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# Client Information Bulletin

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## This LLC Is Just for One Person

### *Single-member format provides personal benefits*

The limited liability corporation (LLC) form of business ownership has been gaining in popularity throughout the country. Do not think that this trend is limited to large corporations. For instance, a sole proprietor may choose to operate his or her business as a single-member limited liability company (SMLLC).

With an SMLLC, you are entitled to the same protection from personal liability as corporate owners using the LLC format. In other words, creditors generally cannot go after your home or your personal bank holdings. Only the SMLLC assets are exposed to this risk. Furthermore, you avoid the double taxation problem that applies to regular C corporations.

**Background**: To qualify as an SMLLC, you must observe all the legal formalities required by state law, including drafting articles of incorporation and filing them with the appropriate state agency. In a few states, you must also publish your intention to form an LLC in a newspaper.

Unless you elect otherwise, an SMLLC is treated as a "disregarded entity" that is not subject to double taxation. Like a partnership, all items of income and expense are reported on your personal return. Thus, you can realize the dual benefits of partnership taxation and personal liability protection.

In contrast, the earnings of C corporations are taxed twice—once on the corporate level and again on the personal level when you receive payment as dividends or compensation. This difference is often a key attraction for small-business owners.

Nevertheless, if it suits your purposes, you can elect to be taxed as a corporation by taking the appropriate action on your tax return. This might make sense if you intend to retain earnings that will eventually be paid out at a lower corporate tax rate than your regular personal tax rate. But most taxpayers with SMLLCs prefer partnership-type taxation.

If you operate an SMLLC and benefit from partnership-type taxation, you are required to pay self-employment tax on your earnings. For 2009, the self-employment tax is 12.4% on the first $106,800 of earned income (up from $102,000 for 2008). An additional 2.9% tax applies to all earned income. However, you are entitled to deduct half of the self-employment tax you must pay.

State and local taxation is also a consideration for small-business owners. For example, in certain states, an annual franchise tax is levied on LLCs. In contrast, sole proprietorships may be exempt. Check with your tax adviser for the applicable law in your state.

## Inside

Generally, making a switch from a sole proprietorship to an SMLLC is comparable with setting up an LLC for the first time. But there are complications if you decide to convert a C corporation to an SMLLC. **Reason**: The conversion is treated as a taxable liquidation of the corporation. Therefore, you will probably owe tax if your company owns appreciated assets, including intangibles such as goodwill.

***In summary**: This is not a do-it-yourself proposition. Rely on guidance from expert professional advisers.*

# Four Tips for Expanding the Product Line

## *Develop a logical plan for new launches*

The recent economic downturn has hurt many small-business owners. You may want to revitalize sales by upgrading your product line or rolling out a completely new product.

The potential rewards are high, but so are the risks. Not only could you lose money on the project, you might also waste time and effort.

Make sure you have done all your homework before launching a new product. Develop a plan for expansion in a logical and organized fashion. Here are four practical suggestions to help you along.

**1.** Check out the competition. Analyze the trends showing what your main competitors are up to. Read their company brochures and other marketing materials to pinpoint the direction they are now taking. This could give you an indication of the directions you can take to expand your own product line.

If you are particularly ambitious, don't narrow your search to direct competitors. Similar types of companies in other industries may provide valuable indicators about the attitudes and fears of a target market, as well as its demographics such as age, gender, household income, education and buying habits.

**2.** Talk directly to customers. Whenever possible, engage members of your target audience in conversations about the products they like and why. Try to keep the discussion casual while you glean this valuable information. Customers are more likely to respond honestly if they are not placed in pressure situations.

If you are not having much success with this method, you might place an advertisement in an online marketplace offering a small fee to consumers. Ask pointed questions to potential participants to weed out those who have no need for your products. Once you have assembled a list, use a third party to conduct and monitor interviews, much in the way you would generally handle a focus group.

**3.** Advertise in creative ways. Consider nontraditional venues in which you are not as likely to be overshadowed by bigger companies. Try to find narrow niche publications that cater to your target audience. Enter into online forums where your firm can become a presence. This does not have to be overly time-consuming, and the benefits may be well worth it.

**4.** Don't panic or expect instant gratification. Naturally, you should set some sales objectives, but you probably will not reach them right away. Try not to obsess about how much you are selling in comparison with the rest of your product line or the products offered by a competitor. Remember that building a new product line takes time. After a few months have passed, you can focus on sales forecasts.

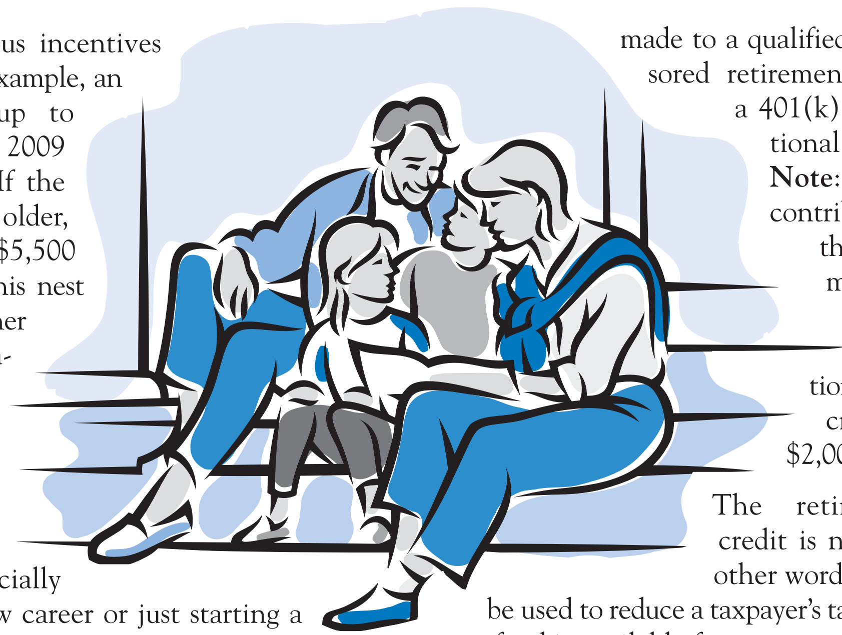
*Finally, benchmark the results for each new product offering. For instance, if you launched a new Web advertisement, record the number of "hits" from the ad. Then you can fine–tune your program based on the hard numbers. Do not let emotion rule one way or another.*

### *Give Us A Call!*

*Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

# Who Can Claim the Retirement Saver's Credit?

## *Tax law benefits for younger family members*



The tax law provides various incentives for retirement saving. For example, an employee may contribute up to $16,500 to a 401(k) plan for 2009 (up from $15,500 for 2008). If the employee is 50 years of age or older, he or she can kick in an extra $5,500 (up from $5,000 for 2008). This nest egg can be supplemented by other retirement plans—including traditional and Roth IRAs—savings accounts and Social Security retirement benefits.

However, it is often more difficult for younger workers to put aside funds for retirement, especially if they are embarking on a new career or just starting a family. This could apply to someone in your family—perhaps a child who recently graduated from college.

**Good news**: Lower-income taxpayers may be able to take advantage of a special tax break. The "retirement saver's credit" provides an extra inducement to save for retirement.

The amount of the credit depends on a taxpayer's adjusted gross income (AGI), his or her filing status and the amount actually contributed to the account. The credit is applied to the first $2,000 of voluntary contributions made to a qualified employer-sponsored retirement plan, such as a 401(k) plan or a traditional or Roth IRA. **Note**: Although the contribution limits for these accounts are much higher, the maximum contribution eligible for the credit remains at $2,000.

The retirement saver's credit is nonrefundable. In other words, the credit may be used to reduce a taxpayer's tax bill to zero, but no refund is available for any excess credit amount.

For taxpayers in the lowest income category, the credit equals 50% of the contribution. This percentage is reduced to 20% for the next income category. Finally, the credit is 10% for the third income category. No credit is allowed after this point. The chart below shows the percentages available for 2008 returns.

| Credit percentage | AGI for single filers | AGI for joint filers |
|---|---|---|
| 50 | $0–$16,000 | $0–$32,000 |
| 20 | $16,001–$17,250 | $32,001–$34,500 |
| 10 | $17,251–$26,500 | $34,501–$53,000 |

**Example**: Your daughter earned $17,000 last year, which puts her in the middle income category. Therefore, she can claim a maximum credit of $400 (20% of $2,000).

Be aware that certain other limitations apply. For instance, the credit cannot be claimed by a taxpayer who was younger than 18 years last year, a full-time student or a child who is claimed as a dependent on your tax return. For this purpose, a "full-time student" is defined as someone enrolled at school for five months during the year.

***Final point**: Even if a younger family member will not qualify for the retirement saver's credit, he or she should be encouraged to save for retirement in a company plan or IRA. This will help establish discipline for the future.*

### *The Sun Sets on Day-traders*

If you are a day-trader in securities, you are generally required to deduct your investment-related expenses as miscellaneous expenses (subject to the usual 2%-of-adjusted gross income floor). The expenses are deductible in full only if your activities qualify as a business.

**New case**: A couple made a few hundred stock trades a year, but they traded on fewer than half of the days that the stock markets were open. In addition, the taxpayers held onto many of their stock positions for more than 31 days.

The Tax Court determined that these trading activities were too sporadic to be treated as a business. So the expenses were treated as miscellaneous expenses on the couple's joint return.

# How to Cut High-tech Energy Costs

## *Improving the efficiency of your computer system*

It is hard to dispute the benefits of the information technology (IT) revolution in business. But technological advances have come at a price: Energy costs resulting from IT can have a significant impact on a company's bottom line, as well as the environment. Even small-business owners have started to take notice of the trend.

How can you make your operation more energy-efficient? It is not quite as simple as buying the newest and best equipment (although that may be beneficial). There are several other steps your company may take to reduce energy consumption. Consider the following points:

♦ It may be practical to consolidate servers. One industry expert estimates that up to 30% of the servers in a typical data center are obsolete or have not been decommissioned. Of the remaining servers, an average of about 95% of capacity may go untapped.

♦ Virtualization technology may solve the problem of consolidating servers. Generally, a server runs only one operating system and application. With virtualization software, one server can run multiple operating systems and applications, replacing as many as 30 devices.

♦ Better cooling technology can result in energy savings. As servers have become more powerful, the amount of heat being released has increased. Traditional methods of cooling an entire room may be replaced by innovative ideas for cooling the equipment. One such solution is to take the data center underground.

♦ Front-office computers are also responsible for higher energy costs. Employees may do their part by turning on existing power-management functions or using new power-management software. **Note**: Computers that are in "sleep" mode still consume up to 30% of the power used when the computers are active.

♦ Look into new processors that consume less electricity. Similarly, the quest for energy efficiency has revitalized the concept of "thin clients" (also known as "dumb terminals") that consume about 10% of the power of regular PCs. Hundreds of thin clients can be networked to a server hosting most of their applications.

♦ Finally, note that videoconferencing has not quite caught on to the extent that it was hoped. Depending on your company's needs, this may be a viable alternative to extensive business travel. For instance, a company projecting 25,000 hours of videoconferencing from more than 100 endpoints this year may eliminate 4,500 tons of carbon dioxide emissions.

***Final point***: *Make energy-saving a company-wide effort. Don't just keep on doing things the same old way.*

# Facts and Figures

## *Timely points of particular interest*

➡**Higher Per Diems**—The IRS recently announced an increase in the worry-free "per diem rates" for business travelers. Under the method used for travel in specified high-cost areas, the rate increased by $19 to $256 a day. For all other locations (i.e., the low-cost areas), the stated rate rose to $158 a day, an increase of $6. The new per diem rates officially went into effect for business travel beginning on October 1, 2008.

➡**Social Security Tax**—It should come as no surprise that Social Security tax is going up again. The wage base for 2009 is $106,800 (up from $102,000 for 2008). But the tax rate on wages up to the amount of this threshold remains at 6.2%. Also, the 1.45% Hospital Insurance portion of the tax continues to apply to all wages. These tax rates are doubled for self-employment tax purposes, but a self-employed individual can deduct half of the tax.