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# Client Information Bulletin

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## How to Reduce Cash Outflows

*Sensible ideas for small-business owners*

The flow of cash leaving your business can be a major concern during this economic slump. Of course, this is a sensitive matter, because you do not want to jeopardize long-standing relationships with suppliers or clients. With that in mind, here are several ideas to consider.

◆ Arrange to pay large bills at the latest date possible (assuming there is no discount for early payment). For instance, say you delay a \$25,000 bill for six weeks. If the money is invested at an annual simple interest rate of 5%, you save \$144. The savings can multiply dramatically when this strategy is used repeatedly.

◆ Compare the cost of taking a discount against the benefit of delaying payment. If the amount that can be earned on the cash is less than savings via the discount, you generally should not delay payment. However, do not assume that you will always come out ahead with the discount. The best approach is to have things figured out both ways.

◆ Avoid excess inventory. This not only ties up cash resources, but the carrying expenses—warehouse space, insurance, etc.—can effectively reduce the value of the goods. **Note:** The tax requirement to capitalize certain inventory expenses increases the cost even further.

◆ Weigh any special offers from suppliers that can reduce overall costs.

For instance, you may be offered installment payments, consignment sales or special terms for the purchase of seasonal items. In addition, you may be able to arrange delaying payment until the goods are delivered.

◆ When it makes good economic sense—factoring in price and quality—try to buy your goods from the fastest supplier. This helps to cut down on inventory costs. If you normally deal in large quantities with just one vendor, you may be able to get preferential treatment.

◆ Ask the supplier to bill you at the end of the month (assuming you are a large customer). That will enable you to stretch your cash further each month—without paying any finance charges.

◆ Try to negotiate a price discount for high-volume purchases. **Note:** Don't forget about those inventory expenses when you are figuring out how much things will actually cost you.

◆ Take advantage of the most favorable accounting methods. For example, depending upon the circumstances of your business, it may be advisable to switch to the LIFO (last-in, first-out) method of valuing inventory.

◆ Do not give Uncle Sam “free” use of your money. A company can generally avoid a corporate estimated tax penalty by paying quarterly install-

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ments equal to 25% of (a) 100% of the prior year's tax liability or (b) 100% of the current year's liability. **Caution:** There are special rules for large corporations.

◆ Finally, consult with your professional business advisers. They may be able to suggest various ways to stream-

line your operation, reduce operating costs and lower overhead.

*In some cases, you may want to conduct a business audit or review. This can provide a complete picture of the company's finances.*

## The Real "Power" in Estate Planning

### *Q's and A's on using a power of attorney*

**T**he thought of being incapacitated—either permanently or temporarily—certainly is not a pleasant one. Nevertheless, it is important to take precautions in the event you suddenly become incapable of managing your financial affairs. No one is immune.

One common means of ensuring some measure of protection is to create a "power of attorney." In particular, it may be beneficial to use a "durable" power of attorney. Here are the answers to several questions about this technique.

**Q.** How does a power of attorney work?

**A.** In simple terms, a power of attorney is a legal document that authorizes another person to act on your behalf (called the "attorney-in-fact"). **Note:** This may also be used to describe the person acting for you. The power can be either specific (e.g., limited to having someone sell your home or car) or broad. A regular power of attorney is no longer valid after you become incapacitated. However, a durable power of attorney remains in effect if you become incapacitated and terminates upon your death. That is why this variation is often preferred.

**Q.** Can I set up a durable power of attorney to take effect at the time I become incapacitated?

**A.** It depends. Such a "springing" power of attorney is not authorized in all states. You must find out the applicable state law from an experienced attorney. Similarly, you should rely on an attorney to do all the other necessary paperwork for the durable power of attorney.



**Q.** What if I change my mind about granting a power of attorney?

**A.** While you are competent, you may revoke a power of attorney (whether or not it is durable) at any time for any reason. The best thing to do is to notify the "attorney-in-fact" in writing. Also, notify other parties who may be affected.

**Q.** Can a durable power of attorney be used for health care decisions?

**A.** Yes. For instance, you can establish the terms for deciding whether or not you are incapacitated. In addition, it is important that you discuss these matters in detail with the attorney-in-fact to give him or her more guidance.

**Q.** How is this different from a living will?

**A.** A durable power of attorney gives another person the power to make decisions in your best interests. In contrast, a living will provides specific directions concerning terminally ill patients. Living wills are now recognized in every state.

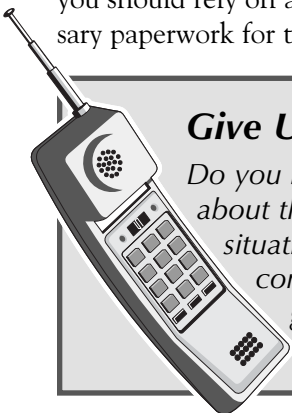
**Q.** Can I set up a durable power of attorney for a relative who is no longer competent?

**A.** No. A durable power of attorney is binding only if the grantor of the power was competent when it was drawn up. However, just because someone has been diagnosed as having a specific disease does not mean that he or she is incompetent. For instance, if an elderly person is suffering from Alzheimer's disease, it still may be possible to utilize a durable power of attorney.

*If you have a power of attorney executed, it should be coordinated with other aspects of your estate plan. Seek professional assistance for your personal situation.*

### **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.*



# Seven Ways to Protect Your Identity

## Helpful steps to thwart identity theft

Identity theft occurs when someone uses another party's personal information—typically, a person's name, Social Security number or credit card—without authorization. The information may then be used to commit fraud or some other crime. Recent occurrences involving identity theft have been well documented by the media.

What is Congress doing about the problem? Recent legislation, including the Fair and Accurate Credit Transactions Act of 2003 (the FACT Act), is designed to protect consumers. For instance, the FACT Act requires companies to monitor “red flags” indicating the possible existence of identity theft. Other legislative proposals are being debated in Congress. Furthermore, the individual states have enacted their own statutes concerning identity theft.

But you cannot rest easy. Even with these legal protections, you could still be an unwitting victim of identity theft. Here are seven proactive steps you can follow.

**1.** Install antivirus software on computers. A computer virus or spyware program that sneaks onto your computer



can steal private information. These malicious programs scan your hard drive and distribute data over the Internet. After software has been installed, make sure it is kept up-to-date.

**2.** Shred critical documents. This includes bank deposit receipts, credit card statements and anything else with sensitive data. If you have not done so already, you might buy a paper shredder. **Caution:** Identity thieves can learn a lot from rifling through your trash.

**3.** Shop online only at secure sites. Check the top or bottom of your browser for a locked graphic or “https” in the address bar. This means you are on a secure Web page and the data is encrypted. Without this security, hackers can access your private information.

**4.** Watch out for “phishing” scams. Phishing is a Web-based technique employed by identity thieves. The thief pretends to represent a company or charity and asks you to provide information or click on a link. Use great discretion in your responses.

**5.** Do not give out vital information on the telephone. Watch out for individuals claiming to represent a bank, credit card company or charitable organization. You could be talking to a hustler trying to steal your credit card or bank account number.

**6.** Stash away important documents. Your Social Security card, passport, birth certificate and other identifying materials may draw the attention of identity thieves. Keep these documents safely locked away in a safe deposit box.

**7.** Check your credit report. Every U.S. citizen is entitled to one free credit report each year. Obtain the free report from the three major credit agencies at [AnnualCreditReport.com](http://AnnualCreditReport.com). Verify that the information is correct and investigate any suspicious activity.

*Above all else, remain vigilant. When possible, do not use your Social Security number as a computer password. Also, do not allow uncollected mail to sit in your mailbox for a long time, where it can easily be poached. Finally, if you encounter identity theft problems, contact an attorney immediately.*

### Tax Rules for Short-term Rentals

Do you own real estate that you rent out during the summer? The tax law generally treats such properties as “passive activities” subject to certain limits. Generally, you cannot claim an overall loss.

**Key exception:** A property with an average rental period of seven days or fewer (i.e., a “short-term rental property”) is not considered a rental activity for this purpose. Thus, losses are exempt from the passive activity limits if you can show that you “materially participate” in the activity.

For example, if you work more than 500 hours a year in the activity, you can qualify as a material participant in the activity. Other tests may also apply.

These tax rules are extremely complex. Obtain professional guidance for your situation.



## 22 Business Deductions You Might Overlook

### List of tax-deductible business expense items

If you own or manage a small business, you are probably well aware that you can deduct the ordinary and necessary expenses of operating the business. But did you know that the definition of “ordinary and necessary” business expenses comprises a lot more than the usual laundry list of personal computers, staplers and labor costs?

For example, here are 22 tax-deductible items you may easily overlook or ignore during the course of the year.

The tax deductions for these expenses have been approved through various court cases, private letter rulings, IRS regulations or tax code provisions.

*Of course, this list is not all-inclusive. Look through your records for business expense deductions that are out of the ordinary. Then check with a professional tax adviser to determine if the expense is tax deductible or not.*

1. Answering service and beeper(s) if you are required to be available as part of your job
2. Audio- and videotapes that enhance your business skills
3. Bad business debts to the extent they are worthless
4. Bank service fees for business accounts
5. Beverages and snacks for your employees
6. Business interruption insurance
7. Business travel incidentals such as laundry, airport shuttles, tips and so on
8. Computer software
9. Consulting fees you pay to outside experts
10. Gifts to business clients (limited to \$ 25 per recipient)
11. Insurance premiums against casualty losses

12. Internet service provider fees
13. Legal fees paid in connection with business
14. Long-distance telephone calls from home if made for valid business reasons
15. Magazine subscriptions and other periodicals related to business activities
16. Passport fees used for business trips
17. Petty cash used for business-related expenditures
18. Physical examination cost to establish fitness needed for a particular job
19. Professional dues for business organizations
20. Special clothing required for work (e.g., for safety reasons)
21. Tickets to sporting events given to customers (limited to 50% of the cost)
22. Union dues and similar assessments

## Facts and Figures

### Timely points of particular interest

**Compensation vs. Dividends**—Even tax professionals run risks in receiving unreasonably low compensation. Latest example: A CPA was paid a salary of \$24,000 in a year in which his firm showed a large profit. The firm paid out most of the funds to the CPA as dividends. Unlike compensation, dividends are not subject to payroll taxes. Now a district court has agreed with the IRS that the dividends should be treated as compensation.

**Behind the Wheel**—It is illegal for federal employees and commercial truck and bus drivers to text while driving. Also, more than half the states have laws prohibiting drivers from texting. Now, the U.S. Department of Labor says employers may be in violation of the Occupational Safety and Health Act if they condone texting by their employees while driving. Employers should immediately remove any incentives for doing so.

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