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

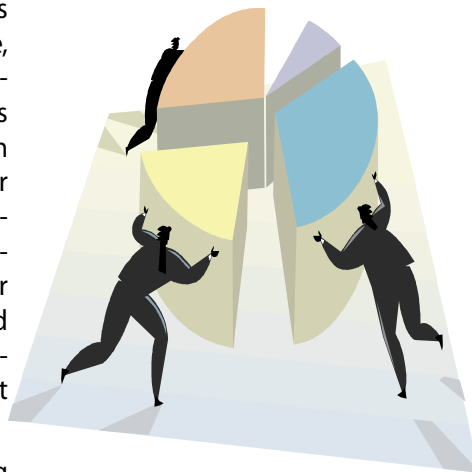
How Gainsharing Can Benefit Companies & Employees

Incentives to motivate employees have been around for a long time, but few offer the flexibility and potential of what is commonly referred to as “gainsharing”. Gainsharing is a program that rewards a company’s workers for increased production, improved quality, cost reductions, and other achievements through the payment of regular cash bonuses. Properly conceived and implemented, a successful gainsharing program can produce significant benefits for a company.

Typically, an effective gainsharing program can increase productivity by as much as 15%. Equally important, gainsharing establishes a direct relationship between a company’s performance and what it pays its employees. When business is soft, bonuses are reduced or even eliminated, but when conditions are good, the work force shares in the company’s gains.

How it works

The first requirement for a successful gainsharing program is that it establishes easy-to-understand performance standards for particular work tasks. These performance standards determine whether employees in a



specific job earn a cash bonus. Gainsharing bonuses are usually paid monthly, because employee motivation is strongest when employees receive their bonuses as soon as possible after they’ve achieved their performance goals. To draw attention to the unique nature of a gainsharing bonus, it’s usually paid separately from the payroll check.

It’s these two aspects of gainsharing—frequent payments and a direct link to job performance—that make a gainsharing plan different from a profit-sharing plan. In most profit-sharing plans, workers don’t receive benefits

CONTINUED ON PAGE 4

CLIENT’S tax & financial UPDATE

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Get a Mortgage Interest Deduction for a Boat or Recreational Vehicle

Rent Your Home Out for Up to 14 Days Each Year

Buy the Individual Assets of a Business Rather than Its Corporate Stock

Recession Survival Tactics for Small Businesses

When the Cost of Looking for a Job Is Deductible

Qualified Tuition Plans—529 Plans

Tax Changes Affecting Individuals

Ten Sure Ways to Business Failure

taxPOINTS

Loophole: Use an installment sale to sell rental property and defer taxes. With installment sales, you receive payments in more than one tax year. You pay tax on gains only as you receive principal in each installment payment.

Benefit: You receive interest on the unpaid installment note balance, typically a higher yield than if you had received payment in full, paid the taxes, and reinvested the proceeds.

Get a mortgage interest deduction for a boat or recreational vehicle (RV). A boat or RV can qualify as a residence if it has living facilities (a kitchen, sleeping quarters, and bathroom). Thus, it can qualify as a second home with a purchase loan providing deductible mortgage interest.

Rent your home out for up to 14 days each year. The rental income you receive is totally tax free – it doesn't even have to be reported to the IRS.

Loophole: Buy the individual assets of a business rather than its corporate stock.

Reason: You can allocate the purchase price among the assets, which maximizes the benefits of your tax deductions. By contrast, the price you pay for a business's shares, including any amount over the value of the assets, is not deductible.

Note: Amounts paid beyond the total value of a business's assets is considered "goodwill," which can be amortized over time.

Recession Survival Tactics for Small Businesses



A nation-wide survey of thousands of owners and managers of small businesses asked them what strategies were the most effective in helping their businesses survive the last recession. Their answers provide valuable guidelines for getting through the current economic downturn.

1. Monitor collections very closely.
2. Keep expenses to a minimum.

3. Purchase for immediate sale purposes, not for inventory.
4. Put slow-payers on C.O.D. or stop selling them.
5. Demand faster delivery from suppliers.
6. Review all borrowing practices.
7. Charge interest on past-due accounts.
8. Consider increasing the number of days accounts payable are allowed to remain outstanding.
9. Adjust selling prices to generate cash.
10. Base financial decisions on cash flow instead of projected profits.
11. Reduce inventories by reducing stock-keeping-units.
12. Review advertising levels.

When the Cost of Looking for a Job Is Deductible

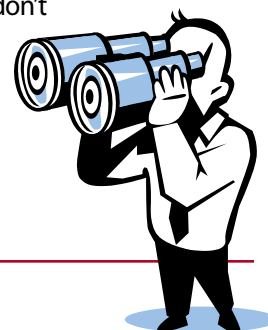
Under certain circumstances, you can deduct the cost of looking for a job as a miscellaneous itemized deduction up to the amount your total combined miscellaneous deductions exceed 2% of your Adjusted Gross Income. To deduct job-hunting costs, you must be looking for employment in the same or a related field of work. If you satisfy the requirements, here are some of the costs you can deduct.

- The cost of transportation to and from job interviews.
- 50% of the cost of meals and entertainment which you incur because of your job search.
- The cost of out of town travel to seek new employment, including

transportation, lodging, and 50% of meals and entertainment.

- Fees that you pay to job counselors, recruiters, and employment agencies.
- The cost of newspapers and other publications that you buy because of their employment advertisements.
- The cost of preparing and mailing resumes, including printing, envelopes, and postage.

Even if you don't find a new job, you can still claim these deductions.



Qualified Tuition Plans—529 Plans

Section 529 college saving plans offer income tax, gift tax, estate tax, and asset protection benefits. But, in spite of all the hype and publicity (which they do deserve), 529s aren't for everyone.

If you're on either end of the wealth spectrum, there may be better options, which are often lost in the marketing barrage for 529 plans. While 529s may be great for most people saving for college, it depends on your specific situation...

You're on the low end of the income/wealth spectrum. You might be better off keeping the money in your name. You might need the money for yourself. From an emotional perspective, you may not want to have your

child see 529 money that he/she will assume is for college only to see you pull it out to meet a family emergency. Also: Your tax bracket may not be so high that the tax advantages of a 529 account are that significant.

You're on the high end of the income/wealth spectrum. You might benefit your family more if, as part of an overall financial, asset protection, and estate planning strategy, you establish trusts for your children and grandchildren to which you can gift interests in family businesses or investments at a discount, fractionalize ownership of family entities by these gifts, remove future appreciation from your estate, and achieve other goals. You can, at these levels, always pay for tu-



ition costs directly gift tax free over and above the annual gifts you can make to the trusts (currently \$13,000/year).

Lesson: 529 plans, like most estate and financial techniques, are a wise choice for some people, but not for everyone. Use discretion to be sure you're taking the steps that are right for you.

Tax Changes Affecting Individuals

As part of the massive rescue plan to help restore confidence in the financial markets the new law include some important tax incentives.

Homeowners. When a lender forecloses on property, sells the home for less than the borrower's outstanding mortgage and forgives all or part of the excess mortgage debt, the Tax Code treats the cancelled debt as taxable income to the homeowner. The Mortgage Forgiveness Debt Relief Act, enacted in late 2007, excludes from federal tax discharges involving up to \$2 million of indebtedness (\$1 million for a married taxpayer filing a separate return) secured by a principal residence and incurred in the acquisition, construction, or substantial improvement of the residence. The new law extends



this treatment through 2012.

The rescue package also extends the additional standard deduction for real property taxes. Individuals who do not itemize their deductions may take this deduction in 2008 and 2009. This deduction is not an above the line deduction that lowers your adjusted gross income. It is an addition to the standard deduction, and can reduce your taxable income by as much as \$500

(\$1,000 for those filing joint returns).

Charity. In 2008 and 2009, an individual age 70½ or older can distribute up to \$100,000 of his or her IRA balance to charitable organizations, including churches, without recognizing income and without taking a charitable deduction. This special tax break had expired at the end of 2007.

State and local taxes. The rescue package gives individuals who itemize their deductions the option of deducting state and local income taxes or deducting state and local general sales taxes. This election was available in past years but expired at the end of 2007. The new law makes it retroactive to January 1, 2008, and extends it for 2009.

CONTINUED FROM PAGE 1

How Gainsharing Can Benefit

until retirement, and the company's annual contribution to a profit-sharing plan is often taken for granted as an automatic donation rather than a personal reward for good work.

Setting performance standards

The formula used to determine a gainsharing bonus must be acceptable and equitable to both the company and its employees. The best way to achieve this is to base the formula on a reporting system that has proven itself to be reliable. Two major standards must be set:

1. The size of the bonus, which can be established in several ways - for example, the ratio of labor costs to sales.
2. Justification of the bonus as a true reflection of the company's improved performance - for example, production units per hour.

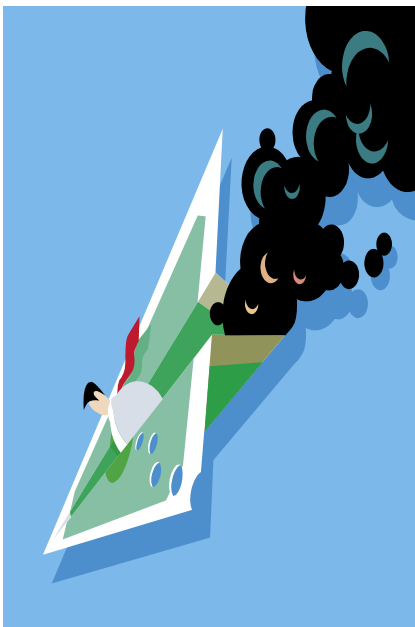
Bonus performance standards should be based on the company's reasons for adopting a gainsharing plan. Typical standards involve ratios between various factors such as production value, cost of quality, units of output, labor hours, and cost of goods. Improvements in any of these areas should be measurably beneficial to the company's performance.

It's important not to build too many standards into a plan because a plan must be easy to understand so that employees will respond to it. Standards must be chosen carefully so that bonuses are paid only if the company benefits financially when its employees meet the standards.

Getting the most out of gainsharing

- Gainsharing works best in companies that have fewer than 100 employees. Although it can also work in larger companies, gainsharing is more difficult to administer and implement in larger companies.

- A gainsharing plan is more effective if it begins at a time of the year when a company is traditionally busy. This permits employees to achieve results and earn gainsharing bonuses right at the beginning of the plan.
- Gainsharing will work best in a free-standing facility where the production mix is not too broad.
- Management should design a gainsharing program so that while both the company and its employees benefit, higher productivity does not result in layoffs.
- Gainsharing plans should not be used in companies where employee relations are poor, where operations are highly automatic, where departments work independently of one another, or where certain workers in a particular department won't be included in the program.



Ten Sure Ways to Business Failure

Ambitious Americans start more than half a million new businesses every year. Yet every year, about four out of five of these new businesses fail. Most of the reasons why budding entrepreneurs don't succeed could have been avoided. Here are the ten most common.

1. Inadequate working capital.
2. Poor accounting records.
3. Inattention to controlling costs.
4. Weak understanding of financial statements.
5. Improper training of employees.
6. Failure to plan far enough ahead.
7. Weak internal controls that invite theft.
8. Not selling aggressively.
9. Carrying inadequate insurance.
10. Failure to seek professional advice.