

# THE LEDGER

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## TAKE STEPS NOW TO AVOID THESE EIGHT COMMON BUSINESS PROBLEMS

When the economy is uncertain, you must be extra-careful to avoid the types of disasters that could ultimately lead to your company's demise. Fortunately, some advance planning may prevent or alleviate severe problems. Here are eight common scenarios facing owners and managers of small to mid-sized businesses.

### 1. A natural disaster damages the premises.

Of course, you can't control the weather or other unforeseen circumstances. But damage to a business building caused by a natural disaster could temporarily shut down the operation. It can even ultimately put you out of business. Make sure that you have adequate insurance and that valuable business data is stored at a secure site.

### 2. A key employee joins a competitor.

There is always the risk that one of your top employees will switch jobs. However, this can be especially troublesome if the employee goes to work for your main competitor. Avoid this possibility by having key employees sign noncompete agreements. Typically, such an agreement will prohibit an employee from working for a competitor for a certain period.

### 3. An employee embezzles company funds.

All too often, business owners are swindled by seemingly trustworthy employees. Don't think you are immune. To safeguard your assets, pay close attention to monetary

transactions. Divide responsibilities so that one person doesn't have complete control over the books. Set

up a system of "checks and balances."

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## LEGISLATION UPDATE

During the summer, Congress passed three laws with tax provisions that could affect you. Here's a quick summary.

**Housing and Economic Recovery Act** was passed to provide financial stability to the troubled housing market and tax relief to homeowners and home buyers. The law gives first-time home buyers a refundable tax credit of up to \$7,500 that must be paid back over 15 years. The credit phases out for singles with incomes over \$75,000 (\$150,000 for couples) and is available for home purchases from April 9, 2008, through June 30, 2009.

Another provision gives homeowners an additional standard deduction for real property taxes in 2008. The maximum deduction is \$500 for singles and \$1,000 for joint filers.

One of the revenue-raising provisions in the law will limit the exclusion of gain on the sale of a principal residence that had been used previously as a rental property or second home. The home sale exclusion generally allows up to \$250,000 (\$500,000 for joint filers) of home sale gain to be tax-free if a home was owned and used by the seller as a principal residence for at least 2 of the 5 years prior to the sale. For sales after 2008, the exclusion will be reduced for the period of time after 2008 that the home wasn't used as a principal residence.

**Food, Conservation, and Energy Act** mainly affects farmers. It includes provisions on conservation donations, race horse depreciation, timber sales, CCC loans, and farm losses.

**Heroes Earnings Assistance and Relief Tax Act** provides tax breaks for military personnel and veterans.

**Mandated by a 2007 law**, the federal minimum wage increased from \$5.85 an hour to \$6.55 an hour, effective July 24, 2008.

Contact our office at 630-953-4900 for details and planning assistance.



## PUTTING ALL YOUR EGGS IN ONE BASKET INCREASES RISK

Even if you're not an investment expert, you're probably familiar with the term "diversification." It means not putting all your eggs in one basket.

**The right investment mix for you depends on your age, income, family responsibilities, and your tolerance for risk.**

Diversification calls for choosing the right mix of investments to keep a balance between risk and return.

**Choose the right investment mix.** While there is no single asset mix appropriate for all investors, most people should have some combination of stocks,

bonds, and cash in their portfolio. The right investment mix for you depends on your age, income, family responsibilities, and your tolerance for risk.

**Take a look at your mutual funds.** Many mutual fund investors believe that they are well-diversified, even though they aren't. For example, it's possible that different mutual funds own many of the same stocks or similar stocks in the same industries. Whether you're thinking about buying a fund for the first time or you already own several of them, it pays to do a little digging. All mutual funds are required to publish a list of their complete holdings at least twice a year. Get the most recent listing for your funds and compare them for overlapping investments.

**Consider the big picture.** When you review your portfolio for diversity, consider the investments both inside

and outside your retirement accounts. They are parts of the same picture. Doubling up on the same investment in both types of accounts may decrease your diversification and increase your risk.

**Keep an eye on your 401(k).** As a general rule, you should avoid being too heavily invested in any one company's stock, including that of the company for which you work. If your employer matches your 401(k) contribution with company stock,

consider other investments for your own 401(k) contributions and for the money you invest outside your 401(k) plan. When you're allowed to do so, consider selling enough company stock to rebalance your 401(k).

Don't risk your financial future by putting too many eggs in one basket. If we can help evaluate your situation, give us a call at 630-953-4900.



## AVOIDING COMMON BUSINESS PROBLEMS

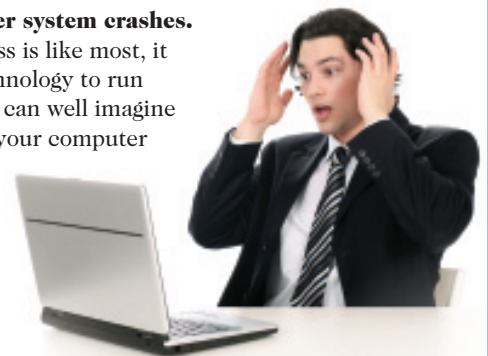
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**4. You lose your biggest customer.** Invariably, one of your main customers will choose to do business elsewhere or will no longer need your products or services. Don't put yourself in a position of depending on just one or two accounts. Take steps now to diversify the business to protect against a severe downturn in cash flow.

**5. You become disabled.** If your services are integral to the company's success, your fortunes will likely suffer should you ever become disabled. Consider taking out "key-person" insurance that can provide funding until you're back on the job or the necessary provisions are made. Such a policy may also cover several employees who are vital to the operation.

**6. Your company or partnership splits up.** Even relatives and the best of friends should develop contingency plans for a business break-up. The sale of a party's interest, including a forced sale upon the death of one of the shareholders or partners, may be addressed in a buy-sell agreement. This document establishes the terms of the buy-out and sets a value for the respective business interests.

**7. Your computer system crashes.** If your business is like most, it relies heavily on technology to run more efficiently. You can well imagine the repercussions if your computer system fails or it is damaged by a virus or hackers. Have a plan that provides optimal security and creates regular back-ups.



**8. The company founder dies or retires.** Who will assume the leadership mantle in the event the founder suddenly passes away or opts to retire? Draw up a succession plan tailored to your specific business and personal needs.

For assistance with these or any of your business concerns, give us a call at 630-953-4900.

## TAKE A Q&A REFRESHER COURSE ON EDUCATION TAX PLANNING

The tax and financial issues involved in the ever increasing cost of educating yourself and your children can leave you with a lot of questions. Here are some of the frequently asked questions about education planning. Take this opportunity to give yourself a refresher course on this subject.

**Q:** Since the contribution limit to Coverdell Education Savings Accounts is so low (\$2,000 a year) and there's no tax deduction for it, why would anyone use this kind of account?

**A:** A Coverdell ESA may not offer the most generous tax breaks, but it could still be the right choice in certain situations. The big advantage is flexibility: You can use the fund for elementary and secondary school expenses, as well as for college costs. Also, you can set up a Coverdell for anyone as long as they're under age 18 or a special needs student. The beneficiary could be your child, grandchild, niece or nephew, or just a friend of the family. You don't have to be related.

Unfortunately, there is an income limit for the contributor. If you're single with 2008 income over \$95,000 or married with more than \$190,000 of income, the amount you can contribute begins to phase out.

**Q:** What plan permits higher contributions?

**A:** To put more into a college fund, a Section 529 plan may be your best

option. These plans come in two varieties. One type lets you prepay future tuition expenses, while the other is a savings account for higher-education expenses. You can open an account for anyone, even yourself. You can make annual contributions (nondeductible) or put a large lump sum into a Section 529 savings account. There are no phase-out limits on contributions for those with higher incomes.

Every state offers its own version of these plans. You'll need to compare them carefully before making your choice.

**Q:** In addition to Coverdell ESAs and Section 529 plans, are there other tax breaks to offset the cost of education?

**A:** Yes. There's the Hope scholarship credit of up to \$1,800 for the first two years of post-secondary

education. The lifetime learning credit of up to \$2,000 per year is available for all years of post-secondary education and for certain job-related courses. Other options include using Roth IRAs or U.S. savings bonds for college savings, and you may qualify for an interest deduction on college loans.

**Q:** Does my income level affect these tax breaks for education?

**A:** Yes. The benefits of most education tax breaks begin to evaporate at certain income levels. For instance, married taxpayers filing jointly in 2008 begin losing part of the Hope and lifetime learning credits when income reaches \$96,000. For single and head of household filers, the reduction of these credits begins at \$48,000.

If your income approaches the phase-out range, think about shifting expenses and income between years to stay under the limit if you want to use one of these credits.

**Q:** Can I deduct the cost of classes that are related to my job?

**A:** Maybe you can claim a deduction, but it won't be easy. You might be able to deduct the cost if you itemize deductions, but even then, the costs are part of miscellaneous deductions subject to a threshold of 2% of adjusted gross income.

Also to qualify for deductibility, the education must fall into one of two categories: (1) It maintains or improves the skills you need in your present job, or (2) it is required by law or your employer to maintain your present position.

You can't take a deduction for courses or training that qualify you for a new trade or business or that qualify you to meet the minimum education standards for your current job.

If you're self-employed, taking a deduction may be a little easier. You can generally claim the expense as a business cost, provided it is valid and relates to your current work.

While there are tax-smart ways to meet the cost of education, each option has restrictions and limitations. Also, Congress changes the tax law frequently, often revising the tax breaks for education expenses. As you do your planning, contact us for the latest rules and for guidance in identifying the options best suited to your situation.



## IRS ACTIVITY

### Rebate Problems Abound

Taxpayers who didn't get their tax rebates when expected or for as much as expected have flooded the IRS with calls. Problems include qualification for the additional \$300 per child rebate and rebates taken to pay overdue child support, student loan payments, or back taxes.

The IRS reminds those with extensions who don't file until October 15, 2008, that they will not receive their rebates until those returns have been processed. Also, those who wouldn't need to file a tax return (veterans, retirees, etc.) because their income is too low must still file a 2007 return by October 15 to get the minimum rebate of \$300 (\$600 for married couples).

**Note:** If your address has changed since your 2007

return was filed, be sure to send an address change form (Form 8822) to the IRS, or your rebate may be returned as undeliverable.

### Mileage Rates Increased

The IRS increased the optional standard mileage rates for the cost of driving for business, medical, or moving purposes. Though these rates are generally set once a year based on the cost of operating a vehicle, the steep increase in gas prices led the IRS to adjust the rates for the last half of 2008.

The standard rate for business driving from July 1 through December 31, 2008, has been increased to 58.5¢ a mile. The rate for the first six months of 2008 remains at 50.5¢ a mile.

The rate for driving for medical or job-related moving reasons increases to 27¢ a mile

for the last six months of 2008; the rate for the first half of the year is 19¢ a mile.

The rate for driving in

connection with charitable activities is set by law, not the IRS, and it remains at 14¢ a mile for the entire year.

## BY THE NUMBERS

### IMPORTANT DATES FOR FALL 2008

#### September

##### September 15

Third installment of 2008 individual estimated tax is due.

##### September 15

Filing deadline for 2007 tax returns for calendar-year corporations with extensions of the March 17 deadline.

#### October

##### October 1

Deadline for businesses to adopt a SIMPLE retirement plan for 2008.

#### October 15

Filing deadline for 2007 individual tax returns on automatic six-month extensions of the April 15 deadline.

#### October 15

Deadline for filing 2007 partnership and limited liability company returns on extensions.

#### October 15

Deadline for reconverting a Roth to a regular IRA.

This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.



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