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Be discreet or you can't compete

Ensuring customers' privacy in the Internet age

Most businesses collect customer information of one kind or another. But some organizations are better than others at safeguarding that data from theft or misuse. If you keep customer identification numbers, income statistics, personal references, health records or other important information, you're obliged to lock it up as tightly as possible.

Now that the Internet makes collecting — and stealing — customer data easier than ever, one good rule of thumb is: "If you don't need it, don't collect it." In fact, that's what the Better Business Bureau now advises.

Here are a few other ways to discreetly handle customer information to ensure you can remain competitive in a global marketplace that values data privacy just as highly as it does quality products and services.

Face the facts

The Web has done much to spur the growth of global trade but, because of identity theft and other concerns, regulatory agencies are calling for stricter limits on the collection and dissemination of personal data.

Laws such as the Health Insurance Portability and Accountability Act and the Gramm-Leach-Bliley Act have already established information privacy rules for companies in the health care and financial services industries, respectively. Meanwhile, rules in the European Union nations and Canada are further forcing U.S. companies to strengthen their data protection measures.

But strict regulations aren't the only reason to lock down your networks. Formulating policies that safeguard customer data simply makes good business sense. All too often, until something happens to place them at risk, many organizations can only vaguely guess at how much or what kind of data they possess, who can access it, and what penalties they may face for mishandling it.

Instead of seeing privacy protection as a threat, view it as a way to promote customer trust and build your brand name, as well as to avoid costs, mitigate risks, improve buyer satisfaction and, potentially, generate new revenue sources.

Create a policy

How can you prevent problems from occurring or, stated another way, how can your business benefit strategically from protecting customer data? Start by considering how to adapt your revenue models to view privacy protection as an

7 things to know about the CAN-SPAM act

The Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act of 2003 affects any business that markets itself via e-mail. Specifically, the act:

1. Levies both civil and criminal penalties and allows suits by the Federal Trade Commission, state attorneys general and Internet service providers,
2. Addresses not only spammers, but also those who procure their services,
3. Forces most e-mailers to include their postal mailing address in the message,
4. Outlaws sending e-mail to addresses that have been harvested from Web sites,
5. Forbids deceptive or fraudulent subject lines, headers, return addresses and the like,
6. Criminalizes sending sexually oriented e-mails without clear markings, and
7. Requires an "unsubscribe" system that lets recipients opt out of receiving e-mails.

investment rather than a cost of doing business. Acknowledge that privacy is a strategic matter, not solely a technology or e-business function.

More specifically, create an information privacy policy that satisfies regulatory requirements and marketplace expectations while also meeting your business needs. The policy should:

- Disclose privacy principles,
- Address the collection, use and retention of customer information,
- Periodically test for adherence to organization policies, and
- Monitor and evaluate the business implications of possible changes in laws and attitudes toward privacy.

Additionally, investigate how and why you collect, use, share, access, store and protect customer data. Be sure to review the manual and automated processes that affect this practice and identify any gaps you need to fill. Last, conduct separate privacy and security reviews to both ensure legal and regulatory compliance and demonstrate your company's commitment to information privacy.

To create your policy and accomplish these other goals, assemble a privacy team made up of employees from throughout your company. As its leader, appoint a Chief Privacy Officer. This person should likely come from IT or HR, because these departments deal so directly with sensitive information. But he or she could be virtually anyone with the motivation and expertise to oversee this important effort.

Encrypt and insure

While your team is creating your privacy policy, there are other important measures you can take to safeguard your information. For starters, encrypt all confidential data during transmission and when it's at rest on storage media. This way, even if your network gets hacked, the information will remain secure. Encryption might also provide some legal cover if a lawsuit arises from an information security breach.

Another precaution to look into is insurance. Traditional business policies cover liabilities and natural perils that damage physical assets, whereas recently developed "cyberliability" insurance protects you from hacker damage, customer privacy violations and business interruptions.

How much does coverage cost? Let's assume you buy a policy that insures your company against three common problems: failure to protect confidential customer data, transmission of computer viruses, and infringement of third-party intellectual property rights (using another company's domain name, for example).

A company with $100 million in annual revenue might pay between $10,000 and $50,000 per year for such coverage. Your company's premium would depend on its revenue, level of exposure and other privacy controls already in place.

Welcome the opportunity

If your business collects customer data, particularly via the Internet, you risk alienating those customers — or even facing them in court — in the event their information is stolen or misused. But, again, fear alone is no reason to do anything. Welcome your information privacy strategy as an opportunity to create a new, lasting covenant with customers that you won't expose them to harm while they do business with you. ❑

It's the little things that count

An overview of fringe benefits and their tax impact

At one time, most employers regarded fringe benefits as little extras that were nice but hardly necessary to attract and retain employees. Nowadays, these little things count more than ever — especially as the cost of recruiting and training staff remains high.

You may well know some of the more popular employer-provided fringe benefits available. But what you may not be familiar with is their tax impact. And there may be some benefits you've yet to consider.

Both employers and employees have an incentive to shift a portion of compensation from salary to fringe benefits.

Benefit basics

Any economic benefit an employee receives for services rendered is compensation. But under the Internal Revenue Code, noncash compensation is deemed a fringe benefit and, in some cases, may be excluded from a recipient's income.

You may have heard these items referred to as "statutorily excluded" benefits — and they're well worth learning more about. Why? Because they enable both the employer and the employee to come out ahead: Your company gets a deduction and usually avoids payroll taxes. Meanwhile, the benefit's value is excluded from the worker's income — so he or she isn't taxed on it.

Ultimately, both parties have an incentive to shift a portion of compensation from salary to fringe benefits. Some examples of benefits treated in this manner are group-term life insurance (up to $50,000), health coverage, parking privileges, and employee discounts on company products and services.

Insurance coverage

Probably the most common fringe benefit is insurance. As long as the policy is for health, accident or certain life coverage, and doesn't discriminate in favor of a select group of employees, its cost is deductible by the employer and not taxable to the employee.

More specifically, this favored tax treatment generally applies to group medical, dental and disability insurance — though, if a disability insurance premium isn't taxed, any benefits received will generally be taxable. Thus, it's usually more beneficial for employees if disability premiums *are* taxed so proceeds will be tax free and workers will have more after-tax income when they need it.

Also, as mentioned, employer-provided group-term life insurance coverage exceeding $50,000 does produce taxable income to covered employees. The exact amount is determined by a uniform premium table factor based on the worker's age. Group policies paying less than $50,000 are generally nontaxable.

Retirement plans

Another common fringe benefit, and a notably well publicized one of late, is the employer-provided retirement plan. These arrangements generally fall into two categories:

1. Qualified plans. Plans that meet the requirements for specified treatment under tax and employment law fall under this heading. Included are plans such as pension, profit-sharing and 401(k) plans.

Depending on the plan, funding can be through employee contributions, employer contributions or both. Employer contributions are generally currently deductible, while participants' earnings accumulate tax deferred — that is, amounts aren't taxed until they're distributed.

2. Nonqualified plans. These are contractual arrangements that don't meet the specified requirements for classification as a qualified plan. Such plans usually benefit only key employees who defer some of their compensation under the arrangement. If the plan is properly set up, the employees won't pay income tax until they receive distributions, at which time the employer generally gets a deduction.

Nonqualified plans can be extremely useful for providing an attractive compensation package to executives or other highly valued employees. Just bear in mind that these arrangements have their own complex rules — many of which were recently toughened by the American Jobs Creation Act of 2004.

Education funding

Today's employees want more than just a paycheck; they want to grow professionally and personally. Thus, one benefit rising in popularity is education funding. There are essentially two ways to provide it:

1. An educational assistance program. Here you may offer each employee up to $5,250 of tax-free education. This may include undergraduate or graduate classes, though the participant need not actually enroll in a degree program. The education doesn't even have to be job-related.

Employers have quite a bit of flexibility. You can set eligibility requirements restricting the types of courses covered and correspondingly limit the number of eligible employees — as long as these stipulations don't discriminate in favor of highly compensated employees. You don't even have to fund the program every year.

2. Education as a working condition fringe. You may have already provided this if you've ever paid for an employee to attend a work-related conference or a continuing education class. In some instances, you can expand this tax break to cover college classes. But a worker earning a degree or certification to qualify for a new job or position will normally not qualify.

Education as a working condition fringe differs from an educational assistance program in that you don't need a written plan, coverage can be selective and there's no $5,250 annual cap. Restrictions on eligible course work, however, limit this to purely job-related learning.

Finishing touches

Although workers may take them for granted, other working condition fringes and de minimis benefits are also useful. These include:

- Qualified transit or parking privileges,
- Company parties and noncash holiday gifts,
- Personal use of company equipment,
- Meals provided to employees who work late or through their mealtimes,
- Tickets to entertainment or sporting events, and
- Discounts and no-additional-cost services, such as free hotel rooms provided to hotel staff.

Again, these offerings are a way for you to provide a tax deduction for your company and tax-free benefit to your workers. You may boost morale, too.

A driving force

Bear in mind that your company's business structure may affect your benefit options. Partnerships and S corporations are somewhat limited in what they can offer to owners. But with or without these restrictions, fringe benefits can be a driving force in keeping your company well staffed and highly productive. ❑

Moneylines: News briefs for businesses and individuals

Giving as a business puts you in good company. Last year's tragic tsunami in Southeast Asia brought renewed attention to charitable giving. Although a small to midsize company can't match the largesse of big contributors such as Cisco and Pfizer, you can still do plenty of good. Consider uniting with other like-sized businesses to amass a joint gift. Or give more yourself via a vehicle such as a donor-advised fund. Along with helping society, you may garner some tax savings and heighten your visibility in the marketplace.

Naming your estate as an IRA beneficiary is not a good idea. To pay debts and expenses after your death, you might think it a wise move to name your estate as one of your IRA beneficiaries. Be careful: Because an estate doesn't have a life expectancy on which to base IRA distributions, your other beneficiaries may have to take larger distributions and drain the account more quickly than if withdrawals were determined by their actual ages. For example, if you die before distributions must begin (at age 70½), the IRA will have to be distributed within five years.

Midyear is an ideal time to assess business growth. At its beginning, 2005 held considerable promise — in fact, 57% of small business owners were optimistic about this year's overall business outlook, according to the QuickBooks Small Business Survey. If you began 2005 focused on growth, take a step back and evaluate whether and how your company is growing and what you need to do to keep (or get) moving in the direction you want to.

Nominal balances are a credit score nonstarter. Some consumers have fallen for the myth that maintaining a small balance on a credit card can improve their credit scores. Not so — keeping a balance and making timely payments can help create a credit history, but, once that history is documented, nominal balances are more of an annoyance than an assistance. You're better off paying the balance and avoiding nondeductible interest expense.

Is there an employee in your house?

Retirees and avid travelers Oliver and Georgina recently hired a full-time housekeeper to clean, cook and run errands. The couple provided her with a strict daily schedule, stocked up on cleaning supplies and groceries, and settled in to plan their next jaunt. But the couple's contentment turned to surprise when they mentioned the housekeeper to their financial advisor.

"You need to pay employment taxes," the advisor said flatly. Georgina begged to differ, pointing out that they don't pay taxes for their plumber or the teenager who mows their lawn every week. The advisor conceded her point but explained that, because they controlled not only what the housekeeper does, but also how she does it, she's considered a household employee. And that changes everything.

Following the rules

The advisor further explained that you must pay Social Security and Medicare taxes on any household employee who receives annual cash wages of $1,400 or more. (This is the 2005 amount, which will be adjusted for inflation.) Examples include a caretaker or nurse, child care provider, cleaning person, or any other domestic worker.

The rule doesn't apply if the worker in question is your spouse, your child under 21, or your parent (with some exceptions) — or is anyone under 18 who doesn't consider the job his or her principal occupation.

The total payroll tax percentage is 15.3%, split evenly between you and the worker. As employer, you're required to remit the entire 15.3% to the IRS, either by submitting quarterly payroll tax returns (Form 941) or by attaching Schedule H, *Household Employment Taxes,* to your Form 1040.

The latter is generally the easier method. You must either withhold the employee's half from his or her pay or include this amount as additional wages on the worker's W-2 if you cover the cost.

Handling the details

You're also responsible for federal unemployment tax (FUTA) if you pay $1,000 or more in any calendar quarter in the current or preceding calendar year. The tax is 6.2% of each household employee's cash wages up to $7,000 per year. You may also owe state unemployment contributions, but you're entitled to a FUTA credit for those contributions of up to 5.4% of wages.

In addition, employers of household workers must obtain a federal Employer Identification Number (EIN) and have each employee complete Forms W-4 and I-9, which document their eligibility to work in the United States. Following year end, you must file Form W-2 for each household worker who received more than $1,400 in Social Security and Medicare wages or for whom you withheld federal income tax.

Speaking of which, you need not withhold federal income tax — or, usually, state income tax — unless the worker requests it. In these instances, you must withhold federal income taxes on both cash and noncash wages, except for meals you provide the employee for your convenience, lodging you provide in your home for your convenience and as a condition of employment, and certain reimbursed commuting and parking costs.

Of course, the rules don't end there. You need to comply with federal and state minimum wage and overtime requirements and, in some states, provide workers' compensation or disability coverage. There may be other legal, tax, insurance and reporting requirements as well.

Playing it smart

Oliver and Georgina initially felt a little overwhelmed by all of these responsibilities and briefly considered paying their housekeeper "under the table." Wisely, they listened to their financial advisor, who advised that the risk of penalties, interest and public embarrassment greatly outweighs any time and money they might save. ❑

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