different tax rules and rates. Some states have no income tax, but high sales tax or property tax, or they may tax your investment assets. Use these differences to your advantage. If you are about to sell your business and plan to retire to a different state, it may be wise to make the move before the sale – particularly if you're apt to relocate to a state with no income tax.

Incentivize Me

Even at a time when many states are aggressively assessing and collecting taxes, some states have "give-away programs." They offer incentives for business expansion and business start-ups or relocation. Programs vary widely by state, but can include tax credits for business expansion, reimbursement for employee training programs, or credits for relocating to the state. These incentives may lure you over the state line, or help you choose the state in which to locate your new office or distribution center.

While you may have no plans to move or do business in another state, it's in your best interest to make sure you are taking advantage of all available incentives in your current business location.

What Can You Do?

Recognize that state taxes are a force to be reckoned with. Then, go on the offensive and plan to do battle. Call us to discuss the facts of your situation. We can help you minimize state taxes and take advantage of state quirks whenever possible. In many cases this means thinking about the effect of state taxes when contemplating a transaction and before making a final business decision. ■

WASHINGTON ALERT

Final Rules On Economic Hardship Offers

If you or someone you know is "under water" on their tax bills, it's sometimes possible to settle a tax debt with the IRS for less than the total amount due, if it is uncollectible. Even if you are able to pay the entire amount, the IRS will consider an offer-in-compromise if collection would be inequitable or against public policy. The IRS has recently issued regulations clarifying the circumstances under which such economic hardship offers will be considered. The regulations define "economic hardship" as the inability to pay reasonable basic living expenses. In determining whether there is economic hardship, the taxpayer's age, employment status and history, and number of dependents will be considered, together with the following, non-exclusive list of factors:

- The taxpayer's long-term illness or disability makes them incapable of earning a living and existing financial resources will be exhausted providing for care and support during the course of the condition;
- Although the taxpayer has certain monthly income, that income is exhausted each month in providing for the care of dependents with no other means of support; and
- Although the taxpayer has certain assets, the taxpayer is unable to borrow against the equity in those assets and liquidation of those assets to pay outstanding tax liabilities would render the taxpayer unable to meet basic living expenses.

Before an offer-in-compromise will be accepted, many other conditions must be met, including factors which establish a good-faith effort to comply with the tax laws. If you believe you may be a candidate for an offer-in-compromise, contact us for advice and assistance. ■

Supreme Court Okays IRS Tip Estimates

In what has been described by the National Restaurant Association as "a heavy blow against the restaurant industry and many other small businesses," the Supreme Court approved the IRS' use of the "aggregate estimation method" to calculate a restaurant's employment tax liability for unreported tip income. For more information on how this could affect your business, please give us a call. ■

Replace Current Tax System?

Panelists at a recent symposium sponsored by the *Institute for Policy Innovation's Road Map to Tax Reform* declared the current tax system confusing and unfair. Speakers called for a system that is simple, transparent, and neutral. Once again, candidates for replacement tax systems included a national sales tax, consumption tax, flat tax, and a cash-flow tax. Primarily consumption-based, these tax systems would seek to give more control to taxpayers by taxing spending rather than earned income.

A simpler, fairer tax system would appeal to all. A popular Beatles lyric goes, "You say you got a real solution, well you know we'd all love to see the plan." But, will we see it anytime soon? Probably not. Replacing or overhauling our current tax system is a massive undertaking. And transitioning to a new system would generate tremendous problems for people who have relied on the existing law in their transactions and tax planning. ■