

TRENDLINES

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DON'T SHRUG OFF A BUSINESS VALUATION

APPRAISALS CAN HELP DURING TOUGH TIMES

During tough economic times, it's understandable that many business owners look to cut any nonessential activities from their operations. And, assuming no specific circumstance warrants it, taking the time to assemble the financial documents and engage a qualified appraiser may not seem particularly essential.

Yet, in truth, business valuations shouldn't be shrugged off quite so quickly. When dark economic clouds threaten, an appraisal can provide just the information you need to find shelter from the storm.

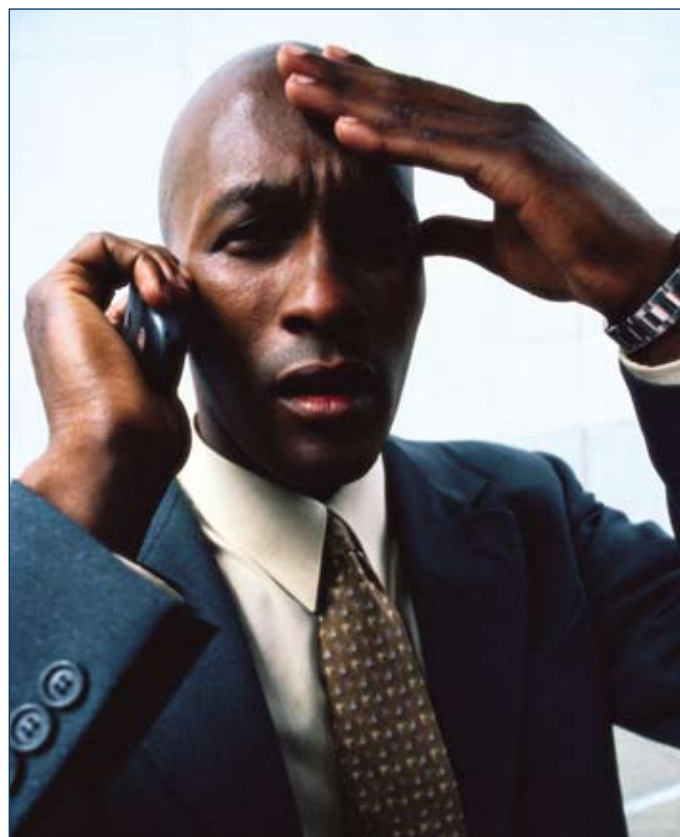
Thinking strategically

As the credit market remains at the very least challenging, impressing investors and lenders will continue to demand timely, in-depth financial data regarding your company. For instance, an appraiser might opt to use complex discounted cash flow analyses to arrive at a value estimate for your company that mollifies investors and lenders wary about market conditions and looking for higher returns to compensate them for additional risks.

You can ask your appraiser to include in the valuation report what types of returns your business is likely to produce in the future, once the economy recovers.

When performing such an estimate, an appraiser likely will consider a number of company-specific factors — such as management's awareness of market conditions, contingency planning and market exposure risks. In discussing these factors with your appraiser, you may be able to target ways to improve your company's operations in the eyes of investors and lenders.

Plus, going forward, your appraiser will already be familiar with your business. So you may want to consider regular valuations. Many management decisions may not even call for a full-blown valuation report; a calculation letter updating the valuator's previous work often suffices.



Selling the business

The economic slowdown might also have you thinking about selling your business and moving on to other endeavors. Maybe you're not to the point of posting a "For Sale" sign outside your office but simply wondering "What if?" Here a valuation can also be useful.

Persisting in holding equity in a business can actually deprive some owners of a substantial amount of investment income that they could put to better use elsewhere. An appraiser can determine the price you'll need to sell it for, so that the after-tax return on the invested sales proceeds will equal — or exceed — your current take-home pay.

What's more, you can ask your appraiser to include in the valuation report what types of returns your business is likely to produce in the future, once the economy recovers. This data can help increase the sales price when current results aren't so great but long-term prospects are good.

Preserving your estate

Your company's value is a major factor in determining the tax impact of bequeathing, gifting or selling ownership interests in the business. An inaccurate value estimate could leave your heirs facing a substantial estate tax bill that could even force them to sell the company after your death.

It's an appraiser's job to ensure you steer clear of any such inaccuracies. Plus, a valuation can also help assess the adequacy of life insurance coverage and plan an exit strategy for shareholder retirement.

Getting back to the unsteady economy: If you're already thinking about transferring ownership interests to your children, now may be a good time to do it. Why? Because if your business is worth less, you can transfer more shares

for the same tax cost. Again, a valuation will help you substantiate a strategy like this.

Last, remember that a valuation may be required for filing an estate tax return and to satisfy any related tax liability in accordance with IRS regulations. So you could help your heirs by establishing a relationship with a qualified appraiser now.

Having an "A-ha!" moment

More than a few business owners have had an "A-ha!" moment following a valuation. Obtaining a comprehensively researched estimate and breakdown of your company's value may very well reveal a clear path forward. And when the economy is casting a fog over much of the business landscape, appraisals can be all the more valuable. □

CHOOSING YOUR RETIREMENT PLAN BENEFICIARIES

3 KEY QUESTIONS TO ASK

When you think of retirement planning, you probably think of yourself. How much money will you need to live out your retirement dreams?

But another important aspect of retirement planning is having a strategy for giving away your nest egg should you not be around to enjoy it. More simply put, you need to choose your retirement plan beneficiaries. Here are three key questions to ask when making this important choice.

1. What about income taxes?

Unlike most inherited assets, such as stocks and real estate, funds that beneficiaries receive from traditional 401(k) plans, traditional IRAs and most other retirement plans are 100% taxable unless you used nondeductible contributions to fund the account.

The important elements to consider are how long the beneficiary will be able to defer distributions, how large any required minimum distributions (RMDs) will be, and his or her tax bracket.

Annual RMDs usually are required to begin shortly after the plan owner's death. An employer-sponsored plan, however, may require the beneficiary to take a lump sum distribution of the plan's balance, though recent tax law changes let most beneficiaries roll the funds into an IRA, which will be treated as an inherited IRA.

Just how big will those RMDs be? That depends on the account's size and the beneficiary's age. Younger beneficiaries will face smaller RMDs, which brings greater opportunity for tax-deferred growth as the account is



Don't bail on your retirement plan in rough waters

Bailouts. Unemployment. Bankruptcies. The uncertainties of the economy have been in the news for months. But what does all this mean for your retirement plan? Should you bail on your 401(k) because the economy has hit rough waters?

If you did, you wouldn't be alone.

A survey of 1,005 individuals conducted last fall by Opinion Research Corp. found that 63% of respondents had stopped contributing to their retirement plans while 35% had reduced their contributions.

Good move? Not likely. Remember, the stock market is cyclical by nature. So as far as your account balance may have dropped, there's a strong chance that it will rebound eventually. Here are some other smart ways to keep your nest egg afloat:

- ✓ If your employer offers a match, make full use of it if you aren't already.
- ✓ Revisit your portfolio's balance — maybe now is the time to make adjustments.
- ✓ Cut back on spending and refocus on saving in the here and now as well as for retirement.
- ✓ If you're nearing retirement, consider part-time postretirement employment.

drawn down at a slower rate. And a younger beneficiary is more likely to be in a lower tax bracket, at least for the early years of RMDs.

Children aside, many people prefer to name a spouse as beneficiary — and for good reason. Because spouses can treat inherited IRAs as their own, they can delay distributions until turning 70½.

2. How will your estate be taxed?

Another reason many people opt to name their spouses as beneficiaries is the estate tax ramifications. Naming anyone else can increase taxes on your estate. A number of factors — such as the dollar value of the account's

assets and size of your estate — will determine whether it will result in any estate tax liability.

Because transfers to your spouse (provided he or she is a U.S. citizen) are deducted in arriving at the taxable estate, naming your spouse as beneficiary will allow you to steer clear of estate taxes on the plan's assets when you die. This, in effect, makes the assets "neutral" when considering the impact on your estate taxes.

One caveat, however: The assets will boost the size of your spouse's estate. And that could raise estate taxes on his or her assets when he or she dies.

3. Should you consider nonfamily beneficiaries?

Although naming a spouse or child is often advantageous, it's not your only option. A trust or charity may better fit your wishes.

Take a trust, for example. Naming a trust as beneficiary can allow a married person with a taxable estate over the \$3.5 million exemption limit to give as much as possible to heirs while still permitting a spouse to have access to the funds if needed. Single parents may also look to a trust to protect retirement plan assets for the benefit of children or other young beneficiaries.

There are, however, specific tax rules governing trusts as plan beneficiaries that must be adhered to in order to ensure that RMDs are based on the ages of beneficiaries who receive them. Otherwise, the RMDs will be determined as though your estate were the named beneficiary.

A charity is another choice. In this case, neither your estate nor the charity will owe income tax on the retirement plan assets. Moreover, your estate may qualify for a charitable deduction for estate tax purposes.

Naming *both* a charity and individuals as beneficiaries, however, could limit the tax-deferral opportunities of the noncharitable beneficiaries. You can avoid this problem by splitting your accounts so that the charitable beneficiaries and the noncharitable beneficiaries don't have competing interests in the same account.

Knowledge is power

For many people, the choice of a retirement plan beneficiary is relatively simple: a spouse or child. Nonetheless, it's important to know all of your options and how each will affect you and your beneficiaries. □

SHOULD YOUR COMPANY TAKE A SECOND LOOK AT TELECOMMUTING?

Some companies have been slow to try their hands at telecommuting arrangements for a variety of reasons. Perhaps they fear the technology challenges, a drop in productivity or the diminished face time with workers. But, as budgets continue to tighten and credit remains, in many cases, difficult to obtain, the cost benefits of telecommuting beckon reconsideration.

Multifaceted savings

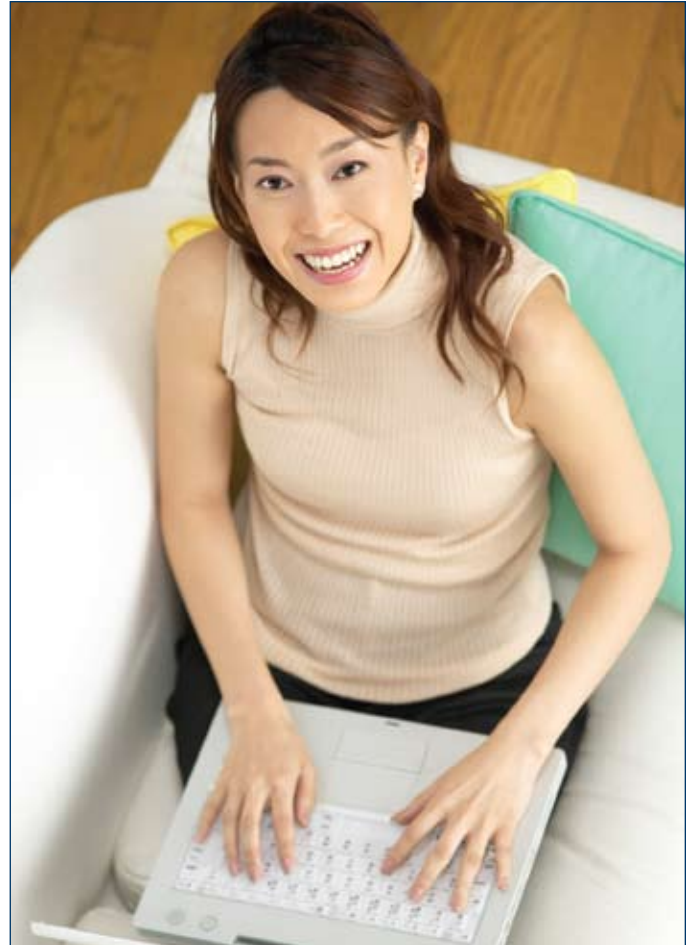
So just where do the cost savings lie in telecommuting arrangements? Well, for starters, when timed correctly, offering a significant segment of your workforce the option to telecommute can cut overhead expenses — in some case, dramatically.

For example, if your office lease will soon be up, maybe you can allow part of your staff to telecommute and move to a considerably smaller space. After all, you won't need private offices or cubicles for these employees. You might save on parking, office equipment and supplies as well.

You could also boost productivity and lower operating costs. How? A telecommuting arrangement challenges a supervisor to focus on objectives and results and often bypasses or curtails "how to" disagreements and personality conflicts. Thus, you may be able to get better results from workers who prefer to work independently.

Getting the word out that telecommuting is an option could bring you top-tier job candidates who are looking to diminish their carbon footprints.

Yet another source of savings could lie in lower hiring and retention costs. For good reason, environmentally friendly business policies are all the rage. Getting the word out that telecommuting is an option could bring you top-tier job candidates who are looking to diminish their carbon footprints. In addition, you may avoid hiring costs altogether by retaining key employees with similar values.



Upfront expenses

Naturally, there are cost risks to telecommuting as well. Even though a boost in productivity is a possible eventual benefit, you may have to suffer through a temporary productivity setback while your workforce adjusts to the new wrinkle that telecommuting would present.

For instance, some workers who will remain in the office may initially resent telecommuters, feeling that they're getting a "special" benefit. To head off such a problem, create a fair application process that you carefully and clearly communicate to staff.

You may need to build a case for why certain positions are more suited to telecommuting than others. Salespeople, nonsupport IT staff (such as Web designers), and editors and proofreaders are all typically good candidates for telecommuting arrangements. Explain your rationale



politely and firmly and include the projected budgetary savings you're shooting for.

You may also have to invest in some technology upgrades and spend a little more time ensuring that your company's sensitive data won't be threatened by outside workers logging in to your network. Fortunately, with personal computers and home Internet access so pervasive, it's likely never been easier for workers to telecommute than it is right now.

One choice among many

So is now the ideal time for your business to introduce a telecommuting program? Maybe. Such a benefit is one choice among many to potentially cut costs and keep your staff happy in a challenging economic climate. □



MONEYLINES: NEWS BRIEFS FOR BUSINESSES AND INDIVIDUALS

Adjusted 2009 mileage rates both higher and lower than 2008's. If you tend to log more business driving time during the spring and summer, now's a good time to review the 2009 mileage rates, which the IRS released late last year. Interestingly, the rates are higher than those released for the first half of 2008, but lower than those enacted midyear to counter high gas prices. The standard rate for business travel in an automobile (including vans, pickups and panel trucks) owned by the taxpayer is now 55 cents per mile. Limits do apply; ask your tax advisor for further details.

Many personal financial frauds prey on those struggling with mortgages. While many Americans deal with skyrocketing mortgage rates, a variety of unscrupulous individuals and entities have moved in for the kill. Much of the problem stems from lack of information: A recent survey by marketing research firm Roper Public Affairs & Media reported that more than 50% of homeowners with tardy mortgage payments don't realize their lenders have programs to help skirt foreclosure.

Venerable tech research firm offers up a variety of IT cost-cutting measures. Gartner Inc. has been a prominent technology research and advisory company since its inception in 1979. This past fall, Gartner analysts released a list of no-nonsense ways businesses could save money on their technology costs. Topping the list was staff cuts; Gartner estimates that 37% of the average IT budget goes toward personnel. Other tips included eliminating unused software and modules, which often go unnoticed, and moving to Internet-based phone services to save on office relocation and increase call efficiency.

Most Americans dependent on employer-provided health insurance. It may not be shocking news, but it's worth noting in light of the massive job losses of recent months. In a survey by health care policy researchers the Kaiser Foundation and the Health Research & Educational Trust, a majority of respondents reported being dependent on their employers for health care coverage. These results emphasize the need for individuals to be aware of their coverage options in the event of unemployment as well as the added value of maintaining a personal emergency medical savings account.



LIFE INSURANCE LEADS WAY TO CHARITABLE CONTRIBUTION

Tanya is a recent divorcee who's looking for ways to renew her life. One of her goals is to give more back to her local community. When she mentioned her desire to somehow give to a local charity in a manner more substantial than a simple cash donation, her financial advisor mentioned life insurance.

As it turns out, Tanya had a permanent life insurance policy that she didn't need for herself. So her advisor explained that it could make the perfect vehicle for fulfilling her charitable aspirations while preserving her estate.

How it works

Giving life insurance to a charity can be as simple as designating the charitable organization as beneficiary of the policy in question. On the policy owner's death, the charity would receive the policy proceeds.

Tanya could go one step further and irrevocably give the policy to the organization by naming the charity as the policy owner. Because she'd be donating a permanent (rather than term) life insurance policy, the charity could enjoy the policy's accrued cash value at its own choosing.

Tanya wondered about the annual policy premiums. Her advisor explained that, by paying them, she'd essentially be making a substantial donation on an installment plan.

This would be particularly beneficial for her charity of choice should Tanya die relatively soon after donating the policy. Why? If, for example, Tanya paid \$5,000 annual life insurance premiums and died two years after donating the policy, the charity would receive the policy's full death benefit. But if instead of donating a life insurance policy she simply pledged a series of \$5,000 annual cash donations, the donations would stop at her death and the charity would have received only \$10,000 total.

What the tax consequences are

The tax ramifications of donating life insurance vary depending on the circumstances. If Tanya gave the policy itself to the charitable organization, she would garner a current income tax deduction on the donation

of the policy (equal to the lesser of her cost basis or the policy's value) and on each premium payment. (Part or all of these deductions might, however, have to be carried over to a future year if her total charitable donations for the year are significant.)

Of course, if Tanya opted *not* to give her actual policy to the charity but simply make it the beneficiary, she couldn't deduct her annual premiums. On the plus side, by retaining policy ownership, she'd still be able to access the policy's cash value if she needed it or change the beneficiary if her family's circumstances or her charitable wishes changed in the future.

Regardless of whether she donated the policy itself or simply named the charity as beneficiary, she'd reap estate tax benefits. In both situations, the proceeds paid to the charity at her death wouldn't be subject to estate tax.

Who can help?

In closing, the advisor mentioned that there were other details Tanya would have to consider. For example, the IRS requires defensible appraisals of all charitable contributions over \$5,000 other than cash or marketable securities, including life insurance policies. She thanked him and assured him that she'd look to him for help if she decided to pursue the idea. □

