

Word to the *Wise*



A Newsletter for Clients and Friends of Wouch, Maloney & Co., LLP



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Common Business Problems

When the economy is uncertain, you must be extra-careful to avoid the types of disasters that could ultimately lead to your company's demise. Fortunately, some advance planning may prevent or alleviate severe problems. Here are seven common scenarios facing owners and managers of small to mid-sized businesses.

1. A natural disaster damages the premises. Of course, you can't control the weather or other unforeseen circumstances. But damage to a business building caused by a natural disaster could temporarily shut down the operation. It can even ultimately put you out of business. Make sure that you have adequate insurance and that valuable business data is stored at a secure site.
2. A key employee joins a competitor. There is always the risk that one of your top employees will switch jobs. However, this can be especially troublesome if the employee goes to work for your main competitor. Avoid this possibility by having key employees sign noncompete agreements. Typically, such an agreement will prohibit an employee from working for a competitor for a certain period.
3. An employee embezzles company funds. All too often, business owners are swindled by seemingly trustworthy employees. Don't think you are immune. To safeguard your assets, pay close attention to monetary transactions. Divide responsibilities so that one person doesn't have complete control over the books. Set up a system of "checks and balances."
4. You lose your biggest customer. One of your main customers might choose to do business elsewhere or will no longer need your products or services. Don't put yourself in a position of depending on just one or two accounts. Take steps now to diversify the business to protect against a severe downturn in cash flow.
5. You become disabled. If your services are integral to the company's success, your fortunes will likely suffer should you ever become disabled. Consider taking out "key-person" insurance that can provide funding until you're back on the job or the necessary provisions are made. Such a policy may also cover employees who are vital to the operation.

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Steve Wouch - SmartCPA

Managing Partner, Stephen Wouch was honored as "SmartCPA" by Philadelphia SmartCEO Journal. The annual SmartCPA Readers Choice section recognizes Philadelphia's CPA's who have achieved the respect of the region's top business executives and proven their mettle by helping them run successful companies.

Pennsylvania Employers Beware

Starting January 1, there will be an important payroll tax change in withholding and reporting employees' **local** income tax. Please contact us for further details.

Common Business Problems (continued)

6. Your company or partnership splits up. Even relatives and the best of friends should develop contingency plans for a business break-up. The sale of a party's interest, including a forced sale upon the death of one of the shareholders or partners, may be addressed in a buy-sell agreement. This document could establish the terms of a buy-out and set a value for the respective business interests.

7. Your computer system crashes. If your business is like most, it relies heavily on technology to run more efficiently. You can well imagine the repercussions if your computer system fails or it is damaged by a virus or hackers. Have a plan that provides optimal security and creates regular back-ups.

Make Time For a Year-End Tax Review

Time is running out for moves you can make to reduce your 2011 tax bill. Some actions to consider right now:

- * Be sure to max out your 401(k) plan at work. This year you can sock away \$16,500 (\$22,000 if you're 50 or older).
- * Establish a pension plan for your small business. You may qualify for a tax credit of up to \$500 in each of the plan's first three years.
- * Plan year-end purchases of new or used business equipment to take full advantage of the expensing limit of \$500,000 for 2011. Purchases of new equipment (not used) can qualify for first-year 100% bonus depreciation.
- * Get your investment records in order so you can make wise year-end sell decisions, either to rebalance your portfolio at the lowest tax cost or to offset gains and losses.
- * Track down reinvested dividends for any stock sold in 2011. They'll add to your cost basis and reduce taxable gain or increase deductible loss on the sale.

If you'd like to discuss tax-cutting options that fit your particular situation, please contact us soon for a year-end planning review.

New Broker-Reporting Rules

As a result of recent changes in the law, many brokerage customers will begin seeing something new when they gaze upon their 1099-B forms early next year. In the past, of course, brokers were required to report to their clients, and the IRS, those amounts reflecting the gross proceeds of any securities sales taking place during the preceding calendar year.

In keeping with a broader move toward greater information reporting requirements, however, **new tax legislation now makes it incumbent upon brokers to provide their clients, and the IRS, with their adjusted basis in the lots of securities they purchase after certain dates, as well.** While an onerous new requirement for the brokerage houses, **this development ought to simplify the lives of the many ordinary taxpayers by relieving of the often difficult matter of calculating their stock bases.**

When calculating gain, or loss, on the sale of stock, all taxpayers must employ a very simple formula. By the terms of this calculus, gain equals amount realized (how much was received in the sale) less adjusted basis (generally, how much was paid to acquire the securities plus commissions). **By requiring brokers to provide their clients with both variables in the formula, Congress has lifted a heavy load from the shoulders of many.**