



focus

february/march 2010

This for that

Barter makes a comeback in today's economy

Are you caring for aging parents?

If so, you'll want to know about the adult dependent exemption

A stabilizing force

An advisory board can steer your family business through tough economic times

New for 2010: Roth IRA conversions available to everyone!

This for that

Barter makes a comeback in today's economy

Barter sounds so ancient, but even in the 21st century the practice is still being used by companies — especially in today's tough economic times. And even though business terminology has changed greatly over the centuries, the general definition remains the same: the exchange of goods and services without the exchange of money. Let's take a closer look at the ins and outs of barter.

Barter options

With credit still difficult to obtain from banks, many businesses are bartering their products and services to conserve cash flow and reduce excess inventory. In fact, in 2009 the International Reciprocal Trade Association reported that approximately 250,000 companies in North America have organized barter exchanges worth more than \$15 billion.

With credit still difficult to obtain from banks, many businesses are bartering their products and services to conserve cash flow and reduce excess inventory.

But is barter right for *your* company? If you can find a suitable trading partner, it's worth considering. To initiate the barter process, you can handle the arrangements yourself or, more commonly, you can consult with an exchange company to help you find trading partners.

Do-it-yourself barter

If you go the do-it-yourself route, you'll have to handle transactions directly with your trading partner. For example, let's say you own a landscaping company and wish to update your IT system. One of your clients



is in the IT field so you contact him to see if he'll consider exchanging his services of performing an analysis of your IT needs for a fully landscaped yard. If he agrees, great, you both benefit.

But finding a barter partner yourself can prove elusive.

Exchange company barter

Using an exchange company can offer you a great deal more flexibility. For a small registration fee, an exchange company will link you with thousands of companies in a variety of industries and markets. With most exchange companies, you'll receive "barter credits" that you can use to obtain goods and services. Bear in mind that the exchange company also receives a commission percentage on each barter transaction.

When you finalize a barter transaction (or offer a specific product or service for barter), your barter credits increase. Depending on the exchange company, the transaction may be structured as 100% barter or on a 50% cash/50% barter basis.

The true benefit of using an exchange company is that you can turn excess inventory into trade credits. In turn, you can use those credits to purchase other goods and services for your business, thus easing the strain on your cash flow.

To illustrate, let's say Manufacturer A is experiencing a serious cash-flow problem and struggling to obtain a short-term business loan needed to purchase critical replacement machinery parts. The company also has several of its Widget 1000s on hand that have been sitting in the warehouse for the past year.

As a member of a barter exchange program, Manufacturer A has the option of receiving trade credits for bartering its Widget 1000s to Manufacturers X, Y and Z, and using those credits to purchase the replacement machinery parts it needs from Manufacturer B. In

Don't forget to pay Uncle Sam his due

Because in a typical barter transaction no cash exchanges hands, it's easy to forget about taxes. But the IRS treats a barter exchange as a cash transaction, so you must report whatever you trade as income and the goods or services you receive as expenses. Be sure to file Form 1099B for most transactions. Your tax advisor can provide the details.

turn, Manufacturer B also benefits because it can use its trade credits received by providing the parts to Manufacturer A to make facility upgrades it's been planning.

Not for every company

The level of success your company will find when bartering depends on whether your selection of goods and services fits the needs of other companies. A barter exchange program can help increase your odds of finding partners, but you'll also need to do some of your own legwork to find suitable barter partners. ♦



Are you caring for aging parents?

If so, you'll want to know about the adult dependent exemption

If you're in your 40s or 50s, it's time to face the facts: Your parents are likely reaching the age where you may have to help them physically and financially. At the same time, you may be raising your own children or paying for their college education. And if that isn't enough of a concern, you also need to fund your own retirement. The combination of these factors can create a substantial burden on your finances. To help ease the monetary strain, you may be able to take advantage of the adult dependent tax exemption. The question is whether you qualify.

Is your parent considered a dependent?

The adult dependent tax exemption allows qualifying taxpayers to deduct up to \$3,650 (in 2010) for each adult dependent claimed. So how do you qualify? It's all about income — yours and that of the parent in question.



First, for your parent to be considered a dependent, his or her income must be less than \$3,650 (in 2010). Social Security generally doesn't count toward this amount, though any income from sources such as dividends, interest and 401(k) withdrawals does.

The adult dependent tax exemption allows qualifying taxpayers to deduct up to \$3,650 (in 2010) for each adult dependent claimed.

Second, you must contribute more than 50% of your parent's financial support. Here Social Security is a factor in that the amount your parent receives may detract from how much you're contributing. For example, your parent may receive less than \$3,650 in income, but if he or she is using Social Security to pay for medicine or other items, you may not be providing enough support to claim the exemption.

On the bright side, if your parent lives in your home, you can factor the fair market rental value of your residence into how much financial support you're providing. However, your parent does *not* have to live with you for you to claim the exemption. If he or she stays in a separate residence, or lives in a nursing home or assisted living facility, you can still factor your financial support into the 50% test.

What if you don't qualify?

If you don't qualify for the exemption because your parent has too much income, you may not be out of luck. You may still be able to deduct combined medical costs that you pay for a parent and your own family in excess of 7.5% of your adjusted gross income.

Does long-term care insurance make sense?

Even if your aging parents have a health insurance policy, it likely doesn't cover assisted living arrangements, nursing home residence and long-term care. Many people purchase long-term care (LTC) insurance because it can cover a broad range of medical, skilled-nursing and non-medical services.

LTC policies typically require a short waiting period, similar to a health care insurance policy's deductible amount. In addition, these policies offer a daily or monthly maximum monetary benefit or a maximum period (in years) for which they'll cover expenses.

The cost of annual LTC insurance premiums depends on the insured's age and the coverage amount he or she purchases. The younger your parents are when they buy their policy, the lower the monthly premium. But keep in mind that the earlier your parents start their coverage, the longer they're likely to pay premiums. And similar to life insurance, they must purchase LTC insurance before they actually need it. Those who already are chronically ill will have a difficult time obtaining a policy.

After deciding on buying an LTC insurance policy, your parents can choose from an individual or group plan. Briefly, an individual plan typically offers more comprehensive coverage and greater benefits options, but the plan is more expensive. A group plan generally is less expensive and easier to qualify for, but offers fewer options because benefits are less flexible.



Another alternative to consider is whether you have a dependent-care Flexible Spending Account (FSA). If you do and you hire someone to provide care for your live-in parent while you're working, you may pay up to \$5,000 of the costs with pretax dollars via your FSA.

Last, don't forget about the child and dependent care tax credit. It allows you to claim a percentage of your total care costs based on your income level and other factors. The credit may let you reduce your tax liability, dollar for dollar, by as much as 35% of \$3,000 (or \$6,000) of your costs, depending on the

number of children or dependents. Ask your tax advisor for details.

Relief is available

You love your parents and will do anything for them as they grow older. But providing for them, combined with supporting your children and preparing for your own retirement, can strain your finances. Thus, it's important to take advantage of all available financial help. (See "Does long-term care insurance make sense?" above for another option.) And be sure to consult with your tax advisor to determine whether you qualify for the adult dependent tax exemption. ♦

A stabilizing force

An advisory board can steer your family business through tough economic times

In these difficult economic times, companies are under extreme pressure to produce results, which can lead to increased tensions between company executives. If the executives happen to be brother and sister in a family business, the strain can be even greater because of possible family conflicts or emotional ties. To maintain an even keel and ensure that decisions are made in the best interest of the company, forming an advisory board may be a smart option.

Advisory board duties

An advisory board serves in a consulting capacity and isn't bound by the fiduciary responsibility to the company and shareholders that a regular board of directors must observe. So, unlike a regular board, an advisory board can feel freer to think creatively to develop solutions to business problems and identify new business opportunities.



Advisory boards also can address differences among family employees on issues such as the direction the company should move in, how to expand and diversify the business,

succession and retirement planning, and performance management and compensation.

What values can an advisory board bring to your company? Most important, it provides impartial, independent perspective to problems, as well as unity and collaborative solutions to business and family issues. In addition, it can offer professional talent and expertise your company may be lacking and broaden thinking to stimulate fresh ideas and identify new opportunities.

To fully realize this value, you must be open about every aspect of your operations, your business challenges and family dynamics.

5 steps to setting up a board

If you believe your family business could benefit from an advisory board, here are five key steps to consider when creating it:

1. Define purpose. An advisory board can define its scope of purpose and goals. Generally, it focuses on addressing major or strategic issues such as succession planning, compensation, growth and expansion — tackling one or a couple of important matters at a time. But to be more effective, you may want to outline the board's objectives based on your business's goals and needs.

2. Provide initial leadership. Initially, it may be more practical for you to serve as the advisory board's leader. But as your business grows in size and complexity and demands on your time increase, delegate this responsibility to another board member.

3. Select the right mix of members. To provide a more complete perspective, you'll want a mix of professionals from varying fields, demographics and backgrounds. An effective way to recruit advisory board members is networking with business, industry, community, academic and philanthropic organizations. You also may want your professional advisors to participate, such as your accountant, financial advisor or

lawyer, because they're already knowledgeable about your company's goals, issues and staff.

Specify the mix of traits and qualifications — executive or leadership skills, years of experience, competencies, education, affiliations or achievements — needed in members to fulfill the board's purpose. But also look for individuals who are willing to be frank with their observations and provide constructive advice while observing confidentiality agreements and maintaining discretion with sensitive business and family issues.

4. Define operations. How often your board should meet and the degree of formality for conducting meetings and recording minutes depend on the number of members and the board's purpose and responsibilities. Generally, meeting at least monthly initially will help the group establish and maintain rapport and relevance to the business. Once it has

been established for a while, the board should meet quarterly.

5. Set compensation. You should cover costs advisory board members incur in traveling to and from meetings and pay them for their time. Cash compensation makes sense for family businesses that want to remain closely held, while companies that are publicly traded or planning to become listed may want to issue stock.

Is an advisory board right for your company?

If your family business is under the gun to produce profits, and infighting among family members is affecting business decisions, it's time to consider forming an advisory board. You'll have to invest time and money to form the board, but doing so could save your family business. ♦

New for 2010: Roth IRA conversions available to everyone!

2010 is the year when those with significant amounts in their traditional IRAs can convert and reap the tax-free growth benefits of a Roth IRA — regardless of their income level. Previously, you had to have a modified adjusted gross income (MAGI) of \$100,000 or less to be eligible to convert.

There is, however, one stipulation for higher-income taxpayers — they still can't *contribute* to a Roth IRA. So, they won't be able to make additional contributions after the conversion unless either their economic situation or tax law changes. For 2010, the ability to contribute to a Roth IRA begins to phase out at a MAGI of \$105,000 for single filers or heads of households (\$167,000 for joint filers). This ability to contribute is eliminated after MAGI hits \$120,000 for single filers and heads of households (\$177,000 for joint filers).

Be aware that any conversion you make is subject to income tax, but for conversions made in 2010 you may report the income in two equal installments in 2011 and 2012. Thus, you'll be able to defer half of the income to 2011 and the other half to 2012. And if you're converting nondeductible contributions, you'll be liable for tax only on the account earnings. Also keep in mind that Roth IRA assets must remain in the account for at least five years and you must be at least 59½ before you can withdraw earnings without incurring income tax liability and early withdrawal penalties.

