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CLIENT'S TAX AND FINANCIAL UPDATE

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PRODUCTIVITY SOLUTION: 60-HOUR WORKWEEK USING 40-HOUR SHIFTS

Here's an innovative way for business owners to increase productivity. By properly structuring 40-hour work shifts, companies can schedule a 60-hour workweek without the need for a second shift, and without the expense of overtime wages.

When incoming business strains production capacity, it's a natural impulse for many employers to add a second shift. Second shifts, however, present several problems. The most common problem is that it is often difficult to find qualified personnel for a second shift. To further complicate matters, a second shift means that line management posi-

tions must be duplicated - a real challenge in most industries. In addition, employee efficiency is reduced by environmental influences such as inadequate lighting.

As an alternative to the inefficiency of second shifts, progressive companies are looking at an innovative use of a 60-hour workweek.

Establishing The New Workweek

At first glance, it might seem surprising when the 60-hour workweek is scheduled, all employees continue to work only 40-hours a week. However, a key element in the schedule is that employees work four 10-hour days a week instead of five

(continued page 4)

Tax Points

- **Home office deductions** are available to more taxpayers for the business use of a home. The definition of principal place of business has been defined to include a home office used for administrative or management activities for which there is no other fixed location. Individuals, S corporations, partnerships, trusts and estates are all eligible under the rules. However, C corporations are not eligible.
- **Tax Shelter: IRAs, Keoghs, 401(k)s, and SEPs.** Contributions of money to any of these plans

(continued page 2)

INSIDE THIS ISSUE ...

- Productivity solution: 60-hour workweek using 40-hour shifts 1
- Tax points 1
- Better ways to manage accounts payable 2
- Marketing tips 2
- The six principles for saving taxes 3
- How the IRS selects returns to be audited 3
- Tax tip 3
- Common overpayment mistakes in small businesses 4
- Tax tip 4

TAX POINTS (from page 1)

gives you a tax deduction or a tax deferral. **Added benefit:** Any monies earned on your investment in these plans are deferred for income tax purposes. No tax is owed until the time you withdraw the money. With Roth IRAs the contributions are never deductible, but distributions are not subject to income taxes or to the 10% tax on early distributions if certain rules are satisfied.

- **Review your personal carryovers from one year to the next.** Investment interest paid in 2005 that is not deductible because you had insufficient investment income to offset it is carried over to 2006. You could arrange to receive investment interest now that will shelter it from tax. At this time, you should also check loss carryovers from businesses and charitable deduction carryovers that may affect the amount of new charitable contributions you can deduct in 2006. Finally, unused realized capital losses from 2005 can be used to offset capital gains that are realized now.
- **Tax loophole for Partnerships and LLCs.** Allocation of profits and losses among owners can easily be changed. An allocation can simply be changed year to year, due to the changing circumstances of the business and its owners, by reflecting so on the tax return and modifying the original agreement as applicable.



BETTER WAYS TO MANAGE ACCOUNTS PAYABLE

In addition to paying your company's bills on time to establish good credit, you should manage accounts payable to improve profitability. You can do this by taking advantage of discounts for early payment, cashing in on the time value of money, and seeking out credit options.

Here are a few ways you can manage accounts payable to make your company's money work better.

- Don't pay all your bills at the same time. Although this is common practice in many businesses, it can cause a sudden drain on your cash flow and leave you short of needed operating funds.
- Although vendor discounts for early payment are often attractive, the savings from these discounts may not offset the benefits of keeping cash on hand for a few additional weeks. For example, you may be able to use that money in other ways to earn more than an early payment discount.
- Negotiate extended terms of payment with certain vendors to improve your cash flow. Vendors to whom your business is important will usually cooperate.
- Ask vendors to submit invoices on a date when you know your cash flow will be healthy. Many companies collect most of their receivables at a particular time of the month. Vendor invoicing at that time can help you control your cash flow better.



MARKETING TIPS

What Makes a Quality Sales Force

In a recent survey of 13 industries, Sales and Marketing Management asked 1,000 top executives what they consider to be the extremely important characteristics of a quality sales force. Here are the results:

Characteristics	% Saying Extremely Important
Reputation among customers	66%
Holding old accounts	62%
Opening new accounts	47%
Quality of training	46%
Ability to keep top salespeople	45%
Innovation	35%
Product/technical knowledge	34%

TAX PLANNING

THE SIX PRINCIPLES FOR SAVING TAXES

There are many tax planning strategies that can be used to reduce or defer income taxes, but most of them fall into one or more of the following categories:

1. Shifting deductions to a year when you'll be in a higher tax bracket.
2. Shifting income to a year when you'll be in a lower tax bracket.
3. Shifting income to family members or entities such as corporations that are in a lower tax bracket.

4. Investing in tax exempt securities.
 5. Using qualified tax shelters to defer income taxes.
 6. Structuring expenses so they will be deductible and still contribute to your living standard.
- Professional tax advice about which strategies are best for your individual situation is the best way to keep your taxes as low as possible.

HOW THE IRS SELECTS RETURNS TO BE AUDITED

It's been said that only 12 key IRS employees know the exact detail about how the IRS picks the returns it will audit, but most accounting professionals agree that there are certain general features in a tax return that will trigger an audit.

- An unusual sum of money claimed for a deduction, such as \$70,000 for business entertainment expenses.
- The relative size of two related deductions, such as \$30,000 in travel expense for a taxpayer whose income is only \$70,000.
- The nature of a deduction relative to a taxpayer's occupation, such as a large deduction for business entertainment expenses by a college professor.
- Reporting a deduction in a manner that improperly benefits a taxpayer, such as deducting a charitable contribution as a business advertising expense.

- Contradictions between deductible items, such as a deduction for mortgage interest but no deduction for real estate property taxes.

Although the exact variations from the norms that trigger an audit have never been public knowledge, the information is stored in the IRS computers and is developed from detailed audits of randomly selected tax returns every three years.



TAX TIP

When a home improvement is a medical deduction

In general, a portion of home improvement can be a medical expense deduction if the primary purpose of the improvement is medical care, such as a wheelchair ramp for a handicapped individual or an elevator for someone with a heart condition.

Determining how much of the cost of such improvements is deductible depends on whether the improvement becomes a part of the house or whether it is something that can be detached from the house. If it's detachable, the entire cost of the improvement is usually a deductible medical expense. But, if the improvement becomes a part of the house, you can deduct only that portion of its cost which exceeds the increase in the value of the house because of the improvement.

For example, the cost of a room air conditioner installed on a doctor's orders would be fully deductible because it is detachable and it does not increase the value of the house. However, a central air conditioner installed on doctor's orders would be deductible only to the extent that its cost exceeded the increase in the value of the house. Therefore, if the central air conditioning cost \$22,000, but added \$15,000 to the value of the house, only \$7,000 would be a deductible medical expense.

In the case of a tenant who rents property, the entire cost of equipment installed for medical reasons would be deductible, since a tenant does not own the property and would gain nothing from an increase in its value.

YOU AND YOUR MONEY

PRODUCTIVITY (from page 1)

8-hour days.

Three groups of employees - "A", "B", and "C" - work on a schedule that repeats itself every two weeks. Here's how the ABC two-week schedule looks.

	Mon. Groups	Tues. Groups	Wed. Groups	Thurs. Groups	Fri. Groups	Sat. Groups
First Week	A + C	A + C	A + B	A + B	B + C	B + C
Second Week	B + C	B + C	A + B	A + B	A + C	A + C

Notice that Group C, which consists of workers who have the least employment seniority, is always paired with either Group A or Group B, each of which consists of more experienced employees. This makes special line managers for Group C unnecessary, since the Group A and Group B managers perform that function. In addition, the experienced Group A and Group B managers supervise and train the Group C workers.

Employee Reaction

There are several good reasons why employees like the "ABC" work schedule:

- The 4-day workweek gives employees more time to spend with their families or to enjoy leisure time activities.
- Every two weeks, Group A and Group B employees alternately get five consecutive days off. Over a one-year period, this adds up to 26 "mini vacations".
- Because employees work four days instead of five, their commuting expenses are reduced by 20%.

Company Rewards

Employers have much to gain from a 60-hour workweek:

- Absenteeism is reduced, since employees can take care of personal business and make medical or dental appointments for the weekdays when they are not scheduled to work.

- The schedule allows the company to better utilize its existing facilities and equipment, with less downtime than at the beginning and end of a double shift, less time lost to "breaks", and a

reduction in start up and shutdown time.

- Because employees like the ABC workweek, employee morale and efficiency are improved. In fact, one company has reported that the 60-hour workweek is so efficient that production is almost equal to its previous two-shift, 80-hour workweek.

Better Customer Service

One of the added benefits of the 60-hour workweek is that a 10-hour workday provides better customer service. Customers in the same time zone can reach the company during expanded hours, while communication with customers in other time zones are greatly improved.

Where it's been put into practice, the 60-hour ABC workweek has been successful, with increased productivity and efficiency for employers, more days off and lower commuting costs for employees, and improved customer service through better communication.



COMMON OVERPAYMENT MISTAKES IN SMALL BUSINESSES

Many small companies literally throw away money because they don't have the proper controls to prevent overpayments. Here are the most common overpayment mistakes.

- The same invoice is paid twice.
- Discounts for prompt payment are overlooked.
- Credit memos are forgotten.
- Purchase orders are issued without terms and conditions.
- Bills are paid when invoice prices are higher than quoted.
- Payments are made for goods that were short-shipped, never received, or returned to the vendor.

TAX TIP

Be sure to report property thefts to the police

You can take a tax deduction for property which is stolen from you, but property which you lose because you misplaced it is not deductible. To guard against improper theft deduction for property which was actually lost, the IRS will usually ask for proof that the property was stolen. If you report all thefts to the police, the police record is your proof that the property was stolen.