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A tax, business, and financial planning newsletter for our clients and friends

CLIENT'S tax & financial UPDATE

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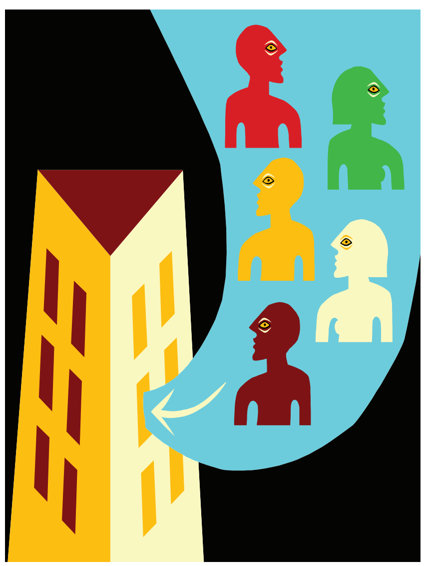
Productivity Solution: 60 – Hour Workweek Using 40-Hour Shifts

Here's an innovative way for business owners to increase productivity. By properly structuring 40-hour work shifts, companies can schedule a 60-hour workweek without the need for a second shift, and without the expense of overtime wages.

When incoming business strains production capacity, it's a natural impulse for many employers to add a second shift. Second shifts, however, present several problems. The most common problem is that it is often difficult to find qualified personnel for a second shift. To further complicate matters, a second shift means that line management positions must be duplicated - a real challenge in most industries. In addition, employee efficiency is reduced by environmental influences such as inadequate lighting.

As an alternative to the inefficiency of second shifts, progressive companies are looking at an innovative use of a 60-hour workweek.



Establishing the New Workweek

At first glance, it might seem surprising when the 60-hour workweek is scheduled, all employees continue to work only 40-hours a week. However, a key element in the schedule is that employees work four 10-hour days a week instead of five 8-hour days.

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taxPOINTS

Unlock your retirement accounts before age 59 ½. If you need money fast – for a down payment on a home, to cover large medical bills, or for other major expenditures – consider borrowing from your company retirement plans, including your 401(k). Most plans permit borrowing. Since the money you receive is a loan, not a plan distribution, you aren't taxed on it. Nor are you penalized. ***Limit:*** You can borrow up to half of your account balance or $50,000, whichever is less.

Divorce. If you divorce, and your retirement accounts are a marital asset subject to a property division, don't simply withdraw funds from the account and pay them to your spouse. Doing so will result in a taxable distribution, even if you owe your spouse money under the terms of your divorce.

Multiple support. Sometimes several people combine to support another – such as children supporting a parent. In that case, they may still be able to claim a dependency exemption even though no one person pays more than half of the person's support. ***Loophole:*** File IRS Form 2120, Multiple Support Agreement. Those providing the support then can obtain a dependency exemption and assign it to one among them.

Take abandonment losses. If the company owns equipment it no longer needs that has not been fully depreciated, abandon it by year-end to get a deduction for the remaining tax basis in it. ***Example:*** Computer equipment that has lost value faster than at the rate given in IRS depreciation schedules.

Interest Rates: What to Do In an Uncertain Economy

It's always difficult to forecast interest rates because the Federal Reserve Board continues to balance its decisions between risking inflation if it lowers rates and dampening the economy if it raises them.

However, most informed observers feel that short-term interest rates will probably remain fairly stable and that businesses should base their financial policies on liquidity and safety. Here's some sound advise.

Don't retire debt sooner than necessary. Your company may need cash to meet higher operating costs, and borrowing in the future may cost more than the company's present debt.

Borrow now instead of later. Six months or a year from now, interest rates may be higher. Furthermore, stricter federal lending regulations may cause banks to tighten their lending policies. So if your company anticipates a need for credit and it's available, get it now.

Make ultra-conservative investments. Invest the company's money only in short-term money market instruments that are backed by the U.S. Treasury.

Keep inventories at rock-bottom levels. If interest rates rise, the cost of carrying inventory will increase. Make inventory decisions on short-term sales projections, not on longer term anticipated revenues.

Build cash reserves. Make sure that your company will be able to meet its loan obligations. If revenues drop off, businesses with heavy debt can find themselves in a weakened cash situation. Take steps to maximize cash reserves now to avoid possible problems in making debt payments.

How To Tell If Your Prices Are Right

Poor pricing policies have been the downfall of many businesses. Overpricing means lost sales, and underpricing means lost profits. Here are some simple methods you can use to find out whether your prices are too high or too low.

Check customer complaints about your prices. It's normal to hear occasional complaints about prices, but if you don't hear any customer complaints, there's a good chance your prices are too low.

Make it a regular practice to compare your prices with those of your competitors. A large percentage difference is an almost certain indicator that your prices should be adjusted.

Keep an eye on the quantity of orders you receive. This can often give you a better perspective of your prices than sales dollar volume, which can be influenced by a single large order.

Keep track of the ratio of your gross profits to sales. If your sales go up but your profit remains steady, the chances are good that you are underpricing.

In many instances, your pricing policies might be influenced by national or local economic conditions. Statistics such as the Consumer Price Index, the prime rate, and unemployment data are readily available in the media and can often give you advance notice to prepare for pricing changes.

Use Your Parents' Home as A Tax Shelter

Real estate is still one of the best ways to shelter your income from taxes. One of the most productive real estate tax shelter strategies to consider is buying your retired parents' home on a monthly installment payment basis and then renting it back to them.

You can set your installment payments at a level that best satisfies your needs. If the installment payments are greater than your parents' rent, your parents will have additional cash each month. If the payments are less than the rent, you will have additional cash each month. And if the payments are equal to the rent, neither you nor your parents will experience a monthly cash outflow.

This strategy benefits your parents in three ways. First, they get cash for their retirement from the installment payments and from the down payment. Second, their home is no longer part of their taxable estate. And, finally, if your parents owned and occupied the home as their principal residence for at least two of the last five years, they can elect a $500,000 exclusion from gain on the sale.

You get extra benefits, too. If your Adjusted Gross Income is within certain limits, you can deduct rental property expenses such as repairs, maintenance, and insurance as well as property taxes and depreciation.

Family-owned real estate transactions are closely watched by the IRS and it's important that you pay a fair market price for your parents' home. It's equally important that you set their rent at a reasonable level. However, keep in mind that because family members are low-risk tenants, a Tax Court had ruled that a reasonable family member rent can be up to 20% lower than general market rents.

Tax Tip: It's Time to Update Your Will

Since Tax Reform, many estate plans have become outdated. If you don't review your estate plan and update your will, your heirs could lose many important benefits and might be forced to pay unnecessary estate taxes. Regardless of changes in the tax law, you should review your will regularly because your financial and personal situation might change.

SEP: An Easier, Less Expensive Employee Pension Plan

For smaller companies that can't offer their employees pension plan benefits because of the cost and complexities involved, the answer may be a Simplified Employee Pension plan know as a SEP.

A SEP is as easy to start and to administer as an individual IRA. In essence, an employer-sponsored SEP consists of separate retirement accounts which are set up for individual employees. Within certain rules, the cost can be controlled by the employer.

Under the tax laws, all eligible employees must participate in an employer-funded SEP and the plan must not favor highly compensated employees. Employer contributions are deductible to the employer.

Employer contributions to a SEP have the added benefit of not being included in employee's wages or taxable income. Therefore, the contributions are not subject to payroll taxes.

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Productivity Solution: 60 – Hour Workweek Using 40-Hour Shifts

Three groups of employees - "A", "B", and "C" - work on a schedule that repeats itself every two weeks. Here's how the ABC two-week schedule looks:

	Mon. Groups	Tue. Groups	Wed. Groups	Thu. Groups	Fri. Groups	Sat. Groups
First Week	A + C	A + C	A + B	A + B	B + C	B + C
Second Week	B + C	B + C	A + B	A + B	A + C	A + C

Notice that Group C, which consists of workers who have the least employment seniority, is always paired with either Group A or Group B, each of which consists of more experienced employees. This makes special line managers for Group C unnecessary, since the Group A and Group B managers perform that function. In addition, the experienced Group A and Group B managers supervise and train the Group C workers.

Employee Reaction

There are several good reasons why employees like the "ABC" work schedule:

- The 4-day workweek gives employees more time to spend with their families or to enjoy leisure time activities.
- Every two weeks, Group A and Group B employees alternately get five consecutive days off. Over a one-year period, this adds up to 26 "mini vacations".
- Because employees work four days instead of five, their commuting expenses are reduced by 20%.

Company Rewards

Employers have much to gain from a 60-hour workweek:

- Absenteeism is reduced, since employees can take care of personal business and make medical or dental appointments for the weekdays when they are not scheduled to work.
- The schedule allows the company to better utilize its existing facilities and equipment, with less downtime than at the beginning and end of a double shift, less time lost to "breaks", and a reduction in start up and shutdown time.
- Because employees like the ABC workweek, employee morale and efficiency are improved. In fact, one company has reported that the 60-hour workweek is so efficient that production is almost equal to its previous two-shift, 80-hour workweek.

Better Customer Service

One of the added benefits of the 60-hour workweek is that a 10-hour workday provides better customer service. Customers in the same time zone can reach the company during expanded hours, while communication with customers in other time zones are greatly improved.

Where it's been put into practice, the 60-hour workweek has been successful, with increased productivity and efficiency for employers, more days off and lower commuting costs for employees, and improved customer service through better communication.

Tax Tip: IRA Investment Trap

Losses on IRA investments are not deductible, which is one reason why many tax advisors recommend that taxpayers should limit their IRA investments to CDs and bonds where the principal is safe and the interest is tax deferred. These experts recommend that investments in equities and mutual funds should be made outside an IRA where possible capital losses are deductible.

Common Overpayment Mistakes in Small Businesses

Many small companies literally throw away money because they don't have the proper controls to prevent overpayment mistakes. Here are the most common overpayment mistakes.

- The same invoice is paid twice.
- Discounts for prompt payment are overlooked.
- Credit memos are forgotten.
- Purchase orders are issued without terms and conditions.
- Bills are paid when invoice prices are higher than quoted.
- Payments are made for goods that were short-shipped, never received, or returned to the vendor.