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Fact finding mission

Assessing customers' creditworthiness

If you've been leery of extending credit to new customers, you have good reason. Business bankruptcies are up, and many companies that escaped bankruptcy are struggling.

A report by Experian, a provider of consumer and business credit reports, tracked 300,000 small businesses that were healthy at the start of 2007. The number that were more than 90 days late paying their bills jumped 283% by April 2009. Admittedly, this is a sobering statistic. However, most businesses need to extend credit to attract and keep customers. The key is to take steps to limit the risk that you won't be paid.

Information, please

A first step is to ask new customers to complete a credit application. The application should request the company's name, address, Web site, phone number and tax identification number; the number of years it's existed; its legal form and parent company, if one exists; and a bank reference and several trade references.

Have new customers fill out a credit application, and consider asking private companies for an income statement and balance sheet.

If the company is private, consider asking for an income statement and balance sheet. You'll want to analyze financial data such as the profit margin, or net income divided by net sales. Ideally, this will have remained steady or increased during the past few years. The profit margin also should be similar to that of other companies in its industry.

From the balance sheet, you can calculate the current ratio, or the company's current assets divided by its current liabilities. The higher this is, the more likely the company will be able to cover its bills. Generally, a current ratio of 2:1 is considered acceptable.

Check references, and more

Next up is contacting the potential customer's trade references to check the length of time the parties have been working together, the approximate size of the potential customer's account, and its payment record. Of course, a history of late payments is a red flag.

Similarly, you'll want to follow up on the company's bank references to determine the balances in its checking and savings accounts, as well as the amount available on its line of credit. Equally important, you'll want to find out whether the company has violated any of its loan covenants. If so, the bank could

Getting what you're owed

Despite the best efforts to analyze customers' abilities to pay before granting credit, almost every business runs into a customer that takes its time making good on its obligations. Consider employing these tactics to get what you're owed:

- Regularly review accounts receivable, so you stay abreast of those that are moving past their due dates.
- When working with new customers, contact them a week before their first invoice is due. Ask whether they're happy with the product or service and if they have any questions on the bill. This lets them know that you're expecting their payment.
- If the due date comes and goes with nothing to show for it, send the customer a polite reminder. At this point, the benefit of the doubt goes to the customer, because the bill may have been misplaced or overlooked.
- A week or so later, check again with a polite e-mail or phone call. If another week goes by, call or even visit the customer, if possible. It's much harder to ignore a person than an e-mail.
- If continued efforts prove unsuccessful and the account is large enough, bringing in legal help may be worthwhile. Or you can retain the services of a collection agency. On the other hand, if it's clear that the company is struggling, you may want to suggest a partial payment or payments over time.

In the worst case, writing off the debt may be necessary. While painful, write-offs are a part of doing business.

withdraw its credit, making it difficult for the company to pay its bills.

After you've completed your own analysis, find out what others are saying, especially if the potential customer could be a significant portion of your sales. Search for articles on the company, paying attention to any that raise concerns, such as stories about lawsuits or plans to shut down a division.

In addition, you may want to order a credit report on the business from one of the credit rating agencies, such as Dun & Bradstreet or Experian. Among other information, the reports describe the business's payment history and tell whether it has filed for bankruptcy or had a lien or judgment against it.

Most credit reports start at about $40, and go up. The more expensive reports, not surprisingly, contain more information. The higher price tag also may allow access to updated information on a company over a period of time.

Do your homework

Even though assessing a potential customer's ability to pay its bills requires some work upfront, making informed credit decisions is one key to a successful business. A customer that doesn't pay can have repercussions that extend beyond the amount of the unpaid invoice. Working with a deadbeat customer means your firm has fewer resources with which to pursue the solid, paying customers it needs to survive and thrive. ◈

Going green? Get credit

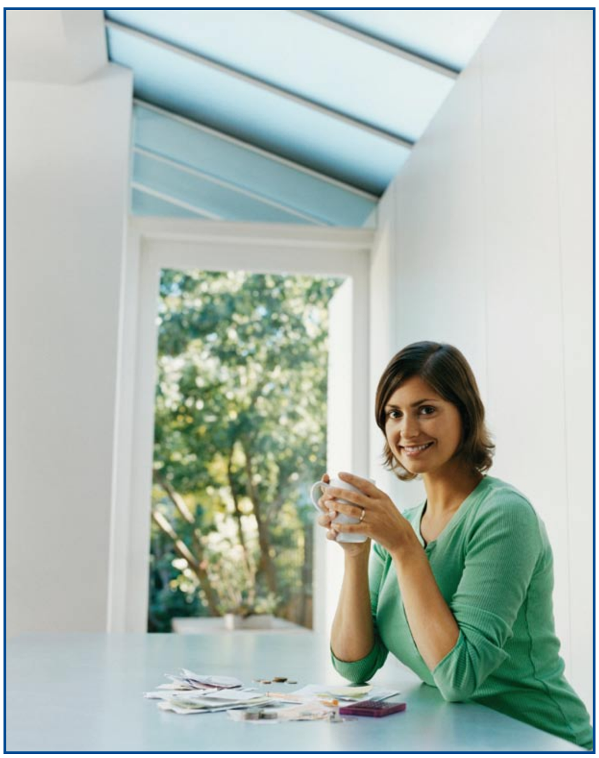
Tax credits for energy improvements

Sure, going green is the hot trend for both individuals and business, but did you know that doing so can reduce your taxes? This year, boosting the energy efficiency of your home or car may allow you to qualify for certain tax credits. Many of these credits are a result of provisions in the American Recovery and Reinvestment Act of 2009.

On the home front

If you improve the energy efficiency of your home, you may receive a tax credit to offset some of the costs. In fact, you can receive a credit of 30% of the cost of eligible energy-efficient "appliances." Among the items eligible for the credit are biomass stoves; heating, ventilating and air conditioning equipment; insulation; metal and asphalt roofs; nonsolar water heaters; and windows and doors.

To qualify, the item needs to meet certain energy efficiency criteria. For instance,



nonsolar water heaters placed into service after Feb. 17, 2009, generally must have an energy factor of at least 0.82, or a thermal efficiency of at least 90%. The manufacturer's certification will state if a product qualifies for the credit.

If you improve the energy efficiency of your home, you may receive a tax credit of 30% of the cost of eligible energy-efficient "appliances."

Bear in mind that the maximum credit per *household* — not per *appliance* — is $1,500. What's more, it covers appliances purchased during both 2009 and 2010, but you can't claim separate credits for each year. Finally, note that the improvements need to be made to your *principal* place of residence — they can't be made to a vacation home or other "second" home.

To get the credit for products you installed *last* year, unless you filed for an extension on your 2009 income tax return, you'll need to file an amended return. For products that you buy and place into service *this* year, you'll take the tax credit on your 2010 return. Be sure to retain your receipts and the manufacturer's certification statement in case any questions arise at tax time.

Your wheels

Along with credits for saving energy as you spruce up your home, Uncle Sam also offers incentives for buyers of energy-efficient new cars. If you buy a plug-in electric vehicle that has four or more wheels and a battery capacity of at least four kilowatt hours, you may be eligible for a credit. The exact amount will vary with the size of the battery.

This credit may apply to vehicles purchased in 2009, 2010 or 2011 for personal or business use, and will phase out as sales of plug-in cars grow and hit certain benchmarks.

Green means go, soon!

If you're considering taking action to make your life greener, act sooner rather than later. As of this writing, the tax credit for making your home more energy efficient expires on Dec. 31, 2010. It could be extended, however, so check with your tax advisor for the latest information. ◈

Extreme green

If you want to go even greener and put in a geothermal heat pump, small wind turbine, solar water heater or solar energy system, you can receive a credit of 30% of the cost, with no upper limit. What's more, this credit extends through 2016. Be aware that the appliance can be for a home that isn't your principal residence, so long as it's a home that you use personally. Thus, your "second" home qualifies, but a rental home doesn't.

Generating your own electricity? You can also receive a credit of 30% of the cost of fuel cells, up to $500 per 0.5 kilowatts of power capacity. However, this credit applies to only fuel cells operating at your principal residence.

Note that these credits are separate from the $1,500 credit detailed in the main article. So, if you complete a few upgrades, you may be eligible for multiple credits. For more information, log onto energystar.gov.

Pieces of the pie

Dividing the family business into separate entities can benefit all

It started out simple enough: Your great grandmother, Edna, had a knack for making scented soaps. Your entrepreneurial-minded great grandfather, Joe, had the idea to open a storefront location on Main Street to sell the soaps.

From those humble beginnings to today's family-run empire of bath and beauty products and spa retreats, it may be time to split the family business into two or more entities. Doing so may be necessary if the company has evolved into two distinct businesses or if heirs are locked in a battle of clashing visions for its future. But before making a decision to move forward, know how the split will affect your tax liability.

Is a tax-free division an option?

In a company split, the proportion of rights in the new companies that the owners receive will differ from what they held in the original business. Typically, each individual receives interests in one of the new companies instead of ownership in all of the businesses.

You generally can design splits as tax-free transactions if your company provides a valid business reason that led to the division, such as management discord, limitation of liability or a directive from lenders. Immediately after the transaction, both companies must actively engage in a trade or business. In addition, the nature of the original business must stay the same. Finally, each company splitting off the original entity must have actively conducted business for five years before the break.

These requirements apply only to corporations and unincorporated limited liability companies (LLCs). Sole proprietorships and partnerships generally can split tax free without restrictions.

In a company split, the proportion of rights in the new companies that the owners receive will differ from what they held in the original business.

Not surprisingly, tax-free splits are complex. You risk millions of dollars in taxes if the transaction structure falls apart. So before executing the split, seek an advance ruling from the IRS about the tax consequences.

To help ensure a solid transaction, focus on these elements: 1) the anticipated business structure (sole proprietorship, partnership, LLC, S corporation or C corporation) and nature of the new companies, 2) the original company's business structure before the split, and 3) the company's pre-split tax attributes, such as net operating losses and credit carryovers.

What's the personal tax impact?

Splitting your family business may also affect your personal finances. If your company is a partnership, LLC or S corporation, as you know you must report your proportionate share of income or loss on your individual

income tax return. When splitting up your business, your share of the income or loss through the day you disposed of your interest must be calculated.

How does this work? Typically this calculation is made by closing the books and calculating income or loss for the old and new owners the day the split occurs. If desired, you and the new owners may decide to use a pro-rata method of income allocation.

Dividing the business may also impact your future estate taxes if you become a minority shareholder in the new companies. Keep in mind that you may be able to discount the value of minority interests, which could lower your estate's value and tax liability.

Is a split allowed?

Before proceeding with a split, make sure it's allowed under previous financial arrangements. Specifically, look at your buy-sell agreement, which outlines the terms and conditions under which you and other owners may exchange interests. If it prohibits splitting the company, you and fellow shareholders can amend the document or forgo the split. But whatever you do, don't ignore the buy-sell agreement and proceed with the division. If you do, you could face litigation from unhappy interest holders.

If your family business has an employee stock ownership plan (ESOP), the split can become more complicated. The plan's trustees will have rights with respect to the proposal, which generally means that they vote on the split. At a minimum, trustees will likely have concerns about ERISA and U.S. Department of Labor rules as well as the business reasons driving the separation. They'll likely require assistance from pension- and corporate-law experts to make sound decisions.

When is the right time to split?

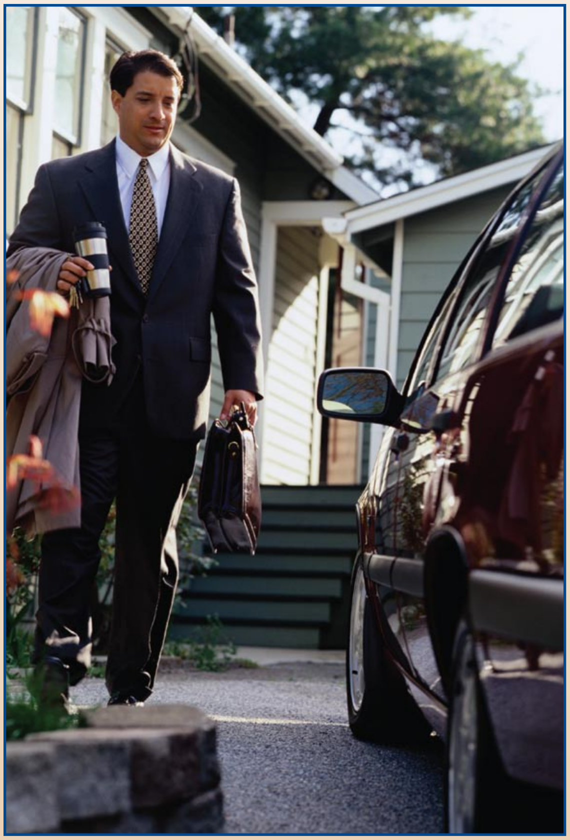
A family business typically starts as a simple idea and, if successful, can grow into a large enterprise with several product lines or regional offices. If that's the case, splitting the company may be the right move. Bear in mind, however, that this process is complex, and you must deal with the associated financial and emotional risks. Your financial advisor can help you make the right decisions. ◈

Travel down the road toward tax savings

Commuting to and from work not only can consume large chunks of your time, but it also can take a big bite out of your wallet. Ideally, you'd earn a transportation expense deduction for your trouble, but generally the IRS considers the aforementioned costs personal expenses. Per IRS Revenue Ruling 99-7, however, the IRS does provide an exception to the rule if you commute between your home and:

1. A temporary work site outside the metropolitan area in which you live and normally work,
2. A temporary work site, regardless of distance, *and* you have one or more regular work locations away from home, or
3. A temporary *or* regular work site *and* your home qualifies as your principal place of business.

According to the IRS, a "temporary work site" is one in which you expect to work at for one year or less. If an employer's plans change during the course of the job, the site is treated as temporary "until the date it becomes evident that the job will last more than one year."



If you don't qualify for one of these exceptions, you still may be able to reap some commuting-related tax savings — if your employer offers a qualified transportation fringe benefit program. By providing employees with public transit passes, vanpool services or parking near the work site (or a public transit stop), your employer can deduct those expenses *and* exclude the benefits from your salary. Or it can provide a program that simply allows you to pay for such expenses pre-tax. Additional rules and limits apply, so ask your employer for details.

One more transportation-related tax note: The IRS reduced the 2010 standard rate for business travel in an automobile (including vans, pickups and panel trucks) to 50 cents per mile (from 55 cents per mile in 2009). The IRS's reasoning is that transportation costs are generally lower than a year ago.

Healthcare Reform & The Small Business

Tax Credits. Excise Taxes. Penalties.

The recently enacted healthcare reform legislation contains key provisions that can have a major impact on small businesses and their employees.

Zinner & Co. LLP can help you prepare for any effects the law may have on your small business.

The right **ideas**.

The right **results**.

Achieved with the right **firm**.

You may be eligible for tax credits available to certain small employers who provide insurance.

The new law provides small employers, with no more than 25 employees, a tax credit for non-elective contributions to purchase health insurance for their employees. To qualify, a business must offer health insurance to its employees as part of their compensation and contribute at least half the total premium cost. The credit is initially available for any tax year beginning in 2010, 2011, 2012, or 2013.

The employer also is entitled to an ordinary and necessary business expense deduction equal to the amount of the employer contribution minus the dollar amount of the credit. Although the new law imposes penalties on certain businesses for not providing coverage to their employees, most small businesses won't have to worry about this provision because employers with fewer than 50 employees are not subject to the "pay or play" penalty.

You should be aware of limits on reimbursements of over-the-counter medications from HSAs, FSAs and MSAs.

The new law excludes the costs for over-the-counter drugs not prescribed by a doctor from being reimbursed through a health reimbursement account (HRA) or health flexible savings accounts (FSAs) and from being reimbursed on a tax-free basis through a health savings account (HSA) or Archer Medical Savings Account (MSA), effective after Dec. 31, 2010.

You should watch out for increased penalties on non-qualified distributions from HSAs and Archer MSAs.

The new law increases the tax on distributions from a health savings account or an Archer MSA that are not used for qualified medical expenses to 20% (from 10% for HSAs and from 15% for Archer MSAs) of the disbursed amount, effective for distributions made after Dec. 31, 2010.

Zinner & Co. LLP offers expert professional guidance on a wide range of advisory services — that's why you can trust the professionals at Zinner & Co. LLP to be an essential partner for your small business.

Contact Zinner & Co. LLP for assistance with determining the impact of the new healthcare laws on your small business!

Your Success is our Business.

ZINNER & CO. LLP

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