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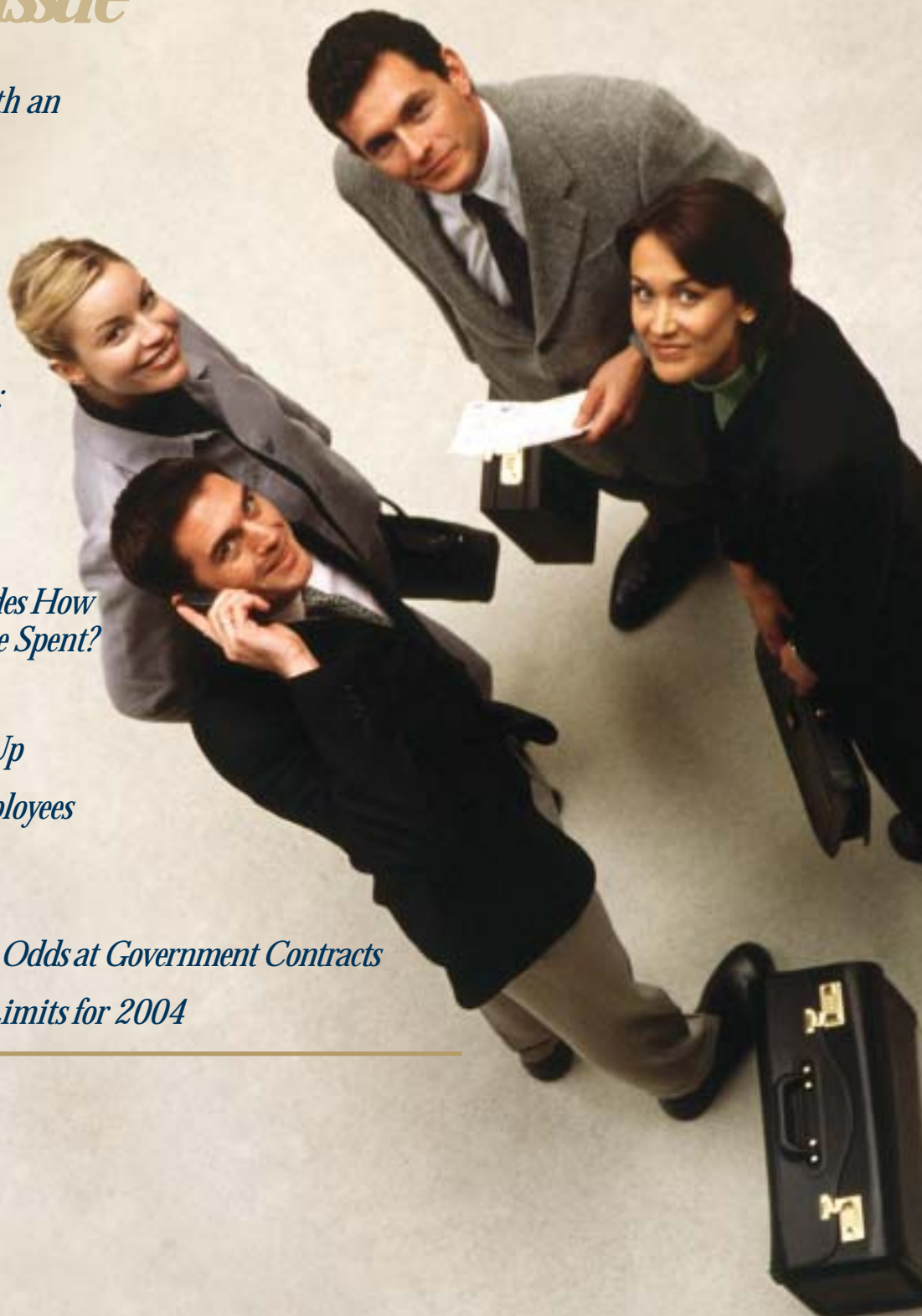
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Want to Get Paid? Start with an Effective Credit Policy

What good is a sale if you can't get paid? One way to look at credit is to see your business as temporarily financing your customers' purchases. Essentially, you provide goods or services, and get paid at a later date. To what extent can your business afford to do this?

Waiting to receive money owed to you for goods or services provided on credit can significantly affect the amount of cash your business has on hand to

maintain operations and meet its own financial obligations. Offering credit should help, not hurt, your business, and it easily can help with a strategic approach.

A credit policy outlines your standards and procedures for extending credit and collecting payments. It should

help you optimize your sales potential by attracting customers, while at the same time be structured to help you make timely collections and maintain a positive cash flow.

To help your business maximize revenue, your credit policy should be fair and balanced, consistently implemented, and a good fit for the type of business you operate and your clientele. If your policy is stricter than your competitors', it may lessen sales. On the other hand, you may gain a competitive advantage if your credit terms are more attractive to customers than those offered by others in your industry.



Defining Your Terms

Your credit terms stipulate your conditions for extending credit. One key element that may significantly affect your cash flow is your payment period. In your credit policy, it is important to specify *when* you expect payment, such as within 10, 30, or 60 days. The longer you have to wait to be paid for your goods or services, the less cash you may have available to run your business.

To encourage early payment, some companies offer a cash discount. Using this strategy, you motivate customers to pay sooner, rather than later, by discounting their purchases. While this may shorten your collection period, be aware that it also reduces your incoming revenue.

Here again, it is important to know your competitors' terms. While you'll obviously want to avoid jeopardizing your company's financial health, if your competition offers more lenient terms or more attractive discounts, you may be at a disadvantage.

To further protect your business, establish clear criteria for determining who is eligible for credit and outline the standards in your policy. Clarity and consistency will help your staff best meet the needs of your clientele. For example, you may choose to extend credit to all established clients, but restrict credit for new customers until a sound payment history has been established. Keep an eye on industry standards and develop a competitive strategy that also protects your business.

Every business, regardless of size, must contend with the ways in which payment is received for goods provided or services rendered. Thorough planning and a sound policy can help make credit work *for* you, rather than against you. ■

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Small Business Lessons from *Good to Great*

The best-selling book, *Good to Great: Why Some Companies Make the Leap... and Others Don't*, offers surprising insights into the success of “great” companies that consistently and significantly beat average market returns on a sustained basis. The author, Jim Collins, and his research team set out to discover what makes a good company great. Their results were unexpected, and all of the great companies shared common themes. Although these businesses were all within the ranks of the Fortune 500, small business owners can also benefit from these dynamic examples.

It's no secret that leadership plays a vitally important role in the success of a company. Besides charisma, research shows that great leaders are less concerned with their own accomplishments than they

are with the success of those around them and the progress of the company itself. According to Collins, leaders of great companies are typically modest and do not seek fame, but are driven by inner fire and an unwavering ambition to make the company succeed. A

tireless, shoulder-to-the-grindstone work ethic, while still enjoying an outside life, are other common leadership traits.

In many ways, the corporate culture can be compared to a great hunt. There are foxes that are sly and cunning, and then there are hedgehogs. Hedgehogs recognize the wiliness of the foxes, but they also know their own best attributes. When being hunted, the hedgehog, its back covered with sharp quills, will curl itself into a ball of imposing needles that cannot be eaten. Likewise, great companies use what they have to fight back and embrace the plain truth head-on. Findings suggest that building a highly successful company is contingent upon an awareness of what the company can do, as well as what it cannot do. For small businesses,

implementing the “Hedgehog Concept” means building upon strengths — the great things the company is capable of doing. The ways of the fox, pursuing many things without a central focus, may impede success.

But how does any company get all workers united behind its mission? Many use motivation and pep rallies, but great companies do not need to resort to those tactics. Instead, they hire and keep only the best people: those who are dedicated and hardworking, who will not hesitate to let their voices be heard, but who will stand behind the end decision. A culture of discipline allows dedicated workers to have creative freedom, while they work toward shared, defined goals. It creates an atmosphere of respect and hard work, avoiding the perils of cumbersome and ineffective bureaucracies.

Many companies, large and small, have concerns about staying on the cutting edge of technology, but great companies shy away from blindly following the latest trends. Instead, they embrace what truly works for them and meets their needs. They are highly selective, but unconcerned with “fashion.” Interestingly, all of the great companies studied used only the technology that suited their highly defined goals, but then went on to become technology pioneers.

Often, companies seek answers during times of radical change. In fact, great companies produce remarkable transformations, but outside appearances are deceiving. Inside those cultures there are no sudden alterations, except steady, determined, eye-on-the-prize efforts that create them. Successful businesses persevere and build up to something great; they do not skip important evolutionary steps as may their less stellar counterparts.

The best, proven methods of achieving great success are often contrary to common, modern concepts. In *Good to Great*, Jim Collins builds a strong case for modesty, honesty, respect, and determination. Utilizing these simple principles can help small business owners build great companies and create outstanding results. ■



Used Computer Equipment: Is It a Good Deal?

Computer technology is constantly changing, and business owners know they must keep their services competitive. Customers and clients expect their transactions to proceed with utmost convenience, so how can the small business owner keep up with growing user and company technological needs? The recent, sluggish economy, which contributed to many dot com collapses and a wave of business downsizings, also delivered a wealth of quality computer equipment to the second-hand market. With research and planning, the savvy business owner looking for a tech bargain may be able to spend less and buy more.

Where to Look and What to Look For

One source for such purchases is the original equipment manufacturer (OEM). The OEM refurbishes returned merchandise, tests it extensively, and then sells it at a significant discount with both the original documents and warranty. Many returns are from consumers who have simply changed their minds about the machinery they want to buy. Since computer equipment can be astronomically expensive, the small business owner can save as much as 50% to 90% by turning to the resale market. Today's used market offers a wide range of products, from servers and networking devices to individual computer workstations.

Another source for great buys is from resale companies. Many of these vendors offer assistance with needs-based purchasing decisions, troubleshooting, and original manufacturer warranties. Some even offer extended warranties, but consumers may not need them as equipment from a reputable dealer has been tested

thoroughly, and any flaws will likely surface quickly. It is important to ask for references to ensure the company is aboveboard. Also, make sure that all of the machine's components are from the OEM and ask for guarantees in writing.

Buying used computer equipment has been likened to the purchase of a used car. Buyers need to ask how the equipment has been tested, what diagnostic tools have been used, and for information on the software used to delete previously stored data. Furthermore, with viruses growing in number and complexity, all equipment, new or used, should have appropriate anti-virus software installed.

Online auctions are another way to get a great deal, but proceed with caution and ask many questions to make sure the equipment is in good working condition and any necessary accessories are included. Purchasing technology online typically requires previous research because

the seller may not be an industry expert knowledgeable enough to offer specific advice or guidance. While this source may not be the first choice, many steps have been taken in recent years to ensure vendor reliability, and the majority will sell completely reliable, functional equipment.

Business owners know that today's consumer is savvy and well informed. Using these same principles can help owners save thousands of dollars on future equipment purchases. If there is no quantifiable business advantage to purchasing the latest technology, used equipment may suffice and offer great savings besides. Those who save money today may have the leftover resources necessary to generate even greater profits in the future. ■



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AMT — The Tax Trap

If Congress really wants to make taxes simpler and fairer, the alternative minimum tax (or AMT) would be a good place to start. AMT is considered a “parallel” tax system, meaning that it runs alongside the regular tax system, but with its own rules. Originally designed to prevent wealthy individuals from avoiding federal taxes, AMT is now “trapping” thousands of unsuspecting middle-income taxpayers.

The AMT system eliminates personal exemptions and many of the deductions available under the regular tax system. For instance, state income and property taxes, medical expenses, interest expense, and certain other itemized deductions are not allowed under the AMT system. Loss of tax breaks isn't the only thing that can result with AMT. Large capital gains can trigger AMT by increasing your AMT taxable income.

How Does AMT Work?

Here's the basic AMT “formula” for individuals:

Taxable income for regular tax purposes
 + AMT add-backs
 Alternative Minimum Taxable Income
 - AMT exemption
 AMT Base
 x AMT tax rate of 26% or 28%
 Tentative AMT

The AMT formula adds back the disallowed deductions, personal exemptions, and adjustments. You do get an AMT “exemption,” which reduces your AMT taxable income before the tax is calculated. The AMT exemption increased under the 2003 Tax Act to \$58,000 for married couples and \$40,250 for single taxpayers. However, the exemption may not help much since it phases out at higher income levels. Generally speaking, if you have a six-figure income, you may lose all or most of the exemption.

The AMT is computed at only two rates, 26% and 28%, with the 28% rate kicking in at a higher income level. You are required to calculate the tax you owe using both the AMT formula and the regular system. You then pay the higher amount. If you are already paying an effective rate higher than the highest AMT rate of 28%, you may escape the AMT. But with all of the add-backs and lack of graduated rates, it's easy to fall into AMT.

The AMT continues to expand its reach to lower rungs of the economic ladder. This happens for a number of reasons: AMT exemption amounts have not been indexed for inflation and have not kept up with the increase in income over the years; for regular tax, recent law changes have both lowered rates and expanded the graduated rate structure — without corresponding changes in AMT; and state taxes (which aren't deductible for AMT) continue to increase.

Are You Vulnerable?

You could be caught in the AMT trap if you have one or more of the following:

1. A large family, resulting in many personal exemptions or credits.
2. A lot of itemized deductions, such as medical, interest, and miscellaneous expenses.
3. A significant amount of state taxes, both income and property.
4. Large capital gains.
5. Tax-exempt interest on private activity bonds.
6. Exercise of incentive stock options.
7. Depreciable assets with accelerated depreciation.

Businesses Can Be Trapped, Too

AMT doesn't discriminate as to its prey. Corporations are also subject to AMT, which can be triggered by accelerated or “front-loaded” incentives under the regular tax system. Accelerated depreciation, gain differences on asset disposition, research costs, and intangible drilling costs are some of the items added back for the corporate AMT calculation. For contractors, an add-back for long-term contracts is most often the AMT trigger.

The utilization of net operating losses (NOLs) is also limited under the AMT system. This is true for both individual taxpayers and corporations.

AMT may be far-reaching, but until Congress legislates further reform, your chances of getting caught in the AMT trap will keep increasing. As the saying goes, “the best defense may be a good offense.” ■

It's Your Money...

Who Decides How Your Charitable Dollars Are Spent?



When you give \$100 to your favorite charity, you are probably not concerned about how your donation is spent, as long as it advances the general mission of the charity. On the other hand, if you are making a large donation, it is likely that you have more specific goals in mind with regard to the use of your money, whether it's to fund a particular program, building project, or other endeavor. However, satisfying this desire for control without jeopardizing the ability to claim an income tax deduction requires proper planning.

If you want more control over how your charitable donations are used, consider either donor advised funds or private foundations.

Donor Advised Funds

Many larger public charities, particularly those that support a variety of different charitable activities and organizations, offer donor advised funds. This type of fund is an agreement between the donor and the charity that the charity will consider the wishes of the donor with respect to the ultimate use of the donor's funds. However, the agreement is non-binding and the charity must exercise final control over the disposition of the funds, consistent with the charitable purposes of the organization. In some cases, the donor can name someone in the family to give direction after the donor is gone.

Private Foundations

A private foundation may be a better choice for donors who don't want to rely on the ultimate discretion of a public charity regarding the use of their contributions. This is particularly true when substantial contributions are contemplated and the specific charities have not been determined. Because the board of directors

or trustees of a private foundation are determined by the donor, a private foundation can also serve as a "family enterprise" where members of the family can participate together in supporting charitable causes over the long term.

The benefits of increased donor control through use of a private foundation come at a price. There are a number of rules designed to ensure that private foundations serve charitable interests and not private interests. These include:

- Private foundations are generally required to pay out at least 5% of their asset value annually for charitable causes or be subject to a penalty.
- Substantial penalties are imposed on transactions between the foundation and its donors or managers, although payment of reasonable salaries is permitted.
- Private foundations are generally prohibited from benefiting a private individual.
- A private foundation is responsible for making sure that the funds it distributes to an organization that is not a public charity are expended properly.
- An excise tax of up to 2% of investment income is imposed annually on investments.
- There are restrictions on the types of investments that a private foundation may make.

The deductibility of contributions to private foundations is somewhat more limited than for gifts to a public charity. Depending upon whether cash or property is being donated, deductions to private foundations are limited to 20% to 30% of adjusted gross income, whereas deductions to public charities have higher limits of 30% to 50%. Finally, the administrative and legal costs of creating and managing a private foundation must be considered.

Under the right circumstances, a private foundation might be just what you are looking for. It gives you greater control over how your money is spent. And a private foundation can be a highly rewarding experience for people with a strong personal and financial commitment to charitable endeavors. Call us for guidance on AMT and other tax advice. ■

If you want more control over how your charitable donations are used, consider either donor advised funds or private foundations.



Retirement Plan Fees Add Up

Business owners investing for retirement will benefit from offering qualified retirement plans that maximize returns and minimize expenses.

Employers who maintain tax qualified plans subject to provisions of the Employee Retirement Income Security Act of 1974 (ERISA) are obligated to make decisions that are in the best interest of plan participants, which includes keeping fees and expenses reasonable. And what's in the best interest of your employees is also good for you. For many retirement plans, two types of fees can quickly add up: administrative fees and investment fees.

Administrative Fees. Maintaining a retirement plan typically involves certain basic costs for services, such as recordkeeping, accounting, and communications. Furthermore, many plans offer enhanced services, often charging extra for features such as investment advice, Internet access to plan information, and the ability to make transactions online.

Today's retirement plans are highly varied, and businesses often have options regarding the ways in which these fees are charged. For example, sometimes investment fees that are deducted from investment returns cover the administrative costs; as an alternative, a business may opt to pay these charges separately or have the fees deducted from plan assets.

Investment Fees. Management fees, sales charges, and service costs are investment-related expenses that can reduce your overall return.

For pooled investments, such as mutual funds, management fees cover the costs of managing the funds' assets. Sales charges result from investment transactions — when shares are bought and sold. Actively managed funds that experience frequent trading typically incur

higher brokerage costs than those with infrequent trades. Service costs often cover benefits such as investment advice and investor communications, for example, account statements.

As you examine your investment fees, be aware of charges specific to certain types of investments. For example, annuities often charge insurance-related fees, whereas mutual funds may charge Rule 12b-1 fees that cover fund advertising or promotion costs.

Given the range of fees and the variety of retirement plans available today, it is important to crunch the numbers. Administration costs and investment fees can have a significant impact on your overall return and, ultimately, your retirement income.

A Case Study

Let's take a closer look at the negative impact fees and expenses can have on investment returns over time. Suppose, hypothetically, you have \$50,000 invested in a retirement account that averages an annual return of 8%. Fees and expenses reduce your annual return by 2%. Over the course of 25 years, your account will grow to an estimated \$223,248.

Now, suppose you invest the same amount at the same rate of return, but your fees and expenses reduce your annual return by only 1%. In 25 years, your

account will be worth an estimated \$286,270.

That's \$63,022 more than you would earn in the higher-cost account.

While low fees certainly sound more attractive, it is important to weigh the value of fees. For

example, quality asset management that results in strong returns may be worth higher management fees. Striking the right balance requires careful research and thorough cost analysis. ■



529 Plans — Helping Employees Save for Education

Most business owners recognize that for many of their employees, saving for a child's education is a top priority. With the cost of a private four-year college education ranging upwards of \$100,000, according to *Trends in College Pricing — 2002* by the College Board, saving *early* has become paramount in helping to ensure a child's schooling and, for many employees, their own continuing education. In



Offering a 529 plan with payroll deduction as part of a benefits package may boost employee satisfaction, which can help the business owner retain a valuable workforce.

particular, 529 college savings plans — named for Internal Revenue Code 529 — are a popular way to set money aside for college and graduate school.

In response to the warm reception these tax-advantaged savings vehicles are receiving, particularly after favorable changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), employers seeking innovative ways to attract and retain a qualified workforce have begun offering the 529 plan as an incentive in their benefits packages. Furthermore, to ease the process for employees, and to encourage a disciplined approach to saving, many companies allow contributions to be easily made through payroll deduction.

Tax Advantages

529 college savings plans, not to be confused with pre-paid tuition plans, are state-sponsored investment accounts that offer two distinct tax advantages: 1) the potential for earnings to grow *free* of federal income tax, and 2) the opportunity for withdrawals to be made *free* of federal income tax if funds are used for qualified education expenses such as tuition and fees, as well as room and board. Certain state taxes may apply. Nonqualified withdraw-

als may be subject to a 10% federal income tax penalty. Prior to EGTRRA, beneficiaries of a 529 plan had to pay federal income tax on *any* earnings. However, this provision is scheduled to “sunset” on December 31, 2010, and if Congress does not act in the interim, regulations governing 529 plans revert back to tax year 2001.

As an employer-sponsored payroll deduction, employees contribute a percentage of their pay to a 529 account. While contributors are not eligible for any federal income tax deductions, some states allow for certain state income tax deductions. A person's residency status in the state sponsoring the plan generally affects his or her state tax benefits, and that may affect employees of companies with offices in different regions.

For contributors in all states, federal gift taxes may also apply, but a special provision applies to 529 plans. In 2004, any individual may gift \$11,000 per year (\$22,000 for married couples) to another individual without incurring gift taxes. However, individuals contributing to a 529 plan are allowed to make a lump-sum contribution of \$55,000 (\$110,000 for married couples), using five years' worth of gifting.

Investment Options

Investment options vary by plan but often include a selection of mutual funds. Generally, the diversification strategies used to manage risk and maximize potential earnings are based on the beneficiary's age or the number of years until the beneficiary begins college. The portfolio's investment strategy may be changed once during a calendar year without incurring any federal income tax penalties. Also, the account holder may change the designated beneficiary at any time without incurring federal income tax penalties.

For many employees, sending children to college or continuing their own education is a significant life goal. Offering a 529 plan with payroll deduction as part of a benefits package may boost employee satisfaction, which can help the business owner retain a valuable workforce. ■



Small Businesses Gain Better Odds at Government Contracts

Contracting with the government has been a long-standing goal for many small business owners, but in many cases, they have been out-bid by their larger competitors. In an effort to open the doors for more small businesses, the government is making efforts to change its “bundling” practices.

Bundling occurs when several individual contracts for goods and services are consolidated into one larger contract. This often happens when contracts are renewed and puts the small

business owner at a disadvantage. Small firms often have difficulty competing against larger companies with greater resources to meet the increased contract requirements.

Recognizing the disparity, the government has cut out some of the existing loopholes and plans to enforce greater compliance with subcontractors. These reforms will change the definition of contract bundling and will hopefully strengthen and facilitate joint ventures between small businesses. ■

Indexed Employee Benefit Limits for 2004

An increase in the cost of living during 2003 triggered adjustments to certain retirement plan limits for 2004. Some limits will remain the same, while others will increase as stipulated by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The 2004 limits are as follows:

Employee Benefit Limit	2004	2003
Section 415 Defined Benefit Dollar Limit IRC Sec. 415(b)(1)(A)	\$165,000	\$160,000
Section 415 Defined Contribution Dollar Limit IRC Sec. 415(c)(1)(A)	\$41,000	\$40,000
Elective Deferral Limit for 401(k) Plans and SEPs IRC Sec. 402(g)(1)	\$13,000	\$12,000
Maximum Compensation Limit for Qualified Plans, SEPs, and TSAs IRC Sec. 401(a)(17), 404(l), 408(k)(3)(C)	\$205,000	\$200,000
Highly Compensated Employees Definitional Limits IRC Sec. 414(q)(1)(B)	\$90,000	\$90,000
Minimum Compensation Amount for SEP Eligibility IRC Sec. 408(k)(2)(C)	\$450	\$450
Salary Reduction Contribution Limit for SIMPLE IRA or SIMPLE 401(k) IRC Sec. 408(p)(2)(A)	\$9,000	\$8,000

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