ADELMAN KATZ & MOND LLP
ACCOUNTANTS AND CONSULTANTS

230 W. 41ST STREET
15TH FLOOR
NEW YORK, NY 10036-7207
TEL: 212.382.0404
FAX: 212.382.2686
www.akmcpa.com

Alan R. Adelman, CPA
Lawrence Katz, CPA, CFP®
David E. Mond, CPA
Jack E. Gold, CPA
Stuart J. Hammer, MBA, CPA
Warren M. Bergstein, CPA
Craig L. Venokur, CPA

Client Information Bulletin

September 2008

Danger Ahead: Five Signals for Business Owners

Don't ignore the warning signs of trouble

If your business is managing to weather the uncertain economy so far, don't rest on your laurels. Things can turn bad in a hurry. Here are five danger signals for business owners to heed.

1 You are spread too thin. If you are forced to answer every question and solve every crisis, it is a sign that you are not delegating very well. It is natural for a business owner or top manager to try to run the whole show. And for a while (particularly during a startup phase), doing so may help the company become profitable. However, over time you may find that you have overextended yourself without training anyone to back you up.

Assign tasks to others as part of a long-range training program. Not only does this relieve some of the burden on yourself, but it shows you which people are capable of handling comprehensive and tougher assignments.

2 Employees leave the job in droves. A high turnover rate can be a sign of any one of a number of problems within a company. Maybe your initial screening process is faulty, or your training is inadequate. Or a particular employee may be driving people out the door.

In any event, the results can be devastating. Poor morale, extra expenses from hiring and training replacements, lost business, etc., can all show up on the bottom line.

Use exit interviews to pinpoint the reasons why employees are leaving. If it is for any reason other than those normally associated with job moves (e.g., career advancement, higher salary), address those issues. Similarly, new-hires should have an accurate picture of their job duties and responsibilities, as well as their chances for advancement.

3 Orders are down. Almost every business goes through ups and downs. However, it is one thing for a customer or client to order less because business is slow; it is another if the drop is due to dissatisfaction with your company's products or services. That is a serious problem when you consider all the time and money it takes to replace existing accounts with new ones.

Have your salespeople find out the reason for the dissatisfaction. Use that information to reverse the trend.

4 You do not have accurate information. You cannot keep on the lookout for early warnings of impending disaster unless you are kept up-to-date on your company's fiscal health. Make it a company policy to have all key financial news—profit and loss statements, receivables reports, sales reports, etc.—sent to you on a timely basis.

Inside

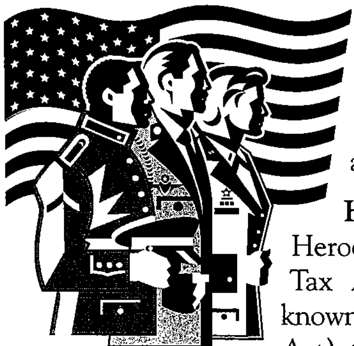
5 **Employee absences and tardiness are increasing.** If morale is low and business is flat, perhaps it is a sign that employees are unsure of exactly how the company is performing and what its goals are.

Hold meetings with employees on a regular basis. You can explain the objectives of the company and the efforts required of them to meet these goals. At the same time, really listen to your employees. This is a good way to keep minor complaints from becoming major concerns.

Oftentimes, owners are the last ones to know that the business is in trouble. Do not let this happen to you.

Two New Tax Laws Target Special Groups

Tax relief for military personnel and farmers



Prior to its annual Memorial Day recess, Congress passed two new laws that pinpoint tax breaks for certain taxpayers. Here are some of the highlights.

Heroes Act: Officially titled the Heroes Earnings Assistance and Relief Tax Act of 2008 (more commonly known as the Heroes Act or HEART Act), this new law provides a number of tax benefits for military personnel and their families. The changes include, but are not limited to, the following:

- Reservists on active duty are permanently allowed to make penalty-free withdrawals from an IRA, 401(k) plan or other qualified retirement plan.
- Joint filers are entitled to receive economic stimulus payments if one spouse has a valid Social Security number and is a member of the U.S. Armed Forces.
- Contributions from military death benefits and military insurance proceeds may be made to a Roth IRA or Coverdell Educational Savings Accounts (ESAs) without regard to the dollar limitations for contributions to Roth IRAs and Coverdell ESAs.
- Any member of an Armed Forces reserve component ordered or called to active duty may take a tax-free distribution of unused benefits in a health flexible spending arrangement (FSA).

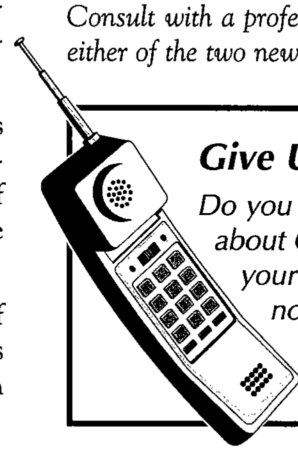
Under the "pay-go" rules, Congress must offset tax breaks with revenue-generating provisions. The Heroes Act results in increased taxes for some foreign subsidiaries of U.S. companies and certain wealthy individuals who have renounced their U.S. citizenship.

Farm Act: The Food, Conservation and Energy Act of 2008—commonly referred to as the Farm Act—was vetoed by the president, but Congress summoned enough support to override the veto. The Farm Act includes the following provisions:

- Enhanced deductions for donations of conservation easements, which had expired after 2007, are extended through 2009. In brief, a donor can claim deductions of up to 50% of adjusted gross income (AGI)—100% of AGI for qualified farmers and ranchers—with a carryover period of 15 years for any excess. Normally, the AGI cap is 30% and the carryover is limited to five years.
- A new tax credit bond has been created for qualified forest conservation projects.
- Conservation reserve program payments may be excluded from self-employment tax by individuals receiving Social Security retirement or disability benefits.
- A tax-free, like-kind exchange may be arranged for transfers involving stock in a mutual ditch, reservoir or irrigation company.

The revenue-raisers in the Farm Act include a provision restricting taxpayers from claiming farm losses if they are receiving certain subsidies.

Reminder: *This is just an overview of several key provisions. Consult with a professional tax adviser for an application of either of the two new tax laws.*



Give Us A Call!

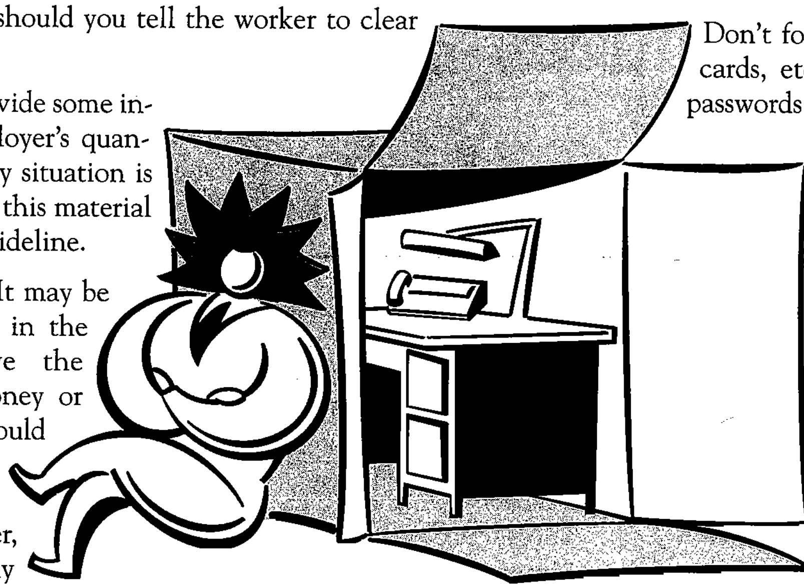
*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

What to Do When an Employee Resigns

Critical issues for employers to evaluate

One of your best employees has just notified you that he or she is leaving the job. This presents several ticklish issues. Should you try to convince the employee to stay? Or should you tell the worker to clear out immediately?

This article will provide some insights into an employer's quandary. **Caution**: Every situation is different, so rely on this material only as a general guideline.



The counteroffer: It may be more cost-effective in the long run to give the employee extra money or benefits than it would be to recruit and hire a capable replacement. However, a counteroffer usually is only a short-term solution, at best. For the employer, there is a certain element of betrayal that probably did not exist before. It may be difficult to resume a normal working relationship. In addition, the employee may have already made a psychological and emotional separation from the company.

On the other hand, if you can pinpoint the reasons why an employee is leaving, a counteroffer could be in everyone's best interests. **Example**: Say that a top-level manager who has a grueling commute is considering a job closer to home. You could respond by offering to help the manager relocate to an area closer to your business.

Transition stage: When an employee leaves, you usually receive two weeks' notice. More often than not, the employee will cooperate during the notification period out of loyalty. Use this time to try to complete unfinished projects. If possible, have the employee provide up-to-date status reports. Consider an early dismissal when all the loose ends are wrapped up.

Hopefully, the departing employee will provide assistance to a replacement. In any event, be sure to assign the departing employee's workload to someone else, at least temporarily.

Company security: A disgruntled employee can cause significant damage to a business operation. If you have reason to suspect possible sabotage: (1) review all of the employee's projects, (2) watch while the employee collects belongings and (3) escort the employee off the premises.

Don't forget to collect any keys, entry cards, etc. and change vital computer passwords. If necessary, you might also want to change the locks on file cabinets or doors.

The exit interview: It generally is beneficial to conduct an exit interview sometime before the employee leaves. This will help you to identify problems within the organization or personnel conflicts. If you get some concrete feedback, you can use the information to improve the company.

Try to keep the setting informal and relaxed. Every situation is different, but the prime objective is to find the cause of the employee's dissatisfaction.

***In summary**: Of course, employee turnover cannot be avoided completely. However, if you learn from past experiences and continue to keep the lines of communication open, you may be able to prevent some unexpected resignations.*

No Tax Strings to Customer Rebates

Suppose your company offers store customers a rebate if a local team wins the championship. What are the tax ramifications? A new private letter ruling is a good indication.

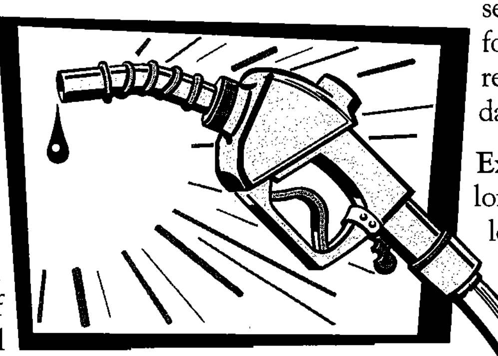
In the new ruling, a retail outfit offered rebates on merchandise purchased within a set timeframe if a specific event occurred (which it did). The retailer made good on its promise.

Result: The IRS determined that the promotion was meant to encourage customers to purchase merchandise. So the rebates represent non-taxable discounts to the customers. Furthermore, the store did not have to report the discounts as taxable income to the IRS.

Five Ways to Deduct Daily Business Travel

Taking the sting out of rising gas prices

The cost of gas has soared to unprecedented heights in 2008. Are there any tax breaks to salvage from this difficult situation? Unfortunately, you cannot deduct the cost of traveling back and forth from work in your car, but business drivers may write off certain "commuting" expenses. Here are five common examples when you may qualify for tax write-offs.



Example 1: You are an independent contractor with your principal place of business in your home office. It is normal for you to visit clients or make other business-related trips. Since your home is your "tax home" for this purpose, you can deduct your business travel expenses.

Example 2: You often stop to meet with clients on your way to work in the morning and on the way home in the evenings. By doing so, you have converted part of your nondeductible commute into a deductible expense. You can deduct the cost attributable to traveling between your regular place of business and other business locations.

Example 3: Your business has several offices or branches. During the course of the day, you often drive from one site to the other. Once again, the cost of traveling between different business locations is deductible.

Example 4: You are negotiating an important business deal with a client outside of your metropolitan area. For several weeks, you drive back and forth each day without visiting your regular workplace. In this case, your daily commute is deductible.

Example 5: You personally supervise a long-term project at a distant business location. Rather than traveling back and forth each day, you stay near the client's office and come home most weekends. Assuming the job takes no more than a year, it qualifies as a "temporary assignment." Not only are your lodging and meal expenses deductible (within certain limits), but you can also write off the cost of your weekend trips home.

Note that the IRS has raised the standard mileage deduction rate for the second half of 2008 (see "Facts and Figures" below). This convenient method may be elected in lieu of tracking all your actual expenses.

Proceed with caution*: If you are using your own car, you must deduct any employee business expenses as miscellaneous itemized deductions. The annual total for the year, including your travel expenses, is deductible only to the extent it exceeds 2% of your AGI.*

Facts and Figures

Timely points of particular interest

➡**Standard Mileage Rates**—Due to rising gas prices, the IRS has increased the standard mileage rate for business drivers for the last six months of 2008. From July 1 through December 31, the rate is 58.5 cents per mile (plus related tolls and parking fees), up from 50.5 cents per mile. The rate for medical and moving expense travel increases to 27 cents per mile (up from 19 cents per mile).

➡**Read All About It**—Employees can learn a lot by reading publications and journals pertaining to your particular industry or profession. **Suggestion**: Start a reading club at work. Assign certain publications to be read by every employee. Then meet to discuss the impact on selected items on your business. Encourage participation by workers who normally do not express their opinions.