



*Dear Clients and Friends,  
Another tax season has  
come and gone. I would  
like to take this  
opportunity to thank the  
entire staff at the firm for  
their tremendous efforts.  
I received more emails  
and telephone calls this  
year than ever before  
complementing the firm*

*on its timeliness and performance. I would also  
like to thank all of our clients for their efforts in  
making this happen.*

*Fortunately, the inflow of new work and special  
projects is keeping us very busy well into this  
month. It is amazing how many non traditional  
services we are providing. Currently, we are  
involved in several litigation projects, as well as  
various consulting engagements.*

*It is very exciting to watch the firm grow and  
expand its services and client base. On behalf of  
everyone at the firm, I want to thank all of our  
clients and referral sources for making this  
possible. We hope you all enjoy your summer.*

*Very truly yours,  
Michael S. Lewis, CPA  
Managing Partner*

## Recruiting and Retention: Some Ways You Can Improve

Michael S. Lewis, CPA

Most owners will agree that attracting and retaining talented professionals is crucial to their ability to grow and remain profitable.

Strong people make good decisions, identify opportunities, and help keep the company running efficiently. So why is it that often too little emphasis is put on recruiting and retention programs?

At Meisel, Tuteur & Lewis, we are experienced in working with our clients on their growth goals and strategies, and can recommend programs (many of which have led to our own success) to aid you in recruiting and retaining key employees for the long term. We can assist you in developing innovative programs that address issues such as: compensation, partnership agreements, buy/sell agreements, incentive programs, employee benefit plans, and succession planning.

From the way you screen and interview potential candidates to orientation and continued motivation, management's role in recruiting and retaining employees can not be underestimated. In fact, retention begins with recruitment. Clearly understanding your group's culture and finding candidates who fit will ensure a more productive environment and support your long

term growth. A common practice among successful firms is to begin retaining employees even before their start date, communicating with them about expectations, growth goals, compensation, culture, and administrative issues. In short, doing whatever is necessary to ensure that new employees integrate smoothly and rapidly.

Some key retention strategies, while employing basic common sense, are often difficult to find in many organizations. Let's start with the top reasons employees search for new opportunities. They include disappointment with compensation, dissatisfaction with career development, desire for challenge, poor cultural fit, and lack of work/life balance. To combat these, the most common programs used include competitive salaries, signing bonuses, increased vacation time, flexible scheduling, and tuition reimbursement. But these factors alone are not enough.

The recruiting and retention programs instituted by some of the most innovative, unique and successful organizations include expanded mentor programs, structured orientation programs, deferred compensation plans, loan repayment bonuses, and continuing education reimbursement. In addition, regular performance reviews, establishment of retention committees, increased social activities and involvement with spouse and

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# How to Survive and Thrive in a Family Owned Business

Michael J. Napolitano, CPA

Running a family owned business and accomplishing its eventual transition is not only fraught with business and tax issues, but emotional issues as well.

Let's start at the beginning. First, communicate with your children to be certain they want the family business to be part of their working future. Next, get them involved early so everyone can see if it's a good fit. Have them start at the ground level, learning all aspects of the business, from manufacturing and warehousing to marketing and sales. Most important, help them build respect and credibility by holding them accountable as you would any other employee within the company. This is especially essential when the family member is in a position of authority, for if other employees feel he or she is being given special treatment and not "pulling his or her own weight", they will not willingly accept the person into the culture. Demanding accountability will demonstrate to your workers that there is no favoritism and that you are serious about developing the family member into a professional and future leader. It will also provide a level of discipline so often missing in family owned businesses.

A word of caution: allowing family members to be 'semi-involved' in the business is dangerous because they tend to have a less structured job function or, even worse, no function at all, a

situation that creates friction between them and full time family members, who view the arrangement as unfair and inequitable. By clearly defining jobs and responsibilities for everyone, you will prevent unnecessary and often costly family feuding. If necessary, involve a third party.

The business transition process can be stressful, particularly if there are doubts about the future management team. To reduce tension, begin thinking about the process well before you intend to pass the business to the next generation. Prepare for possible life changing events: a death or serious illness can throw a company into turmoil if the transition of its leadership has not been planned well in advance.

The leadership question—in essence, deciding who will run the company—is a crucial part of the transition process. Often the assumption is that the responsibility will fall to the oldest family member, which can cause resentment among others in the family who may believe they are more qualified. Be direct with all those who are involved in the business, making clear your wishes and expectations as to who will assume what role. Compensation should also be determined to prevent members from using their own discretion for their individual salaries.

Interested in beginning the process, but not quite ready to give up control? Consider a family limited partnership. It works in the following manner: First, a new entity, the "XYZ Family Limited Partnership", is created. Into that entity, you contribute the ownership of your

business, take back a small general partner interest, and keep the balance as a limited partner interest. As the owner of the general partner interest, you retain control of the company, regardless of the percentage of ownership. Next, you can give away pieces of the limited partner interests. The benefits of this arrangement are numerous, including reducing your estate tax liability. This description is, of course, an oversimplification: there are numerous issues and options to be considered throughout the entire process.

Finally, there is the consideration of the selling price, which is clearly affected by the needs of the parent/seller. Does he or she require a lump sum payment, or can the payout occur over time? Would a large up-front payment strain the business and hinder future growth because of the new debt requirements? One alternative buyout method is a self-canceling installment note (SCIN). This provides the owner with a steady income stream but terminates the loan at the death of the seller. However, if this method is not properly structured, it could result in unfavorable tax consequences, so consult with your tax advisor.

Regardless of what stage your business has reached at present, it is never too early to prepare for whatever lies ahead. At Meisel, Tuteur & Lewis we have significant experience in dealing with the unique needs and challenges of family owned businesses and their transitions. We would welcome the opportunity to offer you constructive guidance regarding whatever business issues you face at this time. ■

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## Finding Cheap(er) Gas

Tired of driving around your neighborhood looking for the cheapest gas? With the help of thousands of volunteers, a number of web sites post prices from service stations around the country, allowing you to search by town and ZIP code.

**[www.newjerseygasprices.com](http://www.newjerseygasprices.com)** Here you can also search for specific brand station names and can chart prices over time.

**[www.gaspricewatch.com](http://www.gaspricewatch.com)** The site lets you search by intersection and soon will allow you to get the prices along a personalized driving route.

**[www.automotive.com/gas-prices/index.html](http://www.automotive.com/gas-prices/index.html)** A straightforward site and the easiest to search by ZIP code.

**[www.fuelgaugereport.com](http://www.fuelgaugereport.com)** Run by AAA, this site provides you with price trends throughout the country. ■

# An Old Question with New Implications

Anthony Pentz, CPA

For federal income and employment tax purposes, the question of whether a worker is an employee or an independent contractor is an age-old and complicated one. Unfortunately, while there are many factors that contribute to these classifications, there is no uniform definition.

As you well know, if a worker is an employee, you (the company) must withhold federal income and payroll taxes and pay the employer's share of payroll taxes on wages paid. You may also need to provide health insurance, match 401(k) contributions, and offer fringe benefits made available to other employees. As well, there may be state tax obligations. These obligations, however, do not apply for an independent contractor. The business simply cuts a check for services provided; if the total dollars paid amount to more than \$600 annually, the individual is sent a FORM 1099-MISC.

Each year, the state's labor department performs payroll audits on approximately 2% of New Jersey's employers. According to reports the state submitted to the federal government, there were 16,591 misclassified workers in N.J. in 2005, compared with 15,921 in 2004. These figures mean that the state lost millions of dollars of state unemployment and disability insurance payments last year. The numbers are higher than misclassifications reported in New York State (13,308) and dwarf the reported cases in Pennsylvania (303 cases).

To combat this problem, Governor Jon S. Corzine recently issued a memo that could cost businesses a considerable

amount of money while helping the state increase its revenue. The memo, addressed to the departments of labor and treasury, calls for a new tax-enforcement program aimed at companies that cut costs by improperly classifying employees as independent contractors. According to David Socolow, the Department of Labor's acting commissioner, Governor Corzine's new directive would allow the agency to collect at least five million dollars in additional gross income taxes merely by collecting those taxes that should have been withheld and remitted to the state but weren't.

Exactly who is an employee and who is an independent contractor? Under the 'common-law' rules, which originate from court cases rather than the tax code, an individual is generally considered an employee if the enterprise for which he or she works has the right to control and direct him or her regarding the job that has to be done and the manner in which it is accomplished. Otherwise, the person is an independent contractor. There are, of course, exceptions to this rule as any other, and some categories of individuals may be subject to special rules because of their occupations or identities.

The consequences of misclassifying workers include repaying taxes and incurring interest and penalties. In addition, the state routinely shares data with the Internal Revenue Service; thus, a penalty from the state for improperly paying employees as independent contractors could trigger an IRS audit.

We recommend periodically reviewing the status of your workers to be certain they are properly classified. We also encourage you to call a Meisel Tuteur & Lewis professional if you have questions about the complex rules that exist and how they apply to your business. ■

## 10 Hot Jobs

Retiring baby boomers will deplete the ranks of experienced tech workers, professors, and scientists, spurring replacement hiring. They'll also need more health-care workers to look after them. Below are the fastest-growing occupations for college-educated workers, predicted through 2014 by the Bureau of Labor Statistics and outlined in the May issue of *Business 2.0* magazine. All ten occupations fall into three industry categories: Technical, Medical, and Educational.

Rank	Occupation	Jobs (growth through 2014)
1	Network systems and data communications analyst	54.6%
2	Physician's assistant	49.6%
3	Computer software engineer, applications	48.4%
4	Computer software engineer, systems software	43.0%
5	Network and computer systems administrator	38.4%
6	Database administrator	38.2%
7	Physical therapist	36.7%
8	Medical scientist	34.1%
9	Occupational therapist	33.6%
10	College instructor	32.2%

## An Inside Look

### Employee News:

Congratulations to **Anthony** and Evelina Pentz on their newest addition. Lucas Frank Pentz was born on April 5, 2006, at 1:33 p.m., weighing in at 9 lbs. 3 oz. and 21 inches.

**Kristopher Kusmierz**, a graduate of Seton Hall University, has joined the firm as controller.

### In The News:

**Michael S. Lewis** was profiled in the spring issue of *Vermont Quarterly*.

**Anthony Pentz** was published in the Biz Brain column of *The Star-Ledger*.

### Individual Achievements:

**William Schwarz** spoke to The Financial Group of Pressman, Berntsen, and Wolfe of UBS Financial Services

Inc. about the Alternative Minimum Tax and its effects on taxes.

**Thomas Stickle** has joined the Board of Directors of Eva's Village, a not-for-profit agency whose mission is to feed the hungry, shelter the homeless, treat the addicted, and provide medical care to the poor.

**Bradley Maneely** co-founded and has been elected to the Board of Directors of the Essex Chapter of NJCCJ-NJ, a not-for-profit organization founded to fight bias, bigotry, and racism.

Congratulations to **Michael Gill** on successfully completing all four parts of the CPA exam.

For the third and fourth year in a row, respectively, **Paddie Rarick** and **Jill Griffith** participated in the Revlon Run/Walk held in Central Park and raised hundreds of dollars for breast cancer awareness and research. ■

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## Recruiting and Retention: Some Ways You Can Improve

family, participation in leadership meetings, and formalized transition plans are seen frequently.

Here are some basic, but often overlooked, ideas to consider in order to improve retention within your business:

- Provide opportunities for people to share their knowledge via training sessions, presentations, mentoring others, and team assignments;
- Demonstrate respect by listening to employees and incorporating their ideas wherever possible;

- Offer performance feedback and praise good effort and results;
- Enable employees to balance work and life (yes, his son's soccer game is important!);
- Involve employees in decisions that affect their jobs;
- Link pay to performance;
- Staff adequately to minimize overtime and burnout;
- Nurture the culture: run a food collection drive in November; pick a charity to help as a firm; have an annual company event (a holiday party or a summer picnic);
- Communicate goals, roles, and responsibilities so that people know what is expected.

For assistance in implementing some of these programs, feel free to call your Meisel, Tuteur & Lewis professional. ■

## 2005 Property Tax Rebate Deadline Extended

It's time once again for the State of New Jersey to issue its homeowners well-deserved property tax rebates.

The week of May 1, property tax rebate applications were mailed to senior citizens and disabled homeowners. This group has until August 15, 2006 to file their application, and rebate checks are expected to be issued beginning on July 31, 2006. All other homeowners will receive their property tax rebate applications beginning in July.

In most cases, the rebate applications must be filed by telephone or via the internet. The automated telephone filing system will be available 24 hours a day, 7 days a week during the filing period at **1-877-658-2972**.

For additional information about the property tax rebate program, call **1-888-238-1233** or visit the Division of Taxation website at **[www.state.nj.us/treasury/taxation](http://www.state.nj.us/treasury/taxation)**. ■

## You've Paid Your Sales Tax. Now What About the Use Tax?

Shane Orbach, CPA, MST

Have you ever purchased a product from an out-of-state vendor and noticed they didn't charge you sales tax? Unfortunately, this doesn't mean that you escape taxation; it simply indicates that the vendor is not obligated to collect sales tax in your state.

In New Jersey, when sales tax has not been paid or is paid at a rate less than the state's rate of 6%, a "use" tax is

assessed for the privilege for using the items. In other words, if you purchase office supplies from a company in Minnesota, and they are not required to collect New Jersey sales tax, a use tax of 6% would be due once the supplies have been brought into the state. Failure to pay use tax can result in serious penalties.

Due to budget deficits, many states have begun to pay closer attention to the collection of use tax, initiating an increased number of examinations. Identifying the need to pay use tax is the responsibility of each business, as accounting firms do not analyze every purchase invoice.

If you are not sure of your obligations and would like more information regarding sales and use tax issues and your potential exposure, feel free to contact Shane Orbach, CPA, MST or another Meisel, Tuteur & Lewis tax professional. ■

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If you wish to receive information from us via e-mail, please provide us with your e-mail address. You may also request to continue receiving a copy through the mail.

In addition, if there are topics you would like to see covered in future issues, please let us know!

Please fax this back to **Alicia Olesinski** at (973) 228-6551 or e-mail Alicia at [aolesinski@mtlcpa.com](mailto:aolesinski@mtlcpa.com). ■

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