

# OUR PERSPECTIVES

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Dear Clients  
and Friends:

With 2006 fast approaching, it is once again time for each of us to assess our financial situation.

This kind of evaluation is particularly important in view of the present uncertainty in the financial climate. Interest rates, for example, though relatively low in historical terms, have risen since the beginning of 2005. This, together with the tremendous hike in oil prices and the sudden stall in the residential real estate market, raises the concern that the 2006 economy may not be as strong as it has been this past year. As a reflection of all these changes, the stock market continues to behave erratically, pushing to new highs and then falling back.

These factors make it critical for all of us to ask those difficult yet vital questions. Where are we now compared to where we were at the beginning of the year? Did we accomplish the goals we set? Did we save enough or did we overspend? What are our personal needs and responsibilities for the coming year? Have we planned carefully and budgeted properly? If the answer to any of these questions is negative or uncertainty, it is certainly time to begin planning so that in the future we can all enjoy the fruits of our accomplishments.

On behalf of the entire Firm, I wish you and your families a happy holiday and a healthy and prosperous New Year.

Very truly yours,  
Michael S. Lewis, Managing Partner

## A New Look at Sixty

Michael S. Lewis, CPA

2006 marks the 60th anniversary of our Firm. Such an occasion is an opportunity to applaud the progress of the past. We are especially proud of our constant adherence to the Firm's core values—integrity, commitment, dedication, and quality. These principles are the foundation of our solid work ethic, yet they have also allowed us to change and grow. One part of that change is a new and improved image that supports our goal of creating a superior experience for each of our clients. This past year we have added both technology to improve our efficiency and new staff professionals to provide you with more thorough and comprehensive client services.

Other changes include our logo and our stationery, both of which are more modern but still preserve the strength and professionalism of the Firm. In addition, the newsletter you are now reading has a different look and will provide you with a

greater variety of business, accounting, and tax articles. Furthermore, in the future we will be sending you information we believe will be useful in your business and personal financial situations. An example is the recently mailed *Business and Personal Record Retention Schedule*. (If you did not receive it or want additional copies, please call or e-mail Dave Riley, driley@mtlcpa.com.) Finally, we are at work on our new web site, designed with you in mind. We plan to develop areas that will act as resources for you, providing downloadable forms and articles, calculators, and links to other sites from which you may benefit.

As always, we greatly value your input. If there are specific items you would like to see added to our web site or special topics you would like covered in this newsletter, please do not hesitate to e-mail us at [info@mtlcpa.com](mailto:info@mtlcpa.com) or speak with your Meisel, Tuteur & Lewis contact. We look forward to hearing from you! ■



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# Condition Your Business for the New Year

Michael J. Napolitano, CPA

Many individuals who make New Year resolutions list a renewed commitment to personal health and fitness as a top priority. Why not make the same commitment to your business? Are you confident that your organization is fit for the future?

Although most small businesses have a short-term plan outlining goals for the upcoming year, their failure to make a long-term one is all too common. Because short-term plans don't yield long term results, forecasting for the distant future is essential. Carefully assessing your internal operations and costs can lead you to some surprising money-saving ideas for down the road. Let's review a few methods to minimize common costs that often bog down businesses.

## #1: Assess Your People

People are often an organization's greatest asset. Countless times I've heard a manager say that someone is "adequate" for the job he or she is doing. Ask yourself, is your long-term goal adequacy or growth to leadership

in your field? Now is the time to assess your work force in order to determine if the members are capable of taking your company to the next level.

## #2: Revisit Your Financial Reporting System

Years ago, you may have implemented basic software programs that fit your needs at the time. However, by now your organization may have outgrown its current systems, and/or technology may be forcing a change. The proper software should increase efficiency, freeing up time for employees to take on more productive activities, and accelerate and improve financial reporting, allowing management to make timely business decisions and safeguard company assets. Consider whether or not industry-specific software is available to fit your needs. Organizations and professional associations that specialize in your particular industry are a good source for this type of information. It is wise to note, of course, that changing software can be costly and disruptive to an organization. It is a decision that should be made only after proper research has been done to ensure the desired result will be attained. When installed after careful planning and for the right reasons, new technology can be the factor that sets your organization apart from its competition.

## #3: Review Existing Contracts

Often operating costs increase, even when revenues do not. You can avoid bottom line shrinkage by paying attention to contracts you presently hold.

For example, recent events such as rising fuel costs have dramatically affected certain companies. In light of this, the use of corporate vehicles should be carefully monitored. Also important and often forgotten is notifying the insurance company when a vehicle or piece of equipment is sold or retired. We have witnessed countless episodes of companies carrying vehicles for years after their sale.

Health insurance represents another ever increasing cost that must be managed. Shopping for healthcare coverage, adjusting current policy provisions, and/or creating healthcare savings accounts can all work towards reducing your current insurance costs.

Finally, soliciting bids from new vendors and suppliers or negotiating better prices from those you currently buy from can be productive. Specifically, pay attention to office supply vendors, as well as providers of cell phone, long distance, and internet services. These providers have

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## IRS Takes Aim at S Corporations

William Schwarz, CPA, MST

On July 25, 2005, the Internal Revenue Service (IRS) announced that it will be conducting a study to assess the reporting compliance of S corporations. The study will consist of the examination of 5,000 randomly selected S corporation returns from tax years 2003 and 2004. The audits are scheduled to begin in late 2005.

The aim of the IRS is to determine how the dramatic increase in the use of S corporations has affected tax compliance. Specifically, the announcement states that the study "will be used to more accurately gauge the extent to which income,

deductions, and credits from S corporations are properly reported on returns filed by the flow-through corporations and their shareholders." In addition, it says that the results of the study "will assist the IRS in selecting and auditing S corporation returns with greater compliance risk."

At this time it is unclear which issues the IRS will focus on during these examinations. However, many practitioners have speculated that among them could be reasonable compensation, computation of basis, and disguised distributions.

If you have any questions or concerns regarding this upcoming study or your own S corporation, do not hesitate to call your Meisel, Tuteur & Lewis practitioner. ■

## IRS Has a New Focus: Collection and Enforcement

*William Schwarz, CPA, MST*

The Internal Revenue Service (IRS) has a new focus: collection and enforcement. As a result of legislation adopted in 2004 and an IRS crackdown on unpaid taxes, in January 2006 the IRS will begin using three private collection agencies. The IRS has stated that there will be no profiling of age, location, or income, and the target is not any one category of taxpayer. Instead, the agencies will focus on any individual taxpayer account with less than \$25,000 owed that is deemed to be highly collectable.

Taxpayers who are assigned to a private collection agency will receive a letter of notification that will include contact information for the IRS and the collection agency. If there is a

Power of Attorney on file, the representative will also receive a copy of the notification.

The private collection agencies will be bound by the same rules as the IRS but will have no enforcement capabilities. Taxpayers will still have every legislative right available to them, including appeals and the Taxpayer's Advocates Office. In addition, partial payment and full pay installment agreements will be available. All payments will continue to be made to the IRS.

Currently, it is not possible to predict the exact procedures which the collection agencies will take while attempting to collect the outstanding taxes. It is our expectation and hope that the IRS has taken the time to ensure that the agencies perform their jobs in a courteous and professional manner.

If you receive one of these notices, we urge you to contact your Meisel, Tuteur & Lewis, professional immediately. ■

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## Liberalized Rules for Charitable Giving Relating to Hurricane Katrina

*Curtis W. Gambin, CPA*

Hurricane Katrina has been ranked as one of the most destructive storms and costliest natural disasters in the history of the United States. Some frightening statistics include the following:

- Official death toll - 1,302
- People forced out of their homes in New Orleans and the surrounding areas - More than one million
- Estimated damage - \$70 to \$130 billion

As a result of this devastation, on September 23, 2005, Congress signed into law the Katrina Emergency Tax Relief Act of 2005 (KETRA). KETRA is the first of two planned legislative initiatives dealing with the aftermath of the storm. It is designed to provide immediate tax relief to help affected families recover and to encourage Gulf Coast businesses to reopen and keep employees on the payroll.

One of the key provisions within KETRA contains several expanded tax breaks to encourage charitable giving. Highlights of the new law as they relate to charity are as follows:

- **Increased charitable deduction limits.** An individual's cash donations to charities made between August 28, 2005, and December 31, 2005, are exempt from all

adjusted gross income (AGI) based phase-outs and limitations. In effect, an individual's cash contributions made during this period will reduce taxable income dollar for dollar. Furthermore, the cash donations **do not** have to be made specifically in connection to Hurricane Katrina relief efforts or charities. They can be made to any charitable organization and still qualify for the relaxed rules provided under KETRA. In addition, corporate cash donations made between August 28, 2005, and December 31, 2005, are not subject to the 10% taxable income limit. However, corporate donations **must** be made in connection with relief efforts related to Hurricane Katrina in order to receive this special treatment.

- **New limited exemption for housing Katrina victims.** Individuals may claim an additional exemption deduction of \$500 for providing at least 60 days of temporary rent-free housing to a person forced by Katrina to relocate. The deduction can be claimed in 2005 and 2006 but cannot be claimed in both years with respect to the same person. Finally, the additional exemption amount is capped at \$2,000 or no more than 4 displaced persons.
- **Charitable standard mileage rate and mileage reimbursement provisions.** From September through December of 2005, the charitable standard mileage rate for Katrina relief increases from 14 cents to 34 cents per mile. Additionally, reimbursements by a charity for the charitable use of an automobile in connection with providing donated services for the relief effort during the

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## An Inside Look

### New Hires:

**Jamie Ciccotelli**, a long-time resident of Clark, NJ, is our new Receptionist.

**David Riley**, currently attending Montclair State University, has joined our team as a Marketing Intern.

**Megan Brown**, a graduate of Franklin & Marshall College in Lancaster, PA, has joined our team as a junior accountant.

### Other News:

Congratulations to **Bradley Maneely** and **Cynthia Vail** on their marriage.

Congratulations to **David Kerner** and **Alexandra Quesada** on their December 5 marriage.

We wish them all much happiness.

On Saturday, November 12, **Michael S. Lewis** hosted a very special evening at *Mr. Chow*, in New York City, held to celebrate the promotion of **Michael J. Napolitano** to Partner. Michael and his wife, Sandra, were joined by the partners and managers of Meisel, Tuteur & Lewis, along with their spouses.

On October 31, **Michael S. Lewis** and **Thomas J. Stickle** delivered a tax seminar to the entire staff of Gebroe – Hammer Associates, one of New Jersey's leading investment real estate sales organizations. ■

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## Condition Your Business for the New Year

become incredibly competitive and offer promotions regularly.

One final note: Costs should always be evaluated and managed, but at those times when growth is stagnant or is projected to be sluggish, it is imperative that they be reevaluated at least quarterly.

These are just a few measures you can take to help your bottom line and get your business in shape for the future. Often your key employees can be a valuable source of cost-cutting methods; don't be afraid to solicit ideas from them and listen to them carefully. The key is to be proactive, not reactionary, and concentrate on taking steps that will not only pay dividends in the short-term but also make your organization fit for the long haul. ■

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## Liberalized Rules for Charitable Giving Relating to Hurricane Katrina

period August 25, 2005, to December 31, 2006, are excludable from gross income. However, the reimbursement can not exceed the business standard mileage rate.

- **Enhanced charitable deduction for contributions of food and book inventories.** Food donations made by S corporations, partnerships, and sole proprietors after August 27, 2005, and before January 1, 2006, generally

will be subject to more liberal rules which effectively allow for larger deductions.

The deduction by a C corporation for donations of books to schools after August 27, 2005, and before January 1, 2006, will also be subject to more liberal rules, allowing for a greater tax benefit.

Please keep in mind that I have described only the highlights of the new law as it pertains to charitable contributions. If you would like more details on any aspect of the new legislation, including other tax relief provisions, please contact our offices at your earliest convenience. ■

# OUR PERSPECTIVES

## Employee Incentive Plans

*Michael J. Napolitano, CPA*

Are you looking for a way to increase sales, motivate your employees and add to your company's bottom line? Consider implementing an employee incentive plan. According to a study of six leadership styles conducted by Harvard Business Review, the use of rewards was the single highest predictor of "organizational climate," which had a direct correlation with financial results.

Rule number one is to keep it simple. Begin by defining what the desired end result is for the company and for the employee. For example, do you want to increase sales, productivity, or efficiency? Next, devise a strategy that will assist individuals or groups of employees in accomplishing that goal. This includes assessing the behaviors, tasks, and decision-making actions the employee can control and determining what management wants to encourage or discourage.

At all times, the employee needs to have a clear understanding of what the incentives are, what actions they need to take and/or what goals they have to achieve to earn them; and specifically how, if at all, their elemental efforts impact their incentive compensation. Stick with performance results the employee can easily see, such as percentage of increased sales, decreased costs, or client retention levels. It is important for management to be realistic when setting these goals, making them attainable, but still forcing the employee to make an extra effort. For example, it is possible that a salesperson could easily increase his or her sales by ten percent but instead only meets quota. In this scenario, giving them an incentive to increase sales by ten percent is attainable but not a stretch. Instead, push productivity and raise expectations. Consider paying out incentives only when sales have been exceeded by a percentage not easily attained, but attainable none the less.

Another challenge is deciding what the value of the incentive should be. Studies show that for an employee to be motivated to buy into the incentive plan, it should add to his

or her income between 8-12% of his or her base salary. This is, of course, a generalization; any incentive plan should be compared to what is being offered by your competition, as well as the industry in general.

Implementing a successful incentive program does not end when you launch it. Rather, it is critical that the program be marketed and communicated to your staff on a regular basis throughout the year, reminding them of the goals and updating people on their status. Some ideas include sending periodic email or voicemail messages, updating the team on who is winning and/or doing particularly well; using the Firm's intranet to share statistics, success stories, and perhaps even strategies; and sending benchmark reminders to everyone, encouraging people that don't think they can achieve the goals that it is possible. For the organization that is spread out in different offices and perhaps even different states, consider direct mail and interactive conference calls, providing motivation and reminders as to what people should be working toward.

A successful incentive program should do the following: immediately recognize an employee for a job well done, offer short term rewards for performance on a monthly or quarterly basis, and provide long term rewards for loyal employees. Incorporating all of the above will satisfy the employee looking for immediate gratification, as well as acknowledging the one seeking a long term commitment. By-products of this type of recognition include motivating other employees to work harder as they begin to see others being recognized for their accomplishments and increasing the level of teamwork as departments or groups work together to exceed quotas and expectations.

Companies often do not implement incentive plans fearing it will be too complicated or too expensive. The suggestions above provide a basic framework for developing and implementing a successful incentive plan. We hope this gets you moving in the right direction. ■