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*A tax, business, and financial planning newsletter for our clients and friends*

## Avoiding the Six Most Dangerous Management Mistakes

**R**egardless of the nature of the business, most troubled companies can trace their problems to one or more of six common management mistakes.

### 1. Failure to review and revise sales forecasts.

When a company has a recent history of consistent yearly sales improvement, it is often assumed that uninterrupted growth will continue. But when overly optimistic sales projections aren't met operating results suffer.

**The solutions.** Look at orders from major accounts. If they're down, find out why. Compare the previous year's projections to actual results and ask what should be done to avoid similar mistakes in current forecasts. In addition to comparing dollar sales to previous years, compare unit sales and the quality of orders received as well.

### 2. Inattention to financial reports.

When business drops off, owners tend to direct their attention to sales and marketing. This often

involves increased traveling, with more visits to sales representatives and customers in an attempt to bring in more business. As a result, key financial reports are put on the back burner and left there to simmer. Profit projections and cash flow forecasts aren't reviewed as diligently as they should be. Slowly but surely, the company begins to slide into financial trouble.

**The solution.** Designate key people to review all financial reports and to bring warning signals



# CLIENT'S tax & financial UPDATE

VOLUME 37 / NUMBER 4

MARCH - APRIL  
2015 ISSUE

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Put Your Safe  
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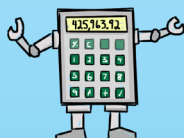
## taxPOINTS

**Do it now.** Adjust your 2015 withholding tax payments so that by the end of the year, they will equal your 2014 income tax. This is the safest and best way to make sure that you will pay the required amount of taxes during 2015 to avoid IRS underpayment penalties. **Caveat:** 110% for an individual whose adjusted gross income exceeds \$150,000.

**Retirement planning tax tip.** Even if you don't receive a deduction for your retirement plan contribution, you still obtain a tax savings from a contribution because the income or gain that you realize in your retirement plan is tax deferred. You also gain the additional benefit of having the retirement plan's income or gain grow on a tax deferred basis over the period of time the funds remain in the retirement plan.

**Write off worthless debt and take a deduction.** It's important that you made an attempt to collect the debt to provide the evidence that the debt is worthless.

**Big time tax loophole.** When you die you do not need any records to support any appreciation in your assets. The assets for tax purposes are "stepped up" to market value on the date of your death or the alternate valuation date, usually six months later.



## High Labor Turnover Means Higher Taxes?

**M**ost businesses know that high labor turnover is expensive. Hiring and training employee replacements is costly and time consuming. Productivity drops because new employees are inefficient until they learn how to do their jobs properly.

However, one cost that employers are often unaware of is increased payroll taxes. When a new employee is hired, social security old-age, survivors, and disability insurance (OASDI) taxes are paid on a wage base of \$118,500 at a rate of 6.2% and a 1.45% rate for Medicare. There is no limit to the Medicare rate.

As an example of how these additional payroll taxes can add up. Assume you are an employer who has highly compensated employees. At the end of the first six months of the year, you replace a top management employee whose wages exceeded the maximum OASDI wage base of \$118,500 with a

new employee who will earn \$100,000 for the remainder of the year. Despite the fact that you've already paid the maximum OASDI taxes for the original employee, you now have to pay an additional OASDI tax of \$6,200 on the new employee.

While the additional payroll taxes are not as substantial for lower paid employees, they can still represent a sizable cost increase, particularly if you have a large work force.

In addition, most states determine an employer's unemployment tax rate by the employer's labor force turnover record. High turnover can result in a substantial increase in an employer's tax rate as well as in worker's compensation premiums and certain other employee plan payments.

Although the tax cost of high labor turnover often goes unnoticed, it can add up to a substantial sum of money.

## Better Management

**S**uperstars and hotshots aren't your most valuable employees. Over the long haul, it's the reliable workhorses who are your best workers. Yes, every company needs bright, well-educated people to contribute fresh new ideas and winning innovations. But these employees often lack the fundamental skills and experience that's needed to keep a business running smoothly. Steadiness and reliability may not be flashy, but they're essential to the health of any successful company.

Studies show that the best way for employees to learn is through collaboration, not competition. Although high school and college students often learn better because of competition, workers learn better by sharing exercises in training programs. Retention level is increased for everyone because workers see their fellow employees as helpers not rivals. The best on-the-job training comes from co-workers rather than managers.

# How to Use Gifts to Minimize Estate Taxes

Everyone should be aware of how income taxes will affect them. Although most individuals try to set up a favorable income tax plan, they are often unaware of some important estate planning strategies.

Tom Crandall is a good example. Tom is a very successful real estate developer. Shopping centers, condominiums, industrial parks - no matter what the project, Tom tackled it with the enthusiasm and skill that were the foundation for his success.

**It's true that you can't take it with you, but your accountant can help you see to it that the IRS won't take it either.**

At age 45, Tom Crandall is now firmly in control of his life. His wife is warm and supportive, the perfect mother to their three children. His business is growing rapidly and he can look forward to even greater financial rewards.

Tom understands the importance of tax planning and because his future is so promising, he wants to set up the best possible tax plan for his estate. His lawyer has explained that by taking advantage of the unlimited marital deduction, Tom or his wife can transfer their entire estate to the surviving spouse tax-free. In addition, each can transfer tax-free during their

lifetime or at death \$5,430,000. This is commonly referred to as the "basic exclusion amount" and it is adjusted for inflation. A surviving spouse can use any unused exclusion of the spouse who died. Together this allows them to transfer up to \$10,860,000 tax-free. This is called portability.

However, Tom is certain that he will be wealthy and his and his wife's estate will be greater than \$10,860,000. Even with the unlimited marital deduction and the basic exclusion



amount, Tom realizes that his estate will eventually be subject to substantial federal estate taxes. The maximum gift and estate tax rate is 40%. He hopes there must be another answer to his situation.

## A BETTER SOLUTION

Tom is right. There is a better way. A program that takes advantage of the maximum annual exclusion of gifts from taxes will not only help Tom protect the estate from federal estate

taxes, but can save him current income tax dollars as well.

Here's how it works. Under the tax law, a taxpayer can exclude from tax gifts of up to \$14,000 a year for each gift recipient. If the taxpayer and spouse elect to "split" the gift, the annual limit is increased to \$28,000. Amounts over these limits are subject to gift taxes. To qualify for the exclusion, the gift must be an outright gift. If income producing property (including cash) is transferred as a gift, the income tax liability for that property is also transferred to the recipient of the gift.

A gift program could work wonders for Tom's estate. He and his wife can give \$28,000 annually to each of their three children - a total of \$84,000 a year. If the couple has an additional life expectancy of thirtyfive years, that means they'll be able to shift \$2.94 million out of their estate. If they also had four grandchildren, the amount could total \$6.86 million.

It's true that you can't take it with you, but your accountant can help you see to it that the IRS won't take it either.



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*Avoiding the Six Most Dangerous Management Mistakes*

to management as soon as they appear.

**3. Weak purchasing controls.**

If too many employees are authorized to make purchases and business softens, a company can be faced with increased costs and reduced margins.

**The solution.** Purchasing systems and controls should be fine-tuned when business is good. Regular vendor reviews and price checks should be a routine part of the purchasing function. Buying authority should be delegated to as few people as possible. Regularly purchased, low-ticket items should be reviewed by purchasing personnel for possible automatic periodic shipments at lower prices.

**4. Failure to modify product lines.**

Too often, companies continue to offer certain products so they can claim a "complete" product line, even though sales are negligible

and margins unacceptable for those products. The result is higher hidden costs which can severely damage the total profit picture.

**The solution.** Schedule quarterly line reviews. Make tough decisions about what the company sells. Analyze the real cost of carrying slow-moving items. Don't hesitate to weed out unprofitable products.

**5. Doing business as usual.**

Be flexible and be prepared to move quickly. For example, just because it's always been your policy to consider increasing prices once a year doesn't mean that's the best policy for today's business conditions.

**The solution.** Keep an eye on costs. If they are increasing beyond expectations, take a hard look at market conditions and consider raising prices if sales will not be materially damaged.

**6. Failure to motivate good managers to stay with the company.**

When the business climate worsens and key employees find it more and more difficult to produce good results, they frequently exert extra pressure on other employees. Raises and bonuses are cut back, or even eliminated, as the company's performance weakens. Faced with such conditions, the best employees will invariably begin to look around for better opportunities.

**The solution.** Even when it appears that the company can't afford it, it may be desirable to offer performance incentives and even increased compensation. A short-term alternative that can boost morale is to give key personnel greater recognition and more responsibilities.



## Tax Tip

**Put Your Safe Deposit Box in Your Corporation's Name**

In most states, a safe deposit box in an individual's name will be sealed when the individual dies so that the authorities can take an inventory of its contents. If you are a shareholder in a closely held corporation, you can avoid this problem by renting a safe deposit box in the name of your corporation. Safe deposit boxes in corporate names are not sealed when a shareholder dies.

By giving the right of access to the box to a fellow corporate officer whom you trust, you can assure your heirs of immediate access to the box.

Check the law in your state first, because some states will not seal a safe deposit box if it is rented jointly in the names of you and your spouse.