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July 2007

Client Information Bulletin

Five Reasons to Create a Business Plan

Common advantages available to small firms

What separates a successful business from a not-so-successful one? There are many variables, but careful planning and organization are often key elements. You can increase the chances of success for your operation by creating a business plan for management to follow.

In its most rudimentary form, a business plan is a blueprint for running the company from year to year. But the plan can do much more than that. Here are five common advantages for developing a business plan.

1. It can be beneficial to be proactive instead of reactive. Frequently, business managers in small companies tend to "put out fires" as problems arise. Committing a business plan to writing requires a great deal of discipline, but going through the process is worth it. For example, a hastily conceived plan of action won't look as attractive when you see it in black and white.

2. A business plan can provide direction. It will show you where you are, where you are going and how to get there. Of course, the plan does not have to be etched in stone. For instance, new developments may require some slight deviations from your original plan. However, your business decisions probably will be more solid if they are made within the context of the original plan. If something is way off base, it should raise suspicions.

3. Planning ahead usually leads to better communication. For one thing, the process will force you to crystallize your vision of the company. For another, it encourages input from the personnel who are involved with the planning. This kind of dialogue may be particularly vital, especially in small firms. **Reason:** The employees have a chance to "give and take" with the business managers.

4. The existence of a business plan may give you instant credibility in the business world. It can be especially impressive to creditors and the lending officers of the banks that you deal with. And it may satisfy a psychological need for you and your company to be taken seriously.

5. A business plan may be used to help raise capital for the company. For instance, by focusing on accounts receivable in your business plan, you may be able to free up additional funds. Also, it is likely that a lender will require you to present a business plan plus cash projections to obtain a loan.

How do you put together a business plan? In general, most plans include the following: a statement of objectives, strengths and weaknesses, position in the marketplace, future direction, critical issues and so forth.

Generally, it helps to obtain the assistance of an experienced professional. However, there is no magic formula. It's your plan, so you can shape it into a format that seems right for you. In fact, you probably will make changes in the plan's format from year to year. The important thing is to touch all the bases that are essential to your particular industry or profession.

Final reminder: *Use the plan for guidance throughout the year, but do not hesitate to fine-tune it. Your business advisers can help with any necessary modifications.*

Move Forward on Computer Backups

Take basic steps for protecting your data

Have you purchased a new computer for your home or office? With all the novelty, you are probably not contemplating the possibility that disaster could be lurking around the corner. Yet the potential dangers should not be ignored.

Specifically, you could lose data due to damage caused by viruses, worms or software programs that affect your system. Or you might inadvertently delete files in a botched upgrade. In the worst-case scenario, a hard drive failure could even destroy a business.

Fortunately, you may be able to avoid any dire results by establishing a "backup" strategy for your computer. In this brief article, we will outline some of the basics.

Starting point: If your system did not provide a recovery disk, create a backup of the system in its initial configuration. It is generally recommended to do this first before installation of software programs that could slow down the system. It is also more likely the system will not be hindered by any spyware.

You can replicate your "C" drive by purchasing a relatively inexpensive program. Keep the DVD or disk in a safe place so you can restore your system anytime should a disaster occur.

There are three key steps to the process of creating a backup.

1. Identify the data to be backed up. This can generally be handled by referring to your profile folder on the system. For instance, this should include the familiar "My Documents" section as well as other directories that are normally hidden from view and certain applications.
Caveat: Don't forget to search for other places on your hard drive where you might have stored data.

Backing up applications may not be as critical if they can be installed with disks you have stored in a safe place. If you have purchased software electronically, make sure you have easy access to downloads or disks.

2. Decide on a storage location. For convenience's sake, you might create a partition on your hard drive for storing backups. But then both your data and backups are at risk due to system failure. Conversely, you can store backups on removable media and transport them to an off-site location, although this is too much of a hassle for some people. One possible solution is to combine strategies.
Example: Create periodic full backups that are transported off-site. In the interim, supplement them with regular daily or weekly backups stored in a more convenient location.
3. Follow through on the plan. Your system should include instructions for running backup software. Also, software programs are readily available. If you are not computer-savvy, you can use a third party to handle the technical details.

Finally, take the time to review your backup process on a regular basis. Make sure that it includes all of your data files and any new directories. Check for any potential problems such as reduced space on your backup drive.

Word to the wise: *In this case, it is definitely better to be safe than sorry. Remove the worry by sticking to your computer backup plan.*

IRS Eases Rules for Hardship Distributions

New guidance allows greater flexibility

If you have been able to build up a sizeable fund in a 401(k) plan or other qualified retirement plan, you are ahead of the game. However, sometimes extenuating circumstances may force you to dip into your account. Specifically, you might apply for a "hardship distribution" when the plan permits it.

Under the new Pension Protection Act of 2006, the IRS is authorized to revise the existing regulations for hardship distributions. Accordingly, it recently issued new guidance on this topic.

Background: You can take a distribution from a 401(k) plan up to the amount of your elective deferrals upon severance from employment, termination of the plan, death or disability, or for a hardship withdrawal. A hardship withdrawal is defined as a distribution that is made due to an "immediate and heavy financial need." It is limited to the amount required for that need.

Of course, hardship withdrawals are still subject to federal income tax in the year they are paid out. In addition, you may be liable for a 10% penalty for withdrawals made prior to age 59-1/2, unless a special exception applies.

To qualify, a hardship withdrawal may be used to pay for

- Medical expenses of an employee, his or her spouse, or a dependent;
- College tuition of an employee, his or her spouse, or a dependent;
- Expenses to purchase a principal residence for an employee (excluding mortgage payments);
- Expenses to stave off eviction or foreclosure of the employee's principal residence;
- Burial or funeral expenses for an employee's deceased parent, spouse, child or dependent; and
- Expenses for repairing casualty damage to an employee's principal residence.

Note that similar rules apply to other tax-qualified plans permitting elective deferrals such as a 403(b) plan offered to employees of a tax-exempt organization.
Now the IRS has expanded the rules for hardship withdrawals to include "primary beneficiaries" under the plan. A primary beneficiary is someone who is named as a beneficiary of the plan and has an unconditional right to all or part of the plan participant's account balance upon the participant's death. **Caution:** Even if the plan adopts the new rule for primary beneficiaries, you still must meet the other requirements.

This change can give you greater flexibility over qualified hardship distributions. A primary beneficiary could even be a nonrelative. Let's say your best friend is your primary beneficiary and needs money to help pay for emergency surgery. If your 401(k) plan adopts the extended provision, you can withdraw funds to pay the medical bills of the primary beneficiary.

Consider all of the economic ramifications of a hardship distribution. Your professional advisers can provide some guidance for your particular situation.

Avoid the Dirty Dozen Tax Scams

As part of an annual ritual, the IRS recently named its "dirty dozen" tax scams for 2007. This announcement covers the rip-offs by taxpayers the IRS considers to be the most blatant. The updated list for this year features the following new additions:

Telephone tax refunds: Many taxpayers have requested inappropriate amounts for the special credit on their 2006 returns.

Abusive Roth IRAs: Undervalued property is transferred to a Roth IRA in an attempt to avoid the annual contribution cap. Then no tax is due when the property is liquidated and distributions are made.

Disguised corporate ownership: Domestic "shell" corporations are being established for tax evasion purposes.

Native American credit: This limited credit for employers is being claimed by some individual taxpayers.

Structured entity credit: In this illegal scheme, promoters set up partnerships to buy and sell various tax credits. The alleged credits are the only assets owned by the partnership. Once the credits are exhausted, the investors deduct losses.

Other scams making a return appearance on the list are "phishing" to facilitate identity theft; zero wages; return preparer fraud; trust misuse; abuse of charitable organizations and deductions; Form 843 tax abatements; and frivolous arguments.

Coping with Tax on Social Security Benefits

Complicated tax system applies to retirement benefits

Of course, taxes are a major concern when you are working full-time. What happens when you finally retire? Believe it or not, you still have to worry about taxes. For instance, you may have to pay federal income tax on a portion of the Social Security benefits you receive during the year.

How does the tax work? There is actually a "two-tier" approach to taxing Social Security benefits.

Tier #1: If a taxpayer has provisional income between a base amount of $32,000 and $44,000 ($25,000 and $34,000 for single filers), he or she must pay tax on the lesser of (a) one-half of the benefits or (b) 50% of the amount by which provisional income exceeds $32,000 ($25,000 for single filers).

Tier #2: If a taxpayer has provisional income above $44,000 ($34,000 for single filers), he or she must include in taxable income 85% of the amount by which provisional income exceeds $44,000 ($34,000 for single filers) plus the lesser of (a) the amount determined under tier one or (b) $6,000 ($4,500 for single filers). In no event, however, can the amount exceed 85% of the benefits received. **Note:** There are special rules for married taxpayers filing separate returns.

"Provisional income" is defined as the taxpayer's adjusted gross income plus tax-exempt income plus one-half of Social Security benefits. Thus, if you receive tax-exempt interest from investments such as municipal bonds, it can increase the tax on Social Security benefits.

Hypothetical situation: For simplicity, let's say Mr. and Mrs. Green, a retired couple, have the same income each year. They receive a taxable pension of $22,000, taxable interest of $10,000, tax-exempt interest of $10,000 and Social Security benefits of $12,000. Based on those amounts, their provisional income is $48,000.

Since the Greens have provisional income over $44,000 this year, they will be taxed on $9,400 of their Social Security benefits. The calculation is as follows:

Taxable pension	$22,000
Taxable interest	10,000
Tax-exempt interest	10,000
Subtotal	$42,000
Provisional income ($42,000 + 50% ´ $12,000)	$48,000
Benefits subject to tier #2 tax (85% x $4,000 + $6,000)	$9,400

Conclusion: *Understandably, there is a great deal of confusion in this area. A professional tax adviser can apply the rules to your situation.*

Facts and Figures

Timely points of particular interest

- **Per Diems for Self-employeds --** An employer may use IRS-approved per diem allowances to reimburse tax-free for travel expenses. But per diems cannot be used for certain business owners. **New case:** A self-employed worker estimated he spent 40 days a year traveling on business. The Tax Court permitted the self-employed taxpayer to use per diems for meals and incidental expenses as long as they were supported by records showing the time, place and business purpose of the travel. But the taxpayer still had to document lodging expenses.

- **Sharing Information --** According to a new survey, it can help to tell employees why they were hired in the first place. The survey, conducted by an independent human resources consulting firm, shows that companies have better retention rates when they pinpoint the key attributes that initially attracted them to the employees. **Reason:** This communication from a human resources department fosters a productive relationship with employees from the outset. It also provides instant ties to the company.