

OUR PERSPECTIVES

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Dear Clients and Friends:

I recently re-read a book called *Who Moved My Cheese?*, an amusing and enlightening story of four characters who live in a "maze" and look for "cheese".

"Cheese" is a metaphor for what you want to have in life—whether it is money, a possession, a relationship, a hobby, or peace of mind. The "Maze" is where you look for what you want—the company you work in, your family, or your community. The four characters—Sniff, Scurry, Hem, and Haw—are faced with unexpected change. Sniff is proactive, always sniffing out change early; Scurry reacts to change after it happens; Hem denies and resists change as he fears it will lead to something worse; and Haw learns to adapt in time when he sees changing can lead to something better.

The characters in this book represent the simple and complex parts of each of us and teach principles that can help you deal with change more productively, so you can enjoy more success and less stress. Each of us has our own idea of what the cheese is, and we pursue it because we believe that it will make us happy. When we get it, we become attached to it; if we lose it, it can be traumatic. While not all change is good or even necessary, in a world that is constantly changing, it is to our advantage to learn how to adapt and enjoy something better. I enjoyed this quick read and hope you find something useful in the story, too.

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

2008 Economic Stimulus Act Offers Businesses Tax Breaks

Franco Fallone

While the media has been focusing on the cash rebates being issued to individual taxpayers, it is important to note that the Economic Stimulus Act of 2008 also contains some beneficial tax breaks for businesses, intended to help stimulate the slumping economy.

The first incentive is an increase in the limitations on expensing depreciable fixed assets. The new law increases the maximum amount of depreciable assets that businesses can elect to expense under Section 179 from \$128,000 to \$250,000. The law also increases the threshold for phase-out of this deduction from \$510,000 to \$800,000 of total depreciable assets placed in service during the tax year. After \$800,000 of qualified additions, the maximum expense deduction is

phased out on a dollar-for-dollar basis up to \$1,050,000. Because these increases only apply to tax years beginning in 2008, businesses on a fiscal year may be able to acquire eligible assets into 2009. For example, if a corporation has a June 30 year end, the old limitation of \$128,000 will apply to assets acquired from July 1, 2007 through June 30, 2008. The increased limitation of \$250,000 would apply to assets acquired from July 1, 2008 through June 30, 2009. For tax years beginning after 2008, the \$128,000 deduction and \$510,000 phase-out limitation will apply. Furthermore, for tax years beginning after 2011, the limitations are scheduled to fall to a \$25,000 deduction and a \$200,000 phase-out.

The new law also provides for a second benefit to businesses by providing for a 50% bonus depreciation on new assets. This means that 50% of the adjusted basis of a depreciable asset can be deducted in the year it is placed into service. The basis of

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2008 Economic Stimulus Act Offers Businesses Tax Breaks

the property and the depreciation in the year the property is placed into service and later years are adjusted to reflect the additional first year depreciation deduction. Unlike the Section 179 deduction above, there are no dollar amount limitations to the bonus depreciation. It is important to note that the bonus depreciation only applies to assets whose original use begins with the taxpayer between December 31, 2007 and January 1, 2009. The fiscal year of the company is not relevant. A taxpayer also has the option to elect out of utilizing the bonus depreciation deduction.

Another aspect of the new law, in conjunction with the bonus depreciation, is an \$8,000 increase in the depreciation

limitation for luxury automobiles. As a result, the maximum first year depreciation deduction allowed on a new luxury automobile placed in service in 2008 amounts to \$11,060. The new law does not affect the \$25,000 Section 179 limitation that applies to sport utility vehicles.

It is important to note that these changes are all temporary and only apply to calendar year 2008 or fiscal years beginning in 2008. Additionally, New Jersey has recently stated that it will not allow any of the business incentives included in the Act to be applied toward state taxes, and we expect that most other states will likely follow suit. If you are considering acquiring equipment in the coming months, please contact us so that we can discuss all of your available options and advise you on how to obtain the greatest tax benefit for your particular situation. ■

What You Should Know About Compensatory Stock Options

William Schwarz, CPA, MST

Many employees receive stock options as part of their compensation packages. From a tax standpoint, there are two kinds of options—statutory and nonstatutory. “Incentive stock options,” or ISOs, as they are commonly known, are statutory options because they are specifically provided for in the Internal Revenue Code and are subject to numerous qualification requirements. Options that do not meet these requirements are nonstatutory stock options or NSOs (also known as nonqualified stock options or NQSOs).

Although both kinds of options have tax advantages, there are quite a few differences between them. Below is

some basic information on the taxation of compensatory stock options that may help you better understand how best to benefit from them.

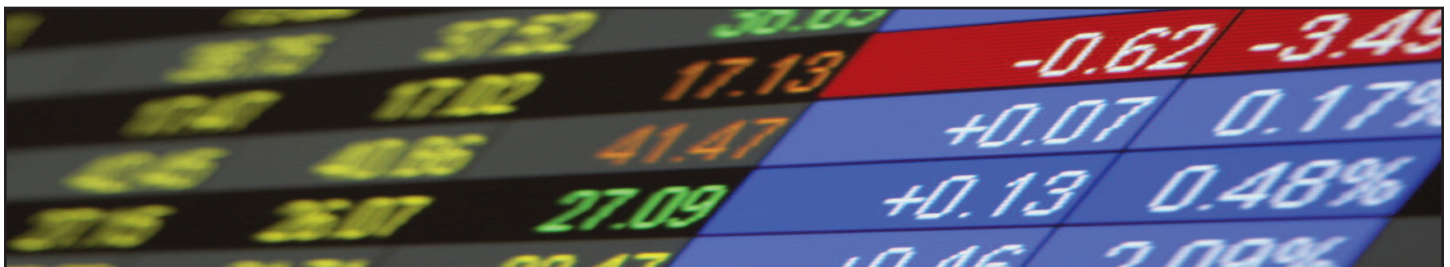
Incentive Stock Options (ISO):

If you have ISOs, you are not taxed when the option is granted. When the ISO is exercised, there is no regular income tax consequence, but it may cause you to be subject to the alternative minimum tax. The bargain purchase element at exercise, which is the difference between the values of the ISO stock (i.e., stock acquired through the exercise of an ISO) at exercise and the lower price you pay for it, is considered to be income when figuring your AMT. If the ISO exercise causes you to be subject to the AMT in the year you exercise the ISO, you may be eligible for an AMT credit in a future year when you are no longer subject to it. When you sell

ISO stock, you are generally taxed at favorable long-term capital gain rates on the difference between the price you paid for the stock and the amount you realize on its sale. However, if you sell the stock within two years of the option grant or within one year of the option exercise, the income is taxed as compensation to the extent of your bargain element at exercise. The balance of your gain is treated as capital gain, which will be taxed at favorable rates if you have held the ISO stock for more than one year on the sale date.

Nonstatutory Stock Options (NSO):

Like ISOs, NSOs are generally not taxed when they are granted. An NSO is taxed when granted only if it has a “readily ascertainable” fair market value (FMV), which is seldom the case. In the unlikely event that an NSO is taxable at grant, it will be treated as compensation at that point. When you



Why Disclaiming an IRA Might Be a Good Idea

Michael Rutkowski

Traditional Individual Retirement Accounts (“IRAs”) have benefited American workers for decades, providing an income deduction the year a financial contribution is made and deferring tax on the income while the account grows. The IRA owner must begin taking required minimum distributions in the year he or she reaches the age of 70 ½, realizing taxable income upon withdrawal. If the owner is alive, distributions must be taken over their calculated life expectancy. In this scenario, there is no way to escape the annual income tax bill. However, when the IRA owner is deceased, the IRA is passed on to the surviving spouse or the primary beneficiary. In this scenario, there are several planning strategies available to minimize the estate and income taxes that are passed to future beneficiaries.

An effective approach is to have the primary beneficiary “disclaim” part or all of the IRA. The IRS describes a qualified disclaimer as “an irrevocable and unqualified refusal to accept an interest in property.” By disclaiming an IRA, the primary beneficiary effectively passes it to the contingent beneficiary. This can be advantageous on many levels. First, it can help a surviving spouse decrease their estate tax burden. A surviving spouse enjoys the benefit of an unlimited marital deduction, meaning that they can inherit all of the deceased spouse’s assets and not have to pay an estate tax. However, by accepting the IRA, the surviving spouse will use more of his or her “unified credit” or exclusion amount. A taxable estate with an amount over the unified credit will pay federal estate tax. So, if the surviving spouse can live on the balance of the estate assets and chooses to disclaim the IRA, they effectively reduce their own estate. Then, when the surviving spouse dies, the heirs benefit because they can apply the unused credit against the second estate. Under current law, the unified credit is \$2,000,000 in 2008; increases to \$3,500,000 in 2009; is repealed in 2010; but reverts back to \$1,000,000 in 2011.

An additional benefit to this strategy is that the younger contingent beneficiaries can spread the required minimum distributions over the length of their own life, not the original owner’s life. This is useful because younger beneficiaries will have longer life expectancies and therefore will be able to spread the tax implications over a longer period of time, while still preserving the principal capital.

Another reason to disclaim an IRA is to pass the asset to someone who has more urgent financial needs. It is important to note that while disclaiming a Roth IRA is allowed, it is not as advantageous as disclaiming a traditional IRA because Roth IRA distributions do not generate income taxes.



In order to take advantage of the IRA disclaimer, the following criteria must be met:

- An IRA disclaimer must be in writing and completed no later than nine months after the date of death or transfer;
- Contingent beneficiaries must be named in the IRA agreement;
- The assets must flow directly to the next beneficiary;
- The disclaiming beneficiary cannot have had possession or controlled the IRA assets at any time;
- The disclaimer also must be admissible under state law.

When saving for retirement, most people focus on the growth of their assets, often neglecting the tax effects of their distributions. As company pensions dwindle, the use of IRAs as a retirement vehicle is becoming increasingly more common. Consequently, the use of disclaimers is likely to be beneficial to more individuals than in the past. Setting up a disclaimer is a complex venture and should be constructed with the help of someone with estate expertise. If you have any questions regarding IRA disclaimers, please contact a Meisel, Tuteur & Lewis professional. ■

An Inside Look

Employee News:

Tax partner, **Bill Schwarz**, spoke to 30 investment bankers in Rockville, Maryland, about tax issues impacting hedge fund investors.

Congratulations to **Jeff Sayle** on his engagement to Marianne Colantoni. The wedding is being planned for September 28, 2008.

Congratulations to **Michelle Brujis** on her engagement to Joseph Kavesh.

Congratulations to **Dave** and Alexandra Kerner on the birth of their daughter, Madeline Rebecca, born April 21, 2008.

Jesse Herschbein, a graduate of William Paterson College, has joined the firm as an Audit Supervisor. Jesse has 12 years of experience working with broker/dealers

and IT consultants, as well as wholesale & distribution and manufacturing companies.

Firm News:

Meisel, Tuteur & Lewis is proud to have been named as *One of the Best Places to Work in New Jersey*.

The employees of Meisel, Tuteur & Lewis raised \$1000 for Make-A-Wish Foundation through a series of internal fundraising events.

Franco Fallone, Curtis Gambin, Anthony Vendittoli, and Sean Higgins participated in the 9th Annual Jimmy Aмео Golf Outing & Dinner, in memory of **Nancy Aмео's** late husband. All monies go to the James V. Aмео Scholarship Foundation, which funds three \$2,500 college scholarships for high school students. ■

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What You Should Know About Compensatory Stock Options

exercise a NSO that was not taxed at grant, the difference between the value of the option stock at that time and the price you paid for it (plus any price you may have paid for the option, although generally that will be zero) is treated as compensation subject to payroll taxes and income tax withholding. When you sell stock acquired by exercise of an NSO, you will generally have capital gain if you were subject to tax either at option grant or exercise, or when restrictions on your option stock lapsed. The gain will be treated as short-term or long-term depending on how long the

stock was held after it was exercised.

Gifts of options: Some people give stock options to family members as part of their overall estate planning. Transferring property before it increases in value helps lower or eliminate estate and gift taxes.

This procedure is not possible with ISOs, because they are restricted from being transferred during the optionee's lifetime and can not be exercised by anyone but the optionee during his or her life.

NSOs have an edge here if the option plan allows options to be transferred to family members as many plans now do. However, the IRS has ruled that an option transfer is not complete for gift

tax purposes until the option is no longer conditioned on the performance of future services. That usually means that the gift will be subject to gift tax at a time when the option's value has increased. The IRS also has issued some complicated rules for valuing gifts of NSOs. For income tax purposes, a gift of NSOs to a family member is not a disposition that triggers tax. Instead, the employee will be taxed when the transferee exercises the options.

As you can see, the tax rules for compensatory stock options are quite complex. Please contact your Meisel, Tuteur & Lewis, P.C. professional if you have additional questions about your options, or if you would like to do some tax planning for them. ■

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OUR PERSPECTIVES

Generation Y—Get Ready Because Here They Come

Lois Bortz

Generation Y consists of about 70 million individuals born from 1977 through 1994. They have many names—“Millennials,” “Gen Y,” and “The Entitlement Generation.” This group portrays specific characteristics that are a result of their upbringing. They are highly independent, possess a sense of entitlement, crave empowerment, are highly educated, and are by far the most technologically savvy generation we’ve ever seen. Now entering the workforce, these individuals shop around for jobs, comparing companies to each other by visiting their websites and researching their culture and mission. They are not making decisions based on generous employment packages alone, which they interpret as a “list of features, like car shopping.” They want to work, but they don’t want work to be their life.

This generation knows what they want and they will not settle. First, they seek an opportunity for fast growth. However, they are not looking for seniority based promotion; they want to be rewarded for a job well done and evaluated fairly based on performance. Next, they are looking for employment that is challenging. They crave and pursue knowledge and learning and seek to be entrusted with performing difficult and complex tasks. Above all, they refuse menial labor, believing that their education and the information at their fingertips surpass whatever qualifications more experienced applicants might bring to the table.

As previously mentioned, studies have found that workplace culture is important to this generation. They want an environment that encourages strong relationships between employers and coworkers. They look for direct contact and guidance from their superiors whom they see as a key resource in the acquisition of greater knowledge and job advancement.

Keeping this generation of motivated employees happy is not an easy task. While they are constantly competing against themselves to work harder and faster, they are also

competing against the older workforce, trying to prove they are better. Also, since they are not a very patient group, should they feel slighted in any way, they do not hesitate to look elsewhere. However, what they lack in experience they certainly make up for in determination, creativity, enthusiasm, fresh ideas, and a desire to succeed.

The greatest challenge for an employer is learning how to focus their talents and provide feedback in a manner that allows the individual to see how their contributions impact the big picture. Remember, this generation believes in themselves so you must believe in them. Show appreciation for their ideas, allow them to have input and make decisions, and provide them with as much authority as is reasonable.

Despite their independence, this generation needs guidance. When giving instruction, accompany them with reasons. Let each employee know why they are performing a task and why it is important. Mentors should be assigned to field questions, and shouldn’t be offended if the employee wants to suggest a different way of doing things. By keeping an open mind and understanding that the employee is questioning out of the desire to learn, not to prove the authority figure wrong, a mentor can establish a relationship of respect, trust, and loyalty. In addition, help them understand their career path options by exposing them to different areas within the firm, and then allowing them to pursue those areas in which they have an interest. This type of guidance gives them a sense of control and of worth and value to the company.

One last word: Do not get caught up in the power struggle. This generation knows who is in charge, but they are always challenging that authority. Accept that and try to work with them, not against them. If you supply the patience they lack and take advantage of their optimism, energy, and creativity, your organization will reap the rewards. ■

Tips for Guarding Your Personal Information

David Kerner

As summer approaches, many of us are planning vacations. With laptop computers, PDA cell phones, internet cafés, and Wi-Fi, it is easier than ever to stay connected. Whether you will be traveling to the Jersey shore or Fiji, keeping your personal information safe should be a primary concern.

Throughout the world, Internet Cafés are readily accessible. Beware! Networks at Internet Cafés are notoriously unsecured. They are a haven for hackers looking to steal personal information, usernames, and passwords. The following are a few steps you can take to help secure your information.

First, be sure to sign in securely; most major web mail services (such as Yahoo Mail or Gmail) give the option to send your username and password over a secure Web page. To verify that you are using a secure page, check the address bar in your browser. If you see a padlock icon or "https://" in the address bar, you are secure; if you only see "http://", all login information you enter is not encrypted and can be intercepted. It is important to point out, however, that even if you have logged in securely, you should not email credit card information, social security

numbers, passport numbers, or anything else you consider sensitive, especially from a public computer.

Second, always remember to uncheck the "Remember me" or "Keep me signed in" checkbox. Many websites and web mail clients will offer to remember your login information so that you do not have to sign in every time. This makes it easy for those wanting to access your accounts.

Next, when you are done, take special care to sign out properly; clicking the "X" in the top corner of your window doesn't necessarily sign you out, it only closes the window you are working in. Additionally, try to clear browser histories and caches. Look under the "Internet Options" drop-down menu (some internet cafés may not allow this), and delete the browser's history and caches files. Although this will not permanently erase the Web files you downloaded, it will make it more difficult for the next user to see where you have been browsing.

Lastly, always watch your back at an Internet Café. Hackers may hover over your shoulder to obtain your username and password. Take a quick look to see if anyone is behind you before you log in.

Wireless access points are common these days. It is becoming quite easy

for hackers to intercept Wi-Fi traffic on unsecured public hotspots. Although most of the above mentioned preventative steps apply, here are a few more tips for when you connect to a Wi-Fi hotspot. Be cautious when using an instant messaging client, as most of them send messages that are not encrypted. You may also want to disable file sharing on your PC. Fortunately, Windows XP and Vista will prompt you for security settings whenever you access a new network. Finally, set your laptop's security to High (in Internet Explorer, click on 'Tools' then 'Internet Options' and click on the 'Security' tab).

Cell phone security has also become very important. Many people are now using their cell phones as email devices and browsing the web on them. The digital networks used by today's cell phones are considerably more secure than an open Wi-Fi hotspot; however, if your phone is stolen or lost, your personal information, such as your contacts and email messages, are at risk. Consequently, it is essential to use the password lock feature on your cell phone.

When traveling this summer, keep these basic security tips in mind. You will breathe easier if you know you have done all that is possible to keep your personal information safe. ■