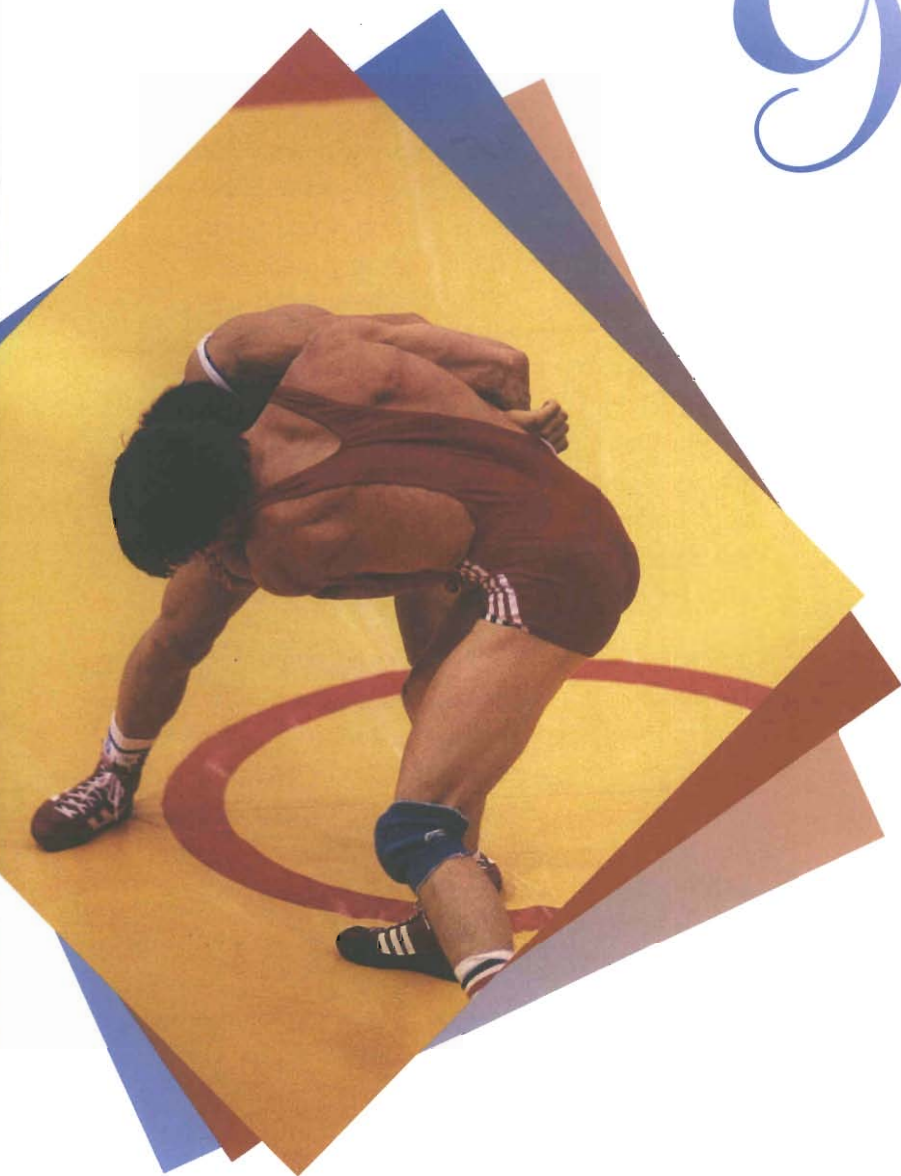


SUMMER 2010

Management



Tax Concepts



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Wrestle back control of your inventory

3 ways to get off the mat

When it comes to inventory, the recession and its slow recovery have left many companies in a precarious position. Either they have too much inventory and nowhere to move it or they've run low and can't afford to produce or procure more.

Now that the worst is over economically (we hope), it may be a good time to wrestle back control of your inventory. Here are three ways to get off the mat.

1. Check your math

Getting the upper hand on inventory is essentially one part mathematics and another part strategic planning. You need to have accurate inventory counts as well as the controls in place to regulate quality and keep things moving.

As is true for so much in business, timing is everything. Companies need raw materials and key components in place before starting a production

run, but they don't want to bring them in too soon or else they'll suffer excess costs. The same holds true for finished products — you need enough on hand to fulfill sales without over- or understocking.

If you're struggling in this area, it may be time to reevaluate your counting process. One alternative to consider is cycle counting. This process involves taking a weekly or monthly physical count of part of your warehoused inventory. These physical counts are then compared against the levels shown on your inventory management system.

The idea here is to drill down and pinpoint as many inventory discrepancies as possible. By identifying the source of accuracy problems, you can figure out the best solutions. Of course, you can't conduct cycle counting once and expect a cure-all. You'll need to use it regularly to start eliminating your inventory accuracy problems.

2. Use technology

With all this data flying around, you need the right tools to gather, process and store it. So investing in a good inventory software system (or upgrading the one you have) is key. As the saying goes, "garbage in, garbage out" — imprecise information coming from your current system could be leading to all of those write-offs, inflated costs, missed sales and lost profits.

As always, you get what you pay for: Investing in a new software system and then paying ongoing maintenance fees (which are usually recommended to keep it running smoothly) could seem like a bitter pill to swallow. But, in the long run, strong inventory management can pay for itself.



2 primary inventory accounting methods

Generally, there are two primary inventory accounting methods for both tax accounting and financial accounting. They are:

1. Last in, first out (LIFO). If you tend to retain inventory items (such as repair parts or durable goods) for long periods, LIFO may always be your best choice. It allows you to allocate the most recent (and, therefore, higher) costs first, ideally maximizing your cost of goods sold and minimizing your taxable income.

2. First in, first out (FIFO). This refers to selling the oldest stock first. Generally, FIFO works best with dated goods, perishable items and collectibles. In an inflationary market, this approach usually results in higher income as older purchases with lower costs are included in cost of sales. (In a deflationary market, the opposite generally holds true.)

Of the two, FIFO is used more often because it more genuinely reflects the typical normal flow of goods and is easier to account for than LIFO, which can be highly complex and deals with inventory costs (not the actual inventory) that may be many years old.

If you're dissatisfied with your company's method, you may be able to change it. But doing so is far from simple. Should a business wish to change its inventory accounting method for tax purposes, it needs to request permission from the IRS. And if it wishes to change for financial accounting purposes, it needs a valid reason. This is why changes in accounting for inventory are rarely seen.

Another way to use technology for inventory purposes is as a communication tool. Knowing which products are hot and which are not will go a long way toward developing correct purchasing and stocking levels. Consider using online surveys, e-mail contests and even social networking (such as a Facebook page) to keep in touch with customers and gather this info.

3. Take desperate measures (if you must)

For businesses with severe excess inventory problems, desperate measures are sometimes the only way out. You may be able to sell the overage at a discount to a liquidator or scrap dealer. If you've sold at a loss, you can deduct the excess of your cost basis over the sales price on your income tax return. To be eligible for the deduction, however, the sale must be "bona fide" — you can't hedge your bets by retaining the right to buy the inventory back at a discount.

You could also donate some inventory to charity. Ordinarily, your charitable deduction is limited to the property's cost basis (or, if less, the property's market value). C corporations, however, may be able to qualify for an enhanced deduction if the donation is intended for the ill, the needy or children. The deduction is limited to the inventory's cost basis plus 50% of any appreciation in value (but no more than 200% of cost). It's also subject to general limits on charitable deductions.

Ignoring and improving

In a time when cash flow has never been more important, an improperly or inadequately managed inventory system can drag down your revenues. Make sure you're not ignoring the items on your shelves while trying to improve the numbers at your bottom line. ♦

What's become of estate planning?

While Congress has passed some major legislation this year (the jobs act and health care reform, for example), as of this writing it hasn't passed estate tax legislation. So the 2010 estate and generation-skipping transfer (GST) tax repeal still stands. And both taxes are still scheduled to return in 2011 — at their pre-tax-cuts level of 55% and with exemptions significantly smaller than in 2009. All of this uncertainty may leave you asking, "What's become of estate planning?"

2010: Potential dangers

On its face, the estate tax repeal may seem like a good thing. But if you die while there's no estate tax, your estate plan may not operate as intended.

Like many plans, yours may call for a marital trust (for the benefit of your spouse) and a family trust

(for the benefit of your children or other loved ones). Furthermore, your plan may contain a formula that automatically allocates the amount that's exempt from estate tax to the family trust with the balance going to the marital trust.

“If you die while there's no estate tax, your estate plan may not operate as intended.”

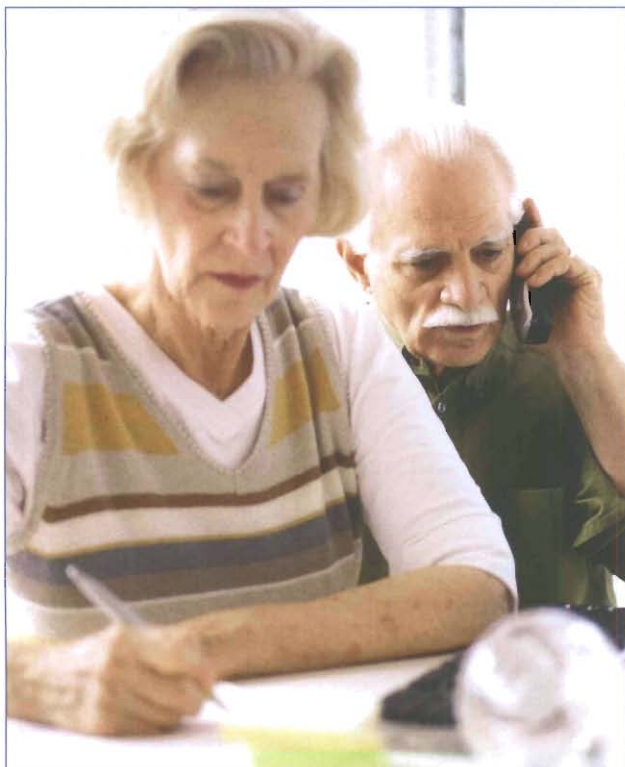
If there's no estate tax, a formula like this may channel all your assets into the family trust — essentially disinheriting your spouse. What's worse, you may create significant state estate tax liability, depending on how your state tax laws work. The good news is that you can add an amendment to your estate plan that guards against this dire circumstance.

Another danger is the change in the step-up in basis rules, which could cause your heirs to incur significant income tax liability if they inherit highly appreciated assets during the repeal. Ask your financial advisor for more details.

2011: Coping strategies

Even if your estate plan escapes 2010 unscathed, you still have 2011 to contend with. As mentioned, sizable estate and GST taxes will return, but that's not all: The gift tax also will increase to a top rate of 55% (from 35% in 2010).

In response, one move to consider is maximizing your annual exclusion gifts this year. The exclusion allows you to give up to \$13,000 (\$26,000 for married couples) to any number of recipients free of transfer taxes. And it likely won't be affected by forthcoming legislation.





Also consider making taxable gifts while the tax rate is only 35% and making gifts to your grandchildren while there's no GST tax in effect. But be aware that these moves could prove costly should Congress retroactively increase the gift tax rate and reinstate the GST tax.

Hard to say

Because it's hard to say what will become of estate tax and its related provisions or when Congress might take action (it may even have done so by the time you're reading this article), check with your financial advisor for the latest developments. ♦

Making the case for a telecommuting option

More companies than ever are allowing employees to telecommute — both to save on office costs and to tap into a wider hiring pool. This practice is no longer new and many lessons have been learned. Yet, for a variety of reasons, some employers are still hesitant to allow employees to telecommute.

If you're considering offering a telecommuting option to some or all of your employees, you may need to sell the idea to your business partners or managers. Or perhaps you're hesitant yourself and need some convincing. In either case, here are some points for making the case to join this increasingly popular employment arrangement.

Cost savings

First things first: the money. Where do the cost savings lie in telecommuting arrangements? For starters, when timed correctly, offering a significant segment of your workforce the option to

telecommute can cut overhead expenses — in some cases, dramatically.

For example, if your office lease will soon be up, by allowing part of your staff to telecommute you may be able to 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.

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

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.

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.

Prime positions

You may need to build a case for why certain positions are better 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.

The risks

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 wrinkles that telecommuting would present.

Also beware of an "us" against "them" mentality developing between in-office workers and telecommuters. To prevent this, include telecommuting staffers in companywide e-mail announcements and invite them to meetings or events held at (or outside) the office — even if you think they won't be able to attend. After all, just because they work from home doesn't mean these workers shouldn't be a part of the office environment.

Another, often little-discussed risk is the tax implications of an employee working out of state. Many states need money and may impose state income tax on the earnings of out-of-state telecommuters because those workers are earning compensation in state. Also be aware that states may assess employment taxes as well as business income taxes on employers.

Ongoing debate

There will probably always be an ongoing debate about telecommuting. And neither side will likely ever be completely wrong or right. Some companies — manufacturers, for instance — may have few if any employees who can work from home. But as the technology involved becomes more pervasive and less expensive, the telecommuting option is one every company should at least consider for certain positions. ♦

Postnups offer couples a smoother road in a fragile economy

The economy appears to be slowly recovering, but has posed challenges to virtually every facet of society. Take married couples, for example. Many have had to face job losses, crashing retirement portfolios and, for some homeowners, a tough real estate market. What this all adds up to is stress, and stress can easily multiply itself into marital discord.

Often, the best way to ease or eliminate marital conflict is to clarify the matters at hand and spell out each spouse's goals and responsibilities. To this end, many couples may benefit from a postnuptial agreement.

Formal or otherwise

When you see the words "nuptial" and "agreement" used together, you may immediately think of prenuptial agreements — or "prenups." These arrangements have received a lot of attention as the stuff of the rich and famous.

Postnuptial agreements are similar in that they're contracts between spouses but, obviously, they're executed *after* the marriage vows instead of before. Another key difference is that postnups aren't legally recognized in every state. In states where they're not, however, couples can still create informal agreements for the purpose of clarifying their respective wishes and responsibilities. (Again, sometimes just going through the process is enough to ease marital discord.)

In states where postnups are legally recognized, couples still must draft the contracts carefully. For the agreement to be considered legally binding in

court, each spouse needs to offer "consideration." That is, both parties must exchange something of value — for instance, a transfer of some kind of property from one party to the other or the mutual release of marital property.

Risks to consider

Naturally, when delineating financial rights and responsibilities among spouses, there's the potential to exacerbate or even inspire conflicts. If the subject is broached suddenly or indelicately, one spouse may appear to be trying to hide something. Or, if a postnup comes up immediately after a job loss, it could be seen as a sign of desperation. In other words, timing is everything.

Postnups also cost money. In states where they're legally recognized, attorneys' fees will come into play. (Generally, each spouse should retain a separate attorney.) In states that don't recognize postnups, a financial advisor's services are strongly recommended for gathering and analyzing the financial data needed to draft an effective, if informal, agreement.

A peaceful gesture

Although it's a delicate subject, a postnup can actually help couples avoid protracted and expensive divorce proceedings. Moreover, particularly in long marriages, legislating what might happen if things don't work out may, perhaps surprisingly, result in a spouse feeling more secure and may lead to important financial planning that might otherwise have been neglected. ♦



We've Moved!

As of June 2010, our office relocated:

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This move will give us room to support our continuing growth and serve our clients better.

Please note: All emails, phone numbers and the Web site address will remain the same. Only our physical mail address is changing.

