

focus

april/may 2009



Weathering the economy

Improve your collections to help secure cash flow

Keep on course
with college savings

Decisions, decisions

How should you handle the uncertain estate tax?

EESA provides businesses with
2009 tax-saving opportunities

CI can keep you ahead
of the competition

Improve your collections to help secure cash flow

In a stormy economy, it can be difficult to collect receivables from clients who are experiencing cash flow problems. This can, in turn, threaten your ability to access working capital, reinvest in the company and pay your own bills. By taking steps to improve your collection process, you can maintain a steady stream of cash even during harsh economic times.

Excuses don't pay off

The quality of your products or services, and the efficiency of order fulfillment and distribution processes, can significantly impact collections. You literally give customers an excuse *not* to pay when:

- ♦ An order arrives damaged, late or not at all, or
- ♦ A customer is incorrectly billed or doesn't receive promised discounts or special offers.



Make sure you resolve billing mistakes quickly and ask customers to pay any portion of the bill they're not disputing. Once the matter is resolved and the product or service has been delivered, ask the customer to pay off the bill and sign off on the matter by making a note on the final invoice. This will help protect you from potential future claims.

Automate everything

Sending invoices out late can also thwart your collection efforts. Become familiar with industry norms before setting your payment schedules

(whether they're on 30-, 45- or 60-day cycles). If your most important or largest clients have their own payment schedules, be sure to set them up in your system.

If you haven't already done so, implement an automated collection system that generates invoices when work is complete, flags problem accounts and generates useful financial reports. Consider sending client invoices electronically and enable them to pay online. You can send statements out monthly as a routine reminder of balances due.

If an outstanding debt is uncollectible, you can write it off as an ordinary business expense.

Regularly verify account information to make sure invoices and statements are accurate and get into the right hands. Be sure to set clear standards and expectations with customers — both verbally and in writing — about your credit policy, including pricing, delivery and payment terms.

5 tricks of the trade

Despite your best efforts, you're still likely to encounter slow-paying customers. Here are five strategies to increase your chances of receiving timely payments:

1. Request payment up front. Ask customers for a deposit on each order or provide a service retainer.

2. Reward timely payments. Give discounts to customers who pay on time or improve their payment histories.

3. Charge fees. Assess fees or finance charges for past due amounts. Place extremely delinquent accounts on credit hold or adjust their payment terms to cash on delivery (COD).

Avoid risky businesses

Good collection practices start with assessing the financial backgrounds of *potential* clients. To make sure you don't bring collection hassles into your business, review potential clients' payment histories, customer references and credit scores. This will help you determine their ability to pay bills on time before you conduct any business transactions.

If a company has a low credit rating, that doesn't necessarily mean you can't do business with it. Offer high-risk businesses alternative payment terms to protect your interests.

Also consider diversifying your customer base across different industries, keeping in mind which areas may be more — or less — affected by financial markets. And consider pursuing industries that are less affected by recessions, such as government and health care.

4. Stay connected. Make regular calls and send e-mail reminders to clients who haven't settled their accounts. If necessary, either you

or the manager who works directly with the client should try to resolve the payment issues with your lead contact at the company or even the owner. Consider executing a promissory note to prevent the client from disputing the charges in the future.

5. Get professional help. If your efforts aren't fruitful, get help from an attorney or collection agency. Keep in mind, though, that third-party fees may consume much of the collected amount.

If an outstanding debt is uncollectible, you can write it off as an ordinary business expense. Be sure to document customers' promises to pay and your collection efforts, as well as why you believe the debt is worthless.

Keep cash flowing

You can't control the financial markets. But you can take steps to improve your billing and collection procedures to ensure cash keeps flowing to your bank accounts — even in this stormy economy. ♦

Keep on course with college savings

With the market upheaval and tight credit affecting savings plans and restricting loans, you may be concerned about how you'll fund your children's or grandchildren's college education. But don't let those worries cause you to stray off the path. A 529 plan can still help you build a college fund and save taxes, too.

Shift into savings

529 plans are designed to help families set aside funds to pay for qualified higher education at a college or other postsecondary educational institution.

Generally operated by a state, a 529 plan comes in two forms:

1. Prepaid tuition plans. These generally allow you to prepay all or part of the costs of college tuition at current rates. Private educational



institutions also may operate them. The plans generally can be converted for use at another state or private college or university.

2. College savings plans. These plans can cover not just tuition, but also room and board, books, and certain other higher education expenses. Much like a 401(k) or IRA,

these arrangements allow you to choose among several investment options (stocks, bonds, mutual funds) that the plan invests in on your behalf. Your account will go up or down in value based on the performance of the particular option you select.

There are many advantages to setting up a 529 plan for your children's education:

- ◆ Contributions can be made by parents or grandparents and can total up to \$300,000 or more in some states.
- ◆ There are no income limits for contributing to a 529 plan.
- ◆ As is true for 401(k)s or IRAs, 529 savings plan growth is tax-deferred.
- ◆ Distributions are exempt from federal taxes if used to pay for qualified educational expenses.
- ◆ You don't have to reside in the state to use its Section 529 plan, and the beneficiary doesn't have to attend college in that state, either.

In addition, a 529 plan allows you to retain control over the timing of distributions as well as the right to change beneficiaries. You also can roll the funds into another 529 plan as often as once a year without adverse tax consequences, or revoke the plan and get your money back (subject to taxes and penalties). Plus, for 2009 only, you can make changes to your beneficiary designation and 529 investment strategies up to two times during the year.

Keep in mind, however, that contributions aren't deductible for federal purposes, though some states offer deductions or other tax incentives

for certain contributions. Further, assets held in a 529 plan could impact your child's financial aid eligibility, so be sure you understand the implications for your situation.

Accelerate benefits

Although a 529 plan is used primarily to save for college, it offers estate planning benefits as well. Typically, to shield assets from estate taxes you must permanently give up control over them. But when you create a 529 plan for your child, grandchild or another beneficiary (not including you), the contributions and earnings are removed from your taxable estate even though you still maintain control over the funds.

Assets held in a 529 plan could impact your child's financial aid eligibility.

529 plans also offer unique gift tax advantages. Although contributions are considered taxable gifts to your beneficiary, they're eligible for your \$13,000 annual gift tax exclusion. If you're a grandparent, this also means you can avoid any generation-skipping transfer tax when funding a 529 plan to benefit your grandchild.

By filing a gift tax return, you can accelerate five years of annual exclusion gifts and make a single tax-free contribution of up to \$65,000 (\$130,000 for married couples) per beneficiary. But once you accelerate your annual exclusions, you can't make additional annual exclusion gifts to the same beneficiary for five years. So, before taking advantage of this benefit, consider how it might affect other gift, estate and succession planning strategies. Also keep in mind: A portion of the accelerated gift will be included in your estate if you pass away before you otherwise would have been able to use the annual exclusions.

Get in the driver's seat

Don't put off saving for your children's or grandchildren's college education if you don't have to. Ask your CPA how a 529 savings plan — or another college saving plan, such as a Coverdell Education Savings Account — can jumpstart your savings and provide tax benefits, too. ◆



Decisions, decisions

How should you handle the uncertain estate tax?

The federal estate tax is, as of this writing, scheduled to be repealed next year. But it's unlikely estate taxes will really go away. In fact, it's possible the estate tax will have been reinstated for 2010 by the time you're reading this article. Whatever happens, now is a good time to consider how estate tax law changes could affect your estate plan.

Up and down

Under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the estate tax was not only scheduled for repeal in 2010, but the top estate tax rate began a gradual drop from 55% to its present 45%. Moreover, under the same law, the exemption amount — the amount you can leave to heirs upon your death that will be exempt from estate taxes — increased from \$675,000 in 2001 to \$3.5 million (\$7 million per married couple) in 2009.

But, unless Congress changes the law, the 2010 repeal will be a short honeymoon. EGTRRA mandated that the estate tax return in 2011 — at levels prescribed by pre-EGTRRA law. That means the top estate tax rate will jump back up to 55%, and the exemption amount will drop down to only \$1 million (\$2 million per married couple).

It's unlikely that Congress will allow the estate tax to disappear in 2010, or revert to pre-EGTRRA levels. Still, you can't ignore the impact potential estate tax law changes might have on your estate.

Step-up may take a step back

Currently, assets left to your heirs generally will receive a step-up in basis to the full market value on the date of your death. If your heirs sell the property, they'll owe capital gains only on the difference between the stepped-up value and the selling price.

So let's say you purchase stocks for \$200,000 and leave them to your son. When you die, the stocks are worth \$600,000, so he would receive a step-up in basis to \$600,000. If he later sells the stock for \$1 million, his tax will be based on a \$400,000 gain.



Under EGTRRA, for 2010 the rules regarding step-up become much more complex. If Congress doesn't repeal these changes, this could result in increased capital gains tax liability for your heirs. In the preceding example, it's possible that only your own \$200,000 basis would carry over to your son, resulting in \$800,000 of taxable capital gain if he sold the stock for \$1 million.

Advance planning

An effective estate planning strategy that would be especially powerful in the event of a 55% estate tax comeback is to "shrink" the size of your estate to shrink your tax bill. For example, using the annual gift tax exclusion, you and your spouse can each give up to \$13,000 (up from \$12,000 in 2008) to each of an unlimited number of recipients free of gift tax and without using any of your lifetime gift tax exemption of \$1 million.

A grantor-retained annuity trust (GRAT) can help you remove significant amounts of wealth from your estate while retaining an income stream. At the end of the trust term, the assets are transferred to your children or other beneficiaries tax free. This strategy, however, is effective only if you outlive the trust term. Keep in mind, too, that the initial contribution of assets to the trust may generate gift tax liability, depending on several factors. If the estate tax is ultimately repealed, this would create a needless expense.

No time like the present

How will your estate be affected by changing estate tax laws? Don't wait to find out. Work with your tax advisor to see how these or other strategies can help you make the most (or avoid the worst) of the possible changes. ♦

EESA provides businesses with 2009 tax-saving opportunities

While business owners may be focusing on the latest stimulus legislation and other potential tax law changes that may pass in 2009, it's important not to forget about tax breaks signed into law last year. Many provisions provide businesses with 2009 tax-saving opportunities. Let's review some of the key provisions of the Emergency Economic Stabilization Act of 2008 (EESA) that you may benefit from this year.

R&D tax credit extended

If your company has increased its research activities and invested in the development or improvement of products, processes or software, you may be able to benefit from the research and development (R&D) credit. EESA extended this credit, which is designed to create incentives for companies to ramp up their R&D, through 2009.

Fairly recent changes to IRS regulations broadened the definition of R&D, providing greater opportunities for small and midsize companies to qualify for the credit. R&D activities may include:

- ◆ Development of or application for patents,
- ◆ Development of new technology,
- ◆ Attempted use of new materials,
- ◆ Acquisition of new equipment,
- ◆ Environmental testing, and
- ◆ Automation or streamlining of internal processes.



Generally, the credit is equal to 20% of qualified research expenses in excess of a certain amount based on the company's historical activity. But businesses can choose to take the alternative simplified credit (ASC), which, in 2009, is equal to 14% of qualified research expenses exceeding 50% of the previous three tax years' average expenses.

The credit applies to qualified research expenditures, including wages paid to employees conducting research, various supplies and 65% of consultants' fees. It also covers some basic research payments to other qualifying research organizations, including universities.

Some depreciation accelerated

For leasehold and restaurant property placed in service after Dec. 31, 2008, and before Jan. 1, 2010, EESA expands the provision to cover certain new construction for qualified restaurant property and improvements to retail space. That means qualified improvements can be depreciated much faster — over 15 years rather than 39.

Qualified improvements are typically those made by the lessor or the lessee to the interior of a nonresidential building more than three years after the building was placed in service. If your property qualifies, and you're thinking about making improvements, now could be the right time.

Deduction for donations enhanced

EESA also enhances the deduction businesses can take for donating food to charity and books and computers to qualifying schools. Through 2009, you take a deduction for *more than your cost* of such contributions.

Items that qualify are those used by the charity for its exempt purpose, and the deduction is equal to cost plus one half of any increase in value, not to exceed double the cost.

Energy breaks extended

EESA extends a federal tax deduction designed to encourage the construction of energy-efficient buildings through 2013. The

deduction was originally set to expire at the end of 2008.

Qualifying property must be developed as part of a plan designed to reduce the total annual energy and power costs related to a building's operation. And the savings must result from energy reductions in the heating, cooling, ventilation and hot water systems; lighting systems; or building envelope systems.

If you reduce the costs by 50% or more (compared to a "reference building" located in the same climate zone and otherwise comparable to the taxpayer's building), you, as the developer, can deduct as much as \$1.80 per square foot of the building's floor area. If the 50% energy reduction target isn't reached, you can still deduct up to 60 cents per square foot of the building's floor area if lower savings targets are attained. Keep in mind that the deduction is reduced by any

Section 179 expensing deductions that were previously taken on tangible property.

In addition to considering these provisions for developers, businesses may be able to take advantage of other benefits, such as special depreciation allowances for certain reuse and recycling property and a new transportation fringe benefit for bicycle commuters.

Cash in on tax savings

Carefully review the requirements of EESA's provisions to determine whether your company qualifies for any tax breaks. Also keep in mind that some of these breaks could be further extended or expanded by 2009 legislation. Your CPA can help you stay on top of the latest tax law changes and sort through the complexities of the law to map out a planning strategy that may help you cash in on the tax savings and boost your bottom line. ♦

CI can keep you ahead of the competition

Resorting to corporate espionage isn't necessary for you to win the advantage over your competition. What you do need is competitive intelligence (CI). CI is the process of legally and ethically gathering and analyzing information on your competitors so you can better anticipate market trends, analyze industry developments and compare business practices.

However you choose to employ it, CI can help you collect valuable facts and information about your competitors' financial strengths and weaknesses, products and services, market position, focus or business direction (or changes thereto), growth or expansion plans (as well as any closures or relocations), and mergers, acquisitions and strategic alliances.

Gleaning intelligence is really quite simple. For example, chatting with clients, prospective bankers, and other business contacts and referral sources at trade shows, conferences and network meetings can help keep you in the know about market trends.

In addition, designate someone to scan major daily newspapers, community news, and industry and business publications for information on your competition or the industry in general. Your competitors' brochures, catalogs, press releases, annual plans and other collateral materials also contain valuable information. And don't forget to check out their Web sites and blogs, as well as relevant newsgroups and associations.

Next, harness the powerful search engine and resources offered by the Competitive Intelligence Resource Index at Ciseek.com. Hoovers.com also provides industry, market and company-specific intelligence for both public and private businesses, and the Securities and Exchange Commission (sec.gov) and FreeEDGAR (freedgar.com) provide financial reports on public companies as well. Finally, go through credit-reporting agencies, such as Dun & Bradstreet, to find financial data, management and ownership information, and payment histories.

Be sure to fact check and verify any information you find: Inaccurate data can skew your observations, negatively affect your business decisions and thwart your efforts to stay one step ahead of the competition.