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Tax planning ideas for 2007 and beyond

With customer care, no news isn't necessarily good news

IC-DISC slips back into the tax-planning arsenal for exporters

Boomerang employees: Why they can be good for business

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TWO

Tax planning ideas for 2007 and beyond

Now that the 2006 tax season is behind us, it's a good time to start thinking about this year's taxes. Two important laws passed last year create tax-planning opportunities for both individuals and businesses.

Getting personal

Here are some of the changes that can help reduce your personal income tax bill:

Sweetened charity. If you're 70½ or older, the Pension Protection Act of 2006 (PPA) has a limited-time offer for you: Through the end of 2007, you can transfer up to $100,000 tax free directly from your traditional IRA (or, in some cases, a Roth IRA) to a qualified charity.

If you have a health FSA or an HRA, you can make a one-time transfer of the balance to an HSA any time before Jan. 1, 2012.

The grapes of Roth. If your employer offers a Roth 401(k) plan, you may want to consider enrolling. Until recently, a major drawback of the Roth 401(k) was that it was scheduled to expire at the end of 2010. But PPA made this option permanent.

Roth 401(k)s are similar to Roth IRAs in that contributions don't reduce taxable income and withdrawals made after age 59½ generally are tax free. But Roth 401(k) contribution limits are higher and aren't subject to the adjusted gross income phaseouts that reduce or eliminate the ability of higher income earners to contribute to Roth IRAs.

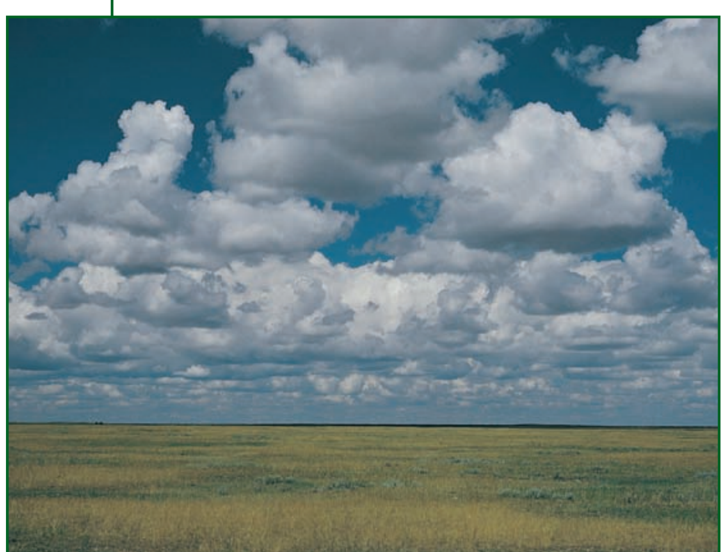
Well-chosen deductions. In 2004, Congress gave taxpayers the choice of deducting state and local *sales* taxes in lieu of state and local *income* taxes on their 2004 and 2005 federal income tax returns. The Tax Relief and Health Care Act of 2006 (TRHCA) extended that option through 2007. The sales tax deduction can be a valuable benefit if you live in a state with no income tax.

Even if you're subject to state income taxes, it pays to do the math and see which deduction yields the greatest tax savings, especially if you purchase any big-ticket items this year (such as a yacht or recreational vehicle).

To your health. TRHCA creates a number of enhancements to Health Savings Accounts (HSAs). For example, if you have a health Flexible Spending Account (FSA) or a Health Reimbursement Arrangement (HRA), you can make a one-time transfer of the balance to an HSA any time before Jan. 1, 2012. The act also allows you to make a one-time, irrevocable rollover from an IRA into an HSA, increases the limits on deductible contributions to an HSA and makes several other HSA improvements.

Conservation made easy. PPA boosts the charitable deduction limit for qualified conservation easements (through 2007) from 30% to 50% of adjusted gross income (AGI) and allows donors to carry over excess deductions for 15 years (up from five years). The limit is increased even further — to 100% of AGI — for ranch or farm land that meets certain requirements.

A conservation easement — typically granted to a qualified charity — permanently restricts some or all of the development rights associated with your land. In return, you and your family continue to own and use the land, and you get



to deduct the value of the easement (the difference between the land's before and after values). A portion of the land's value is also removed from your taxable estate.

Getting down to business

PPA and TRHCA also extend or expand several planning opportunities for businesses, including:

Research and development credit. TRHCA restores this credit, which expired after 2005, for qualified expenses incurred in 2006 and 2007. The act also establishes new rules for 2007 that will increase the credit for certain companies.

Work credits. TRHCA revives the Work Opportunity and Welfare-to-Work credits for 2006 and 2007, combining them into a single credit for 2007.

Energy incentives. Several energy incentives — including the deduction for energy-efficient commercial buildings and the credit for contractors who build energy-efficient new homes — were scheduled to expire at the end of this year. TRHCA extends them through 2008.

401(k)s. PPA allows companies to automatically enroll participants in their traditional and Roth 401(k) plans, which helps employers looking to boost participation. The act also allows 401(k) providers to offer personalized investment advice to participants and provides liability protection to employers who offer investment options that meet certain standards.

Make the most of tax law changes

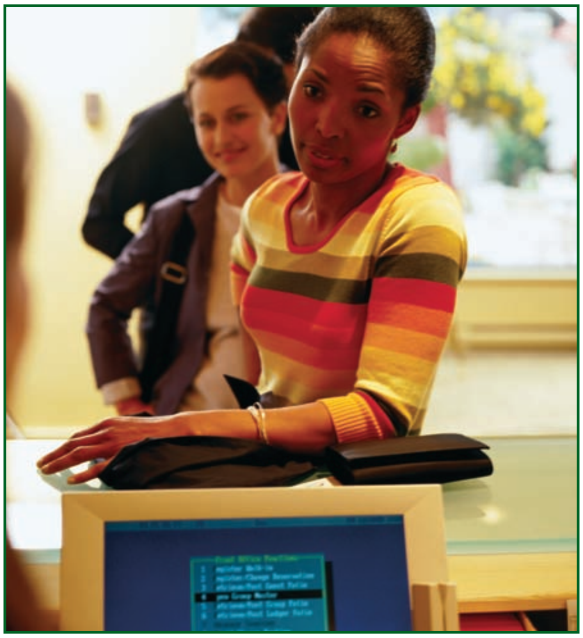
The provisions discussed above are just a few of the many changes made by PPA and TRHCA. Many of the benefits created by the two tax laws are temporary, so be sure to review your tax situation so you can make the most of these opportunities.

With customer care, no news isn't necessarily good news

If you're not hearing much out of your customers, you may assume that all is well with them. In other words, no news is good news, right? Actually, that couldn't be more wrong. Following that type of thinking could leave you dusted by your competition. Proactively seeking customer feedback can help you continuously improve how you care for your customers and nurture more prosperous, enduring relationships. When customers take the time to contact your business with complaints, it can, in fact, be a blessing in the end.

Complaints: Blessings in disguise

Customer feedback alerts you to problem areas and provides the chance to correct them before customers defect to your competitors. And remember that customers whose problems aren't addressed might not just leave but also spread their dissatisfaction like a virus. For example, in the weeks prior to and following Christmas 2005, 31% of shoppers who experienced a problem with a retailer shared their negative experience with their friends, family



or colleagues, according to the *Retail Customer Dissatisfaction Study 2006*, conducted by the Jay H. Baker Retailing Initiative at the Wharton School of the University of Pennsylvania and the Verde Group, a Toronto consulting firm.

Customers: Give them a voice

The first step in improving customer care is to provide good communication channels for customers to voice their negative — and positive — feedback. For instance, offer both a toll-free customer service phone number and a feedback page on your Web site. Make sure the number and Web address are easy to find in your brochures and on product packaging. State that customer feedback is welcomed and encouraged. Also consider having an objective, third-party firm conduct customer satisfaction surveys.

Resolve the situation as quickly as possible. If you don't, you risk the customer becoming more frustrated.

Feedback: Requires action

To ensure that all customer complaints are logged for analysis and resolution, incorporate these tools in your customer service training:

Listen carefully. Give customers the floor and hear them out without interrupting.

Say "sorry" and "thank you." Apologize for any inconvenience. Let customers know how valuable their feedback is and that you appreciate them giving you the opportunity to correct the problem.

Settle on a solution. When feasible, empower customer service reps to work out solutions with customers. Save only the bigger, more potentially costly resolutions for management to address.

Move swiftly. Resolve the situation as quickly as possible. If you don't, you risk the customer becoming more frustrated.

Keep cool. Empathize with customers and handle their complaints with a caring attitude and calm manner.

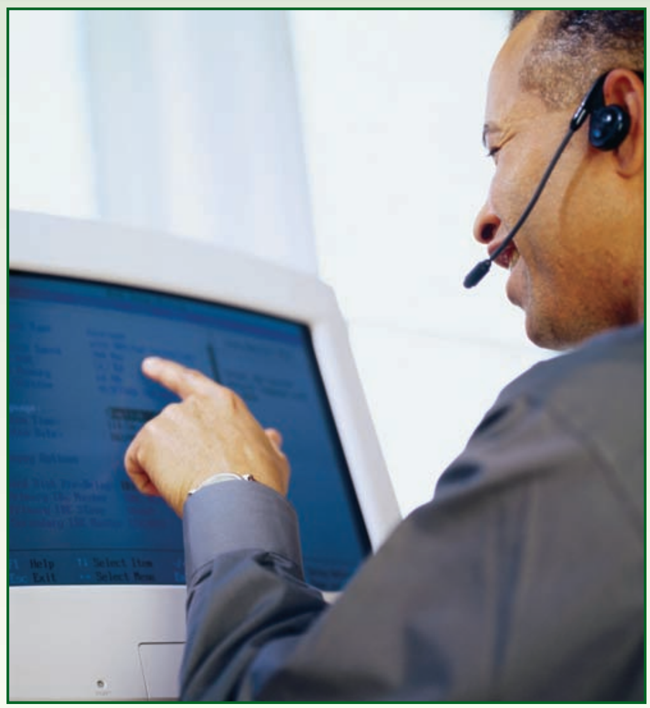
Finally, don't assume the customer is totally satisfied with how everything was handled. Follow up within a day or two to ensure all is well.

Technology plays an integral role in capturing customer feedback

While people are the heart of a successful customer care operation, your customer relationship management (CRM) system is the brain. CRM systems link up to a central database where all customer feedback is logged for analysis and follow-up.

CRM systems allow you to analyze the time lapse between the initial logging of complaints and final resolutions and set goals for improvement as needed. You can also analyze any correlations between the average length of problem resolution and your company's ability to retain customers for repeat business.

CRM technology applications also allow customers to monitor the status of their complaints, such as by logging onto a customer help screen on the company Web site or calling into a customer service center for an update. Providing customers an easy way to monitor and confirm that requests have been received and are being addressed can go a long way toward improving your customer retention rate.



Making the process painless

No one likes to deliver bad news, which is why it's important to make the feedback process as painless as possible for your customers. Armed with their feedback, you can begin to better care for and nurture prosperous, enduring customer relationships.

IC-DISC slips back into the tax-planning arsenal for exporters

FIVE

Exporters have always looked for an edge over their global competitors and, for years, the U.S. government provided one. But a series of successful challenges by the European Union (EU) against tax incentives for exporters has left American businesses looking for alternatives.

The repeal of the most recent tax break — the extraterritorial income exclusion — has revived interest in a lesser-known tax incentive for privately held export companies: the interest-charge domestic international sales corporation (IC-DISC). And though an EU challenge is possible, it's unlikely because the IC-DISC has survived without objection for more than 20 years.

A strategy that pays dividends

Despite its complicated-sounding name, an IC-DISC is relatively simple to establish and operate. It's a tax-exempt corporation that serves as your company's agent for export sales and receives commissions on those sales.

If your company is an S corporation, limited liability company (LLC) or partnership, the IC-DISC can be set up as a subsidiary. If your company is a C corporation, however, the IC-DISC must be formed by the corporation's shareholders. For that reason — among others — an IC-DISC generally isn't an option for public companies.

Here's how an IC-DISC saves taxes: Commission payments to an IC-DISC are limited to the greater of: 1) 4% of your gross receipts from qualified export sales, or 2) 50% of your net income on those sales. Your payments are a tax-deductible business expense, but the IC-DISC — as a tax-exempt entity — pays no taxes on its receipts.

When the IC-DISC distributes its income, it's taxed at the favorable 15% rate that applies to qualified dividends. Essentially, an IC-DISC allows you to convert a significant amount of ordinary income — taxed at rates as high as 35% — into dividend income.

Let's look at an example. Suppose your company is an S corporation that generates $1 million in net income on $13 million in qualifying export sales. You set up an IC-DISC and pay it $520,000 per year in commissions (4% of $13 million). Assuming a 35% tax rate, deducting the commission payments reduces the S corporation shareholders' taxes by $182,000. When the IC-DISC distributes its commission income as dividends, your shareholders pay a total of $78,000 in taxes ($520,000 x 15%). By using an IC-DISC, your company saves $104,000 per year in taxes ($182,000 – $78,000).

With the reduced tax rate on qualified dividends extended through 2010, the IC-DISC provides an attractive planning opportunity for exporters. But even if dividends are taxable at ordinary income rates, an IC-DISC provides a tax benefit: It can be used to defer the tax on up to $10 million in undistributed export income by paying an interest charge (the "IC" in IC-DISC) to the IRS.

A few technicalities

To qualify for the tax benefits, an IC-DISC must:

- Be a U.S. corporation,
- File an election to be treated as an IC-DISC for tax purposes,
- Maintain a minimum capitalization of $2,500,
- Have one class of stock,
- Maintain separate books and records,
- Meet a 95% qualified gross receipts test, and
- Meet a 95% qualified export assets test.

An IC-DISC satisfies the qualified gross receipts test if at least 95% of its gross receipts are commissions on sales of qualified export property. It satisfies the qualified export assets test if its tax basis in qualified export property (plus certain other property) is at least 95% of its adjusted basis in all assets.

Qualified export property is property that is:

1. Manufactured, produced, grown or extracted in the United States by a person or entity other than the IC-DISC, and
2. Held primarily for sale, lease or rental for direct use, consumption or disposition outside the United States.

In addition, no more than 50% of the exported property's value can be attributable to imported materials.

Tax windfall

An IC-DISC exists only on paper. Although the exporter must make actual commission payments to it, the IC-DISC isn't required to have employees, office space or tangible assets. So, if you derive a significant part of your income from qualified export sales, an IC-DISC is worth a look. Under the right circumstances, a relatively modest investment can produce significant tax savings.

Boomerang employees: Why they can be good for business

Many companies avoid rehiring former employees. Often there are lingering feelings of disloyalty and of being burned. And with plenty of fresh candidates to take their places, why even think about rehiring an "ex"? And for those "ex's," the thought of begging for their jobs back can be humbling.

However, the notion of hiring "boomerang" employees is no longer a no-no, as competition for qualified candidates intensifies. Companies are realizing there is tremendous value in hiring back former employees:

Decreased learning curve. Your company will spend less time getting former employees back up to speed. The bottom line? They can make immediate contributions to the business.

A "known quantity." You'll know what you're getting because the employee has a proven track record.

More appreciation and loyalty. Boomerang employees have already satisfied their curiosity and seen that the "grass isn't necessarily greener" at other companies, so they'll likely be more appreciative and loyal the second time around.

More to offer. Your business will benefit — financially and operationally — from the new knowledge, skills and experience the employee has gained at other firms.

Cost savings. Because hiring a boomerang employee allows you to pare down your recruiting and hiring process (compared to that required for a new hire), you'll save time *and* money.

How do you decide which employees to hire back? Start by examining their employment history with your company and whether they left on good terms. The desirable employees generally include those who left with the goal of either furthering their knowledge and skills or tending to personal and family matters.

To encourage rehiring former employees, establish an outreach program to inform former employees of open positions. During exit interviews, let them know the door is open if they would ever like to return and a position is available. Also, make sure you have a documented company policy for reconsidering all employees who leave on good terms and that all employees are aware of it.

Keep in mind that rehiring former employees must be managed carefully, because it can create problems with employees who have remained loyal to the company. If they see a rehire promoted soon after rejoining the company, for example, they may decide that leaving and returning is the way to a promotion and salary increase.

Don't get caught short on long-term care

Chances are, at some point during your life, you or a loved one will require long-term care (LTC). Whether it's delivered by a nursing home, assisted living facility, home health aide or other provider, the cost of LTC can be staggering. For example, according to the *MetLife Market Survey of Nursing Home & Home Care Costs* (September 2006), the average cost of nursing home care in the United States is more than $75,000 a year for a private room. One way to protect yourself is with LTC insurance.

LTC insurance basics

Although LTC insurance won't pay your medical bills or replace your income if you can't work, it will help defray the cost of services to assist you or a loved one with the activities of daily living (ADLs), such as eating, bathing and dressing. It's important to understand, however, that an LTC insurance policy is no substitute for health and disability insurance.

Like most insurance, each LTC policy is different, so be sure you understand what you're buying. Key policy features to examine include:

Policy type. The more common "reimbursement" policy pays your actual expenses (up to policy limits). An "indemnity" or "per diem" policy provides you with a specified benefit per day regardless of your actual expenses.

Benefit amounts, covered services and policy term. Benefit amounts and covered services differ greatly from one policy to the next. Policy terms of five years are fairly common, however.

Benefit triggers. Each policy may define these triggers differently. You should know, for example, how many ADLs must be impaired before benefits become available, as well as how "substantial assistance" is defined and whether a physician's certificate is required.

You should also examine the policy's "elimination period" carefully. This is the period of time you must wait once the LTC has begun before benefits kick in. It can be 30, 60 or 90 days, or longer. Generally, the longer the elimination period, the lower the cost.

Tax facts

Be sure that your LTC insurance policy is tax-qualified, which means it must:

- Be guaranteed renewable and noncancelable regardless of your health,
- Not delay coverage of pre-existing conditions for more than six months,
- Not base eligibility on prior hospitalization,
- Not exclude coverage based on a diagnosis of Alzheimer's Disease, dementia or similar conditions, and
- Require you to obtain a certification from a licensed health care practitioner that you're unable to perform at least two of six ADLs, or that you have a "severe cognitive impairment" and that this condition has lasted or is expected to last at least 90 days.

If you have a tax-qualified policy, benefits received will be tax free, and a portion of your premiums will be deductible as medical expenses. Deduction limits increase with age. In 2007, for example, limits range from $290 if you're 40 or younger to $3,680 if you're over 70. Like other medical expenses, the deduction is available only if you itemize and only to the extent that all your medical expenses combined exceed 7.5% of your adjusted gross income.

Note that, if a business provides LTC insurance as an employee benefit, its premium payments are generally deductible in full, regardless of these age limits.

Be prepared

The high cost of LTC can quickly eat up your retirement nest egg. LTC insurance can be an effective tool for protecting yourself and your family against this risk. However, it's not for everyone. So be sure you consult your financial advisor before purchasing coverage.

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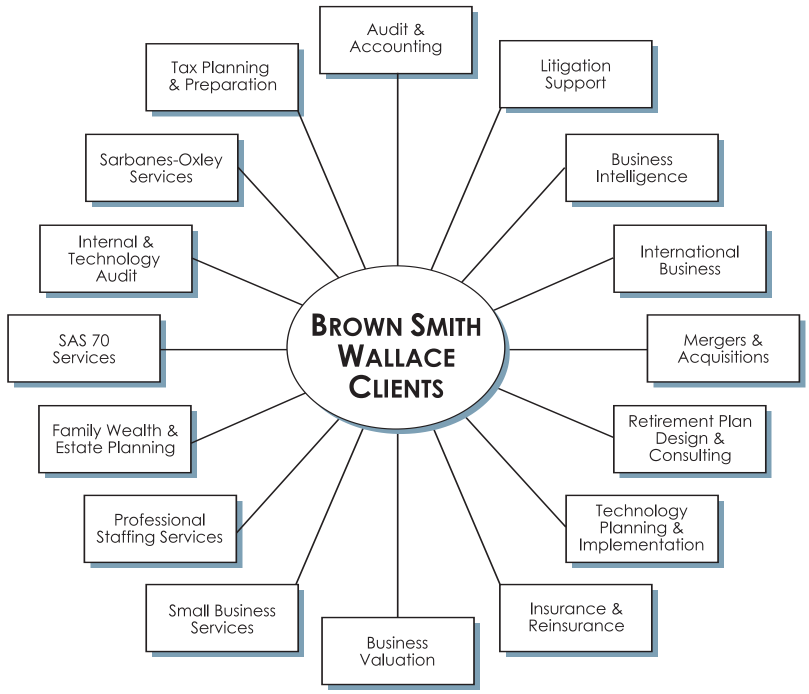

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