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Rosen Seymour Shapss Martin & Company LLP
Certified Public Accountants & Profitability Consultants

757 Third Avenue
New York, NY 10017
Telephone (212) 303-1800
Facsimile (212) 755-5600

10 Esquire Road, Suite 4
New City, NY 10956
Telephone (845) 634-5300
Facsimile (845) 634-5409

Additional Offices in Garden City and White Plains, New York

E-Mail info@rssmcpa.com Website www.rssmcpa.com

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COULD YOU GET THROUGH?

CREATE A PERSONAL FINANCIAL CRISIS MANAGEMENT PLAN

A sudden job loss or medical emergency can drive even the most well-prepared person into crisis mode. A faulty investment also could leave just about anyone scrambling to pick up the pieces, as the infamous Madoff scandal shows. Although there's no sure-fire cure for every financial disaster, a personal financial crisis management plan may help ease your efforts to mitigate and resolve the mess.

Insurance considerations

When faced with the task of creating a personal financial crisis management plan, many people might understandably say, "I've already got one. It's called insurance." Granted, having the right coverage in place can provide critical protection in difficult situations. But policies purchased at one point in your life may not do all of the things you need them to right now.

For instance, some homeowners insurance doesn't cover flooding. Or if your home has appreciated in value, your policy may not provide full coverage. Given the state of the housing market in recent years, this is no longer a common problem. But even an incremental increase in value could detract from the effectiveness of your coverage in a crisis.

The most important aspect of factoring your insurance coverage into your crisis management plan is ensuring you have an adequate amount of the right type of coverage. And that doesn't just go for your homeowners policy (assuming you have one). Also review your auto, disability and life insurance coverage. Annually assessing your insurers may reveal that your provider has a declining credit rating and is increasingly slow with its payouts, meaning it may be time for a change.

In addition, look carefully at your medical insurance. Expenses related to health care can quickly devastate someone in even a good financial position. Again, if you've had the same coverage for a while, assess whether it still does everything you need it to do. Maybe you're more at risk for a long-term illness or injury now and adding a long-term care policy would be a good move.

Money and possessions

Insurance is critical support in the time of any crisis, large or small. But insurers can take awhile to approve claims and disburse payouts, so your plan should also account for immediate money needs. You might open a savings or money market account specifically for this purpose, setting aside enough funds to cover at least three to six months of living expenses.

Expenses related to health care can quickly devastate someone in even a good financial position.

On an even more immediate note, having actual cash on hand can be a welcome relief in more extreme emergencies such as a natural disaster. You could buy a sturdy, dependable safe and put, say, $500 to $1,000 therein for easy access.

Also account for your possessions in your crisis plan. Doing so relates to both insurance and theft protection. Create an inventory of your "home-based assets," itemizing it with information such as brand/model names and serial numbers. With photos or video, create a visual record of precisely what you own. Give a copy of this inventory and visual record to your insurance agent and perhaps a friend or family member who lives elsewhere.

In addition, generate a detailed list of your bank accounts, investments, trusts, titles and deeds, mortgages and home equity loans, insurance policies, credit and debit cards, and tax records. Put this list as well as your asset inventory in that safe we mentioned earlier or a safe deposit box, and you should be in good shape.

4 warning signs of an impending financial disaster

To paraphrase Ernest Hemingway, there are two ways to go bankrupt: gradually and then suddenly. Here are four warning signs that you may be headed toward a money-related crisis:

1. You've experienced a major life change (or soon will). Even if planned well in advance and thoroughly thought through, a move, pregnancy or job change could result in unexpected consequences. With a personal financial crisis management plan in place (see main article), you'll stand a better chance of withstanding an unpleasant surprise.

2. You missed a payment. Whether it be on a credit card, auto loan or mortgage, a missed payment may seem easy to rationalize. Maybe it's the first time such a thing has occurred or something really out of the ordinary happened. But don't take the occurrence lightly — one missed payment can turn into two, triggering penalties and hurting your credit score.

3. Your credit card balance catches you off guard. How much do you owe your credit card company? If you can't answer right away or are surprised by the balance on your statement, troubled times could lie ahead. Relying on credit can lead to high interest payments on multiple cards, an often untenable situation when a crisis hits.

4. You're engaging in (or considering) desperate measures. If you're borrowing money from one lender to pay off another, you're probably walking on shaky ground. And if you catch yourself eyeing one of those "payday loan" venues that seem to do business in every strip mall, you're almost certainly headed for a crisis.

Estate planning

One particular sort of crisis may not affect you directly — it may affect your family. Specifically, if you were to die unexpectedly, your finances could be thrown into chaos, with your family the unfortunate victim of the resulting uncertainty and potential ill consequences.

Thus, an estate plan should play an important role in your personal financial crisis management plan. Pinpoint a calendar date to review your plan every year to verify that the beneficiary designations and titling of assets are consistent with your wishes. You should also review your plan anytime significant events occur that could affect it, such as births, deaths, marriages, divorces, or major changes in health or finances.

A key estate planning tool is a will, so if you haven't yet established one, do so immediately. Should you die "intestate" (without a will), state law generally will decide who gets your property regardless of your personal wishes.

Trust options can fortify your plan. A living trust, for instance, holds assets for your benefit during your life and distributes them per your instructions after your death. The assets contained therein usually aren't subject to probate — a legal procedure in which a court establishes (among other things) the validity of your will.

Strategies in place

Think of a personal financial crisis management plan as your own, personally created, self-styled insurance policy. By "paying the premiums" — creating the plan, keeping it updated — you'll have strategies in place to, at least, buy you and your loved ones some time as you seek solutions to the problems you're facing. ❐

FIFO VS. LIFO

A WORTHY COMPARISON

One way companies that produce, buy or sell merchandise can potentially reduce their taxable income is by switching from the first-in, first-out (FIFO) inventory method to the last-in, first-out (LIFO) approach. And paying less current tax means more cash to run and grow your business.

But an accounting method switch could affect something beside your tax bill — namely, your financial statements. So it's not an endeavor to take lightly. Nonetheless, comparing FIFO to LIFO every so often is worth your while just in case now would be a good time to make the change.

Head-to-head matchup

FIFO assumes that merchandise is sold in the order it was acquired or produced. Thus, the cost of goods sold is based on older — and often lower — prices. The LIFO method operates under the opposite assumption: It allocates the most recent costs to the cost of sales.

If your inventory costs generally rise over time, LIFO offers a definite tax advantage. By allocating the most recent — and, therefore, higher — costs first, it maximizes your cost of goods sold, which minimizes your taxable income. Keep in mind, though, that LIFO involves more sophisticated record keeping and calculations than FIFO.

Issues to address

If you're contemplating a switch to LIFO, there are various issues to address and forms to complete, so be fully informed and consult your tax and financial advisors before making a switch.

For example, beware of the tax law's "LIFO conformity rule." It generally requires you to use the same inventory accounting method for tax and financial statement purposes. Switching to LIFO may reduce your tax bill, but it could also depress your current earnings and reduce the value of inventories on your balance sheet, thus giving the appearance of a weaker financial position.

LIFO also can create a problem if your inventory levels are declining. As higher inventory costs are used up, you'll need to start dipping into lower-cost "layers" of inventory, triggering taxes on "phantom income" that the LIFO method previously has allowed you to defer.

If you use LIFO and this phantom income becomes significant — and the trend is likely to continue — consider switching to FIFO. It will allow you to spread out the tax on phantom income over a four-year period while giving your balance sheet a boost.

Another caveat about using LIFO: If your business is structured as a C corporation and you change your structure to an S corporation, you'll have to include a "LIFO recapture amount" in income for the C corporation's last tax year. The recapture amount is the excess of your inventory's value using FIFO over its value using LIFO. But you can spread out the tax payments over four years in equal, interest-free installments.

Additional challenges

One of the biggest challenges in using LIFO is the need to measure changes in inventory costs. If you currently use LIFO, you may be able to enjoy additional savings by electing to use the inventory price index computation (IPIC) method. It may enable you to reduce administrative costs — and it might even generate greater tax benefits — if you rely on government indexes to calculate LIFO values rather than developing an internal index.

In addition to simplifying LIFO computations, IPIC may increase your tax savings because government indexes often reflect greater inflation than internal data will. Also, you may be able to complete your calculations sooner by using an index published before your year end.

One last thing to bear in mind about LIFO: It may not be around much longer. If the SEC moves forward with tentative plans to switch from the long-adhered-to Generally Accepted Accounting Principles (GAAP) to the newer International Financial Reporting Standards (IFRS), private companies may feel compelled to follow (or be required to by their lenders or other stakeholders). And LIFO isn't allowed under IFRS.

Also, some business tax reform proposals have also included the elimination of LIFO (as well as other tax breaks) in exchange for overall lower tax rates.

More than meets the eye

As you can see, there's more to your inventory accounting method than meets the eye. Although taxes are obviously a chief consideration, financial reporting issues also play a key role. ❒

Moneylines: News Briefs for Businesses

How do your workers feel about retirement? When it comes to their golden years, many employees have a glass-half-empty perspective. So says the Employee Benefit Research Institute's 2011 *Retirement Confidence Survey*. It found that 27% of workers were "not at all confident" about saving enough money for retirement. That's up five percentage points from the 2010 results. Anxiety about retirement can hurt productivity and morale, so be sure you're adequately promoting any retirement savings vehicles your company sponsors and educating employees about how they work.

CFOs take on more work as companies streamline to compete. Generally speaking, a chief financial officer (CFO) oversees a company's financial plans, policies, systems and relationships. But that's not all — an Accenture study undertaken earlier this year found that 80% of senior finance executives surveyed reported that their scope of responsibilities has increased since being hired to include areas such as IT, HR and business development. If you employ a CFO, be sure you're not overextending his or her reach. And if you intend to hire one, you may want to focus on prospects with diverse work experiences.

The $1 billion website tweak. Does your business value search engine results? Most do and for good reason — many people use the Internet to research buying decisions, even when they don't actually buy online. This past March, search engine giant Google changed the algorithm that its software uses to generate results, causing an estimated $1 billion revenue redistribution, according to the Online Publishers Association. Although the move was generally regarded as most affecting "content farms" whose primary business is drawing Internet traffic for advertising purposes, the revised algorithm may have altered where your company shows up on a results page.

GREEN HOUSING UPGRADES CHEER UP WOULD-BE SELLERS

Matt and Sylvia wanted to move. With their two children sharing a room, a bigger abode seemed in order. Unfortunately, the housing market in their area was very slow — so they adjusted their perspective.

Their 60-year-old single-family home needed some upgrades, and the couple wanted to make them as Earth-friendly as possible. When Matt and Sylvia mentioned their summer rehab plans to their financial advisor, she noted that energy-efficient home upgrades would be good not only for the planet, but also for their tax bill — potentially.

Qualifying improvements

One of the breaks Matt and Sylvia could look into, their advisor began, was the Residential Energy Property credit. In fact, it was right up their alley because the credit was specifically designed for homeowners making qualified energy-efficient improvements to existing homes.

The credit covers a percentage of the cost of all qualified energy-efficient improvements. Examples include replacing their current HVAC systems, swapping out exterior windows and switching insulation products.

For 2011 purchases, the tax break's aggregate amount is capped at $500. The general rule is that it's limited to 10% of eligible expenses, though there are additional limits. For instance, the credit for windows is limited to $200 of the $500. Further, to the extent that you've claimed the credit in a prior year, you cannot claim it for 2011.

If the couple wanted to take their green improvements to a new level, their advisor went on, how about solar power? The Residential Energy *Efficient* Property credit was devised to assist taxpayers paying for qualified residential alternative energy equipment, such as solar electricity equipment and hot water heaters — even wind turbines and geothermal heat pumps. This credit equals 30% of the cost of eligible property, and it runs through 2016.

Driving home the point

Matt and Sylvia's advisor also noted that they could make an energy-related improvement to their garage — or, more specifically, what goes in it. The catch: They'll need to give up plans to purchase another gasoline-powered vehicle.

The tax code offers a credit for qualified plug-in electric drive motor vehicles. Depending on battery capacity, the credit ranges from $2,500 minimum up to a maximum of $7,500. It runs through 2014 and phases out for each manufacturer after they sell 200,000 vehicles.

Making do

Matt and Sylvia thanked their financial advisor for giving them some upsides to making do with their current home. Plus, by adding energy-efficient upgrades now, they could enhance its resale value when their local real estate market does pick up. ❒

757 Third Avenue
New York, NY 10017
Telephone (212) 303-1800
Facsimile (212) 755-5600

10 Esquire Road, Suite 4
New City, NY 10956
Telephone (845) 634-5300
Facsimile (845) 634-5409

Additional Offices in Garden City and White Plains, New York

E-Mail info@rssmcpa.com

Visit us at our website
www.rssmcpa.com

Independent Member of Polaris International

Managing Partner

Martin L. Greenberg	212-303-1822

Partners

Corey D. Bell	212-303-1038
Michael Bernstein	212-303-9017
Steve Bibas	212-303-1091
Steven J. Eller	212-303-1051
Jay B. Goldberg	212-303-1817
Isidor Hefter	212-303-1833
Michael Hochman	845-634-5300
William Hughes	845-634-5300
Dov Klein	212-303-1020
Gabriel G. Lengua	212-303-1090
Bernard P. Lewites	212-303-1801
Richard McGuinness	845-634-5300
Robert A. Modansky	212-303-9027
Matthew D. Murphy	212-303-1029
Avery E. Neumark	212-303-1806
Patrick Nunziante	212-303-1040
David W. Ostrow	212-303-1002
Frank A. Petitto	212-303-1037
Alfred M. Pruskowski	212-303-9009
Mitchell J. Rubin	212-303-9072
Maryann Schugmann	845-634-5300
Fred Shapss	212-303-1056
Hilton L. Sokol	212-303-9022
Neil A. Sonenberg	212-303-1886
Eric Tunis	212-303-1832
Alan M. Willinger	212-303-1011

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Our extensive and practical experience assists our clients to operate and expand successfully, while minimizing taxes and retaining more of their profits.

Vision and Solutions that Foster Growth and Preserve Wealth