September 2008 Newsletter

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Taking Control of Your Credit

In the wake of the foreclosure crisis, lenders are looking more closely at your credit. You know that your credit report affects the terms that you're offered on mortgages and credit cards. Did you know that insurers, landlords and prospective employers may look at your credit as well?

Get a copy of your credit report:

Federal law requires that each of the three credit reporting agencies (Equifax, Experian and TransUnion) provide you a free credit report every 12 months upon request. AnnualCreditReport.com is the *only* authorized online source for you to get free credit reports from all three reporting agencies. Many free credit report offers require that you sign up for credit monitoring services. While emails offering free credit reports are generally solicitations (which are merely annoying), but they can also direct you to phishing sites which can be downright dangerous to your good name. You can get copies of your credit report by logging on to www.annualcreditreport.com or calling 1-877-322-8228. Consider reviewing your credit report *60 to 90 days before* a major purchase, applying for a job or renting an apartment.

You can also get a free copy of your credit report when:

- You have reason to believe that your file is inaccurate due to fraud or identity theft
- You have been denied credit or employment based on your credit report (you can also get a free copy if you're unemployed and planning to apply for work in the next 60 days)
- Your credit report has been revised due to an investigation that you requested.

Credit repair

Under the Credit Repair Organization Act, credit repair companies must give you a written contract listing the services that they will provide and give you 3 days to withdraw from the contract. They cannot charge you until they have completed the services. Many credit "fixes" are simply scams – either they won't work, or they work because the credit repair company has talked you into committing fraud. Avoid companies that are reluctant to give their address or push you to decide immediately. Be leery of companies that guarantee to remove real late payments, bankruptcies, etc. *The simplest way to improve your credit score is to pay your bills on time.*

Your credit score

According to the Fair Isaacs corporation, you credit score is determined by the following:

- **Approximately 35% payment history:** Credit cards, car loans, mortgages and other debts, as well as public record items like bankruptcies, liens and judgments. Late payments are weighed by how late and how long ago they were.
- **Approximately 30% amounts owed:** Not only how much you owe, but how much you owe compared to what you could (for revolving debt) or have (installment) borrowed. Paying off credit cards can improve your score. Closing accounts could hurt your score since you will be borrowing a higher percentage of your available credit.
- **Approximately 15% length of credit history:** How long you have had a credit history over all as well as how long specific accounts have been established.
- **Approximately 10% new credit:** New accounts opened as well as recent requests for credit
- **Approximately 10% types of credit:** The mix of types of credit that you are carrying.

Games credit card companies play

Introductory rates are introductory – know when they expire and take the "standard rate" into account if you can't pay off your balance before then. Read the offer - credit cards can have some unpleasant surprises, including:

- No grace period – finance charges begin accruing from your first purchase
- Not only late and overlimit fees, but fees for closing the account, not using the account, *not* carrying a balance, even per transaction fees.

- Annual fees: Credit card companies charge you interest *and* collect a fee from merchants when you use your card. Do you need to pay them for the privilege as well? If you have good credit, you can probably get a card that will pay you cash back or points or miles *without* an annual fee.
- "Skip a payment" it may be good for your cash flow, but interest fees will still be charged.

If you have good credit, chances are you can get another card with a lower rate than your current one – ask your current company if they'll lower your rate to keep you as a customer.

Opting out

To opt out of unsolicited pre-approved credit card offers 1-888-5OPTOUT. Financial institutions are required to offer you an annual opportunity to opt out of sharing your financial information – look for it in miniscule print and unintelligible jargon along with your privacy statement. Sorry, you cannot use this to opt out of credit bureau reporting.

Sources: http://www.ftc.gov/bcp/conline/edcams/freereports/index.html ; www.privacyrights.org
www.AnnualCreditReport.com ; http://www.fairisaac.com/fic/en
http://www.experian.com/credit_report_basics/improve_your_credit.html ; www.dolans.com

Minimum Wage Increase

In July the federal minimum wage went up to $6.55, next year it will increase to $7.25. If you're working or hiring in California, you probably didn't notice because the state minimum wage has been $8.00 all year.

Mileage Rate Increase

On July 1st, the standard mileage rate increased from 50.5 cents per mile to 58.5 cents per mile.

Talking About Money – Part 1

With everything else demanding our time, keeping track of finances can get pushed to the back burner. Those of us who aren't numbers nerds would often rather get a bamboo sliver manicure than balance a checkbook.

Do you have these symptoms of a cash flow problem?

- Running out of money before you run out of month
- NSF fees from your bank, overdraft fees from your credit cards, and late fees from everybody
- The overwhelming sense that you will never have to money to do all the things that you dream about

Let's talk about some strategies that may help.

Step one – Keep a money diary. Write down (or enter or download) *everything* you earn and spend for a month. In addition to your credit or debit card transactions, write down or keep receipts for all of your cash purchases. This can be as high or low tech as you want – a small notepad is easy to carry around, and excel spreadsheet will do the math for you. At the end of the month, add up the expenses by category and compare it to your income.

Step two – figure out where you want to go. Do you need to get your expenses in line with your income? Do you want to build up enough emergency cash in your bank account that the utilities and credit card checks will all clear – even if they all come in at the same time?

Step three – find ways to make achieving your goals as easy as possible. For example:

- If you're trying to reduce your expenses, start with the ones that you don't enjoy and can avoid, like late fees. Consider using notification services from your banks and credit cards, or set up automatic payments for your credit card and other bills.
- Swear off one type of discretionary expense for a month and see how much you miss it.
- If you tend to forget what checks you've written until they clear, consider using on-line bill pay, bank checks, or ATM charges that clear almost as soon as you enter them to reduce unpleasant surprises.
- Set up a savings or checking account and transfer in what you've charged on credit cards every week.
- Check out sites like www.geezeo.com or consider hiring someone to help you track your spending.

Talking About Money – Times 2

Perhaps you've heard about Ed McMahon's recent financial troubles. Part of the problem may have been that he and his wife never talked about their spending.

Brian Day-Lewis, a financial partner with Lifeline Financial Partners in Tyngsboro Massachusetts, suggests that couples treat their family finances like an employment review – make time at least twice a year to see how you're doing. Each partner should note what they're spending and swap notes so they can see what the other is spending.

In many couples, one partner pays the majority of the bills and the other spouse is (blissfully) ignorant of the family's cash flow. If this is the case for you, brainstorm ways that everyone can be aware of issues before they become problems. For example set up email notifications from banks or credit cards can be cc'd or forwarded as they come in.
(http://www.thestreet.com/print/story/10423225.html)

Mortgage Relief Part 1 – Mortgage Forgiveness Debt Relief Act of 2007

Sometimes You Win

On August 14th, a Nevada Jury awarded inventor Gilbert P Hyatt $388 million, including $250 million in punitive damages, based on the California Franchise Tax Board's conduct during a 1991-1992 audit (www.webcpa.com)

Generally forgiveness of debt creates taxable income. There have always been provisions under which this income may not taxed (for example, debts discharged in bankruptcy or where the taxpayer's liabilities exceeded their assets prior to the forgiveness). Now, taxpayers can exclude debt-forgiveness income from 2007-2009 on mortgages of less than $2 million, whether the debt was forgiven during a restructuring or in foreclosure

- Applies only to debt used to build, buy or improve a principal residence -- second or vacation homes are excluded
- Other personal debt (credit cards, card loans, home equity loans not used to build, buy, or improve a primary residence) are excluded as well.

Mortgage Relief Part 2 – Housing and Economic Recovery Act of 2008

Housing Assistance Tax Act:

- Creates a tax "credit" to be repaid over 15 years for new homeowners, who buy a home between April 9th, 2008 and July 1, 2009. The credit is for 10% of the purchase price up to a maximum of $7,500.
- Creates an additional standard deduction of up to $500 ($1,000 Married filing joint) based on property taxes paid in 2008.
- Increases the low-income housing tax credit.
- Requires information reporting of income received from credit or debit card transactions beginning 2011

FHA Modernization Act of 2008:

- Allows FHA to insure mortgages of up to $625,000
- Requires a down payment of 3.5% and
- Prohibits seller-financed down payments.

Hope for Homeowners Act: From October 1, 2008 until September 30, 2011, the FHA may insure up to $300 billion in mortgages to some homeowners. Loans are limited to the lesser of what the borrower can repay or 90% of the home's fair market value.

Who are Fannie Mae and Freddie Mac?

The Federal National Mortgage Association (created in 1938 as part of the New Deal and privatized in 1968) and the Federal Home Loan Mortgage Corporation (Created in 1970 so that the now private Fannie Mae wouldn't be a monopoly), are privately owned and publicly traded government-sponsored entities. Government sponsorship includes a line of credit through the U.S. treasury, exemption from state and local income taxes and exemption from SEC oversight (http://hnn.us/articles/1849.html). They trade or hold FHA insurance mortgages and since 1968 have been authorized to offer mortgage backed securities (www.fanniemae.com)

Borrowers must:

- Have a monthly mortgage on their principal residence with a payment that is at least 31% of their total monthly income as of March 31, 2008
- Certify that they have not intentionally defaulted on their existing mortgage and that it was not obtained fraudulently. In addition they cannot have been convicted of fraud
- Find a bank that is willing to forgive any remaining debt, waive any penalties and fees, and pay a portion of loan origination and closing costs.

The FHA will get a portion of any future profits on the house.

Federal Housing Finance Regulatory Reform Act of 2008: Creates an independent regulator for Fannie Mae, Freddie Mac, and Federal Home Loan Banks, raises loan limits to $625,000 and creates a new Housing Trust Fund for the construction of affordable rental housing

Foreclosure Prevention Act of 2008: Provides an additional $150 million in funding for housing counseling towards preventing foreclosures and $3.92 billion to communities hardest hit by foreclosures.

Other items included in the law:

The treasury department has unlimited power to lend money to Fannie Mae and Freddy Mac or to buy their stock, at the same time, the statutory limit on the national debt was increased to 10.6 Trillion.

Sources: www.fha.gov ; http://news.yahoo.com ; www.accountantsworld.com ; www.taxes.about.com
http://en.wikipedia.org/wiki/Housing_and_Economic_Recovery_Act_of_2008
http://tax.cchgroup.com/legislation/2008-Housing-Assistance-Act.pdf
http://banking.senate.gov/public/_files/HousingandEconomicRecoveryActSummary.pdf

Recession-proof your business

While there is still some discussion as to whether or not we're in a recession, it's clear that times are tough and money is tight. While there is no magic bullet to protect your business from a recession, these strategies for making the most of your assets will help your business in good times or bad.

Sometimes You Lose

A Federal judge denied bail to Randy Nowak, who is accused of offering a hit man $10,000 to kill the IRS agent auditing him and burn down the IRS office in Lakeland Florida (http://www.cfnews13.com/News/Local/2008/8/6/no_bond_for_man_who_hired_hit_man.html)

1. **Cash (flow) is king:** Cash flow is the lifeblood of your business; without enough cash to keep the lights on, your business will be DOA. At its most basic level, cash flow management is about getting money in before you have to send it out again. Here's some strategies that can help:
   - ⇛ Prepare and use cash flow projections – you can't manage your cash flow in the dark.
   - ⇛ Manage your customers. 20% of your customers will cause approximately 80% of your problems. Focus your energy on the customers who contribute the most to your bottom line.
   - ⇛ Invoice promptly, and collect promptly – nothing says "pay me whenever you want to" like late invoices, invoices without a due date, or less than enthusiastic collection efforts. At the same time, see if your suppliers are willing to extend you more generous credit terms. Interest rates are still relatively low - would you want to lose a customer over 15 or 30 days worth of interest? Your suppliers probably won't want to either.
   - ⇛ Everyone, including your vendors, landlords, etc. knows that times are tough. Why not ask the people who depend on your business to cut you a break so you can stay in business? (http://sbinfocanada.about.com/od/cashflowmgt/a/protectcashflow.htm)
2. **Focus on your personal credit:** Tough times make everyone, including lenders, want to cut their risk. Monitoring and improving your personal and business credit will increase the odds of you getting the credit you need when everyone else is getting turned down.
3. **Focus on inventory:** For many businesses, inventory is their single largest expense. Every dollar you have tied up in inventory is one you won't have when the bills come due. Can you reduce the amount or cost of your inventory without reducing the quality of goods or customer service? When's the last time you shopped suppliers for the items you use most? Will any of your vendors drop ship goods directly to your customers rather than shipping it to you for you to ship to them to reduce your storage and shipping costs?
4. **Focus on what you're good at:** Diversifying your business can provide you a broader customer base (and create opportunities for cross selling). But you've probably spent years getting extremely good at what you do now – how long will it take you to get that good with a new product? Until then, you run the risk of negative cross-selling – rather than expanding your business with your current customers, you may lose business if the new product doesn't live up to the standards of quality and service that your clients have come to expect from you. Consider new product lines like you would consider a new business and plan for the same build-up curve before the new line becomes profitable.
5. **Focus on your competition:** When everyone is cutting their spending, expanding your business may mean attracting clients currently served by your competition. Know and maximize the things that make you different from everyone else. By the way, excellent customer service is always a good business strategy, and it can also be a way to distinguish yourself from the rest of the pack.
6. **Focus on your peers:** Chances are that everyone in your industry is feeling the pinch. Not only are other members of industry trade groups or professional associations a natural support group for each other, they can be an excellent source of ideas on how to cope.
7. **Focus on your clients:** Businesses who make customer service a core part of their business strategy know that it's easier to keep a client than to find one. Presumably, a client who has already had positive experience with you will look forward to working with you again whether it's for products they've bought from you in the past of new offerings – start your marketing there.
8. **Focus on marketing:** When money's tight, it's tempting to use your marketing dollars for other expenses. But these times are when you most need to expand your client base, and when potential clients are most likely to be looking for other options. Low cost marketing opportunities like blogs can help you get even more bang for your marketing buck.

9. **Focus on new markets:** In the wide web world, many businesses can expand beyond their local markets. Consider marketing to new areas – not only nationwide, but internationally as the weak dollar makes U.S. goods and services more attractive than ever before.

10. **Focus on the good times ahead:** Bad times don't last forever, and the lessons you're learning now will make for much better times ahead!

http://sbinfocanada.about.com/od/management/a/recessionproof.htm "7 Ways to Recession-Proof Your Small Business"
http://sbinformation.about.com/od/bestpractices/a/survivebadtimes.htm "The Small Business Hard Times Survival Guide"

IRS Proposes New Tactic for Underreported Income

For years, the IRS has been sending out a notice called a "CP2000" to taxpayers they believe to have underreported income, based on matching tax returns to information documents like W-2s and 1099s. This notice told taxpayers the amount of income they IRS believed was unreported, and calculated the tax impact of the unreported income. The taxpayer was then asked to pay the difference or explain why the income shouldn't have been reported on their return.

The IRS is now proposing to send out notices called "CP2057" which do not give taxpayers the amount of income underreported, but rather suggest that taxpayers verify certain line items on their return. If they taxpayer discovers that the amount is incorrect, the IRS asks them to prepare an amended return with the correct income (and tax) amounts, and pay the difference.

What if you get audited?

You may have heard that not using software to prepare a tax return, or claiming charitable deductions or an office in home can cause the return to be audited. . There may well be more theories about what flags a return for audit than there are IRS agents.

What happens in an audit? The purpose of an audit is to determine the accuracy of a tax return as it was prepared, and identify any needed adjustments. An audit can result in an unfavorable adjustment to the tax, but they can also result in no adjustment and (We've seen it happen) a favorable adjustment.

The taxpayer is asked to produce documentation of the items under question (The IRS ***never*** uses e-mail to contact taxpayers – this is a phishing scam). Sometimes the issue can be resolved by submitting the requested documents, sometimes the taxpayer (or their representative) will talk to the IRS agent in person. The auditor then makes a determination, to which the taxpayer is asked, but not required, to agree. If the taxpayer doesn't believe the adjustments are appropriate, they can have their issues addressed by someone *other* than the original auditor.

As you can imagine, the IRS is pretty secretive about what types of returns they are more likely to audit, and many taxpayers will pass up favorable tax treatment to which they are entitled for fear of being audited. While audits can be hassle, they don't have to be a nightmare. Keeping complete records of your tax return and all supporting documentation will go a long way towards mitigating an audit. In addition, you can give permission to a representative, such as an Enrolled Agent, to talk to the IRS instead of you. They should be familiar with IRS procedures to steer you (and your tax return) through the various administrative levels of the IRS while staying on top of deadlines and details that might otherwise be overlooked.

Please let us know immediately if you receive correspondence form the IRS or state taxing authorities. Most letters have a deadline to respond, after which your options may be limited.

Think the IRS is bad?

Tax evasion, like credit card fraud and political dissidence, can be a capital offense in China (http://www.foreignpolicy.com/story/cms.php?story_id=4099)

Small Businesses Vulnerable to Fraud

The average occupational fraud scheme runs two years before being detected and costs $175,000. One quarter of fraud schemes cost over $1 million dollars. Depressed yet? According to a recent study not only are small businesses especially likely to become victims of fraud, but they tend to have the highest losses, averaging $200,000 per scheme for businesses of less than 100 employees. If that's not bad enough, it's believed that many fraud schemes are never detected, and when they are that the true extent of losses may never be known.

While corruption (bribery, including invoice kickbacks, conflict of interest, illegal gratuities and economic extortion) is the most common and expensive type of fraud over all (accounting for 27% of all cases), small businesses are more likely to fall victim to asset misappropriation – employees using various schemes to get access to assets of their employers for their personal use.

Some of the most common types of fraud afflicting small businesses include:

- Fraudulent Billing – submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal purchases accounted for 28.7% of cases
- Check Tampering – forging or altering company checks accounted for 25.4%
- Skimming – stealing cash *before* its recorded as received accounted for 20.8%

Top Five Reasons to Leave the (Home) Office:

Approximately 52% of businesses are home based – here's some of Jeff Landers' ten tips that it's time to stop being one of them:

1) I feel like I live at the office. .. Wait, I do!
2) I could die here and no one would ever know
3) It's 4 pm and I'm still in pajamas
4) My partner thinks I need to get a job
5) I want to hire an assistant, but we'd have to share a chair

http://www.inc.com/resources/solo/articles/20060501/landers.html "When It's Time Leave the (Home) Office"

Now What? Lack of internal controls was the most commonly cited factor for fraud. One of the key components of internal controls is called separation of duties – that is the person handling one aspect of your business isn't the person reviewing it (like having the fox guard the henhouse). One example of this is while one person prepares checks, someone else reviews the checks and documentation before signing. Finally, someone else (possibly an outside professional) reconciles the bank statement. Having only one person enter bills, cut checks, and reconcile the bank account makes it much easier for them to conceal checks that are made out to them directly, to a shell company they've created, or for their personal expenses. You can configure most accounting software with multiple restricted logins to limit individual access to the file.

While the majority of fraud schemes are detected after a tip, 23.3% were caught because of internal controls. The same study also looked at the difference in average losses between companies with and without certain types of internal controls.

- Companies that used surprise audits (for example of a register drawer or monthly expense report) averaged 66.2% smaller losses than companies who didn't
- Companies that rotated jobs and/or instituted mandatory vacations averaged 61.0% smaller losses than those who didn't
- Companies that used a hotline averaged 60% smaller losses than those who didn't

From: Association of Certified Fraud Examiners "2008 Report to the Nation on Occupational Fraud & Abuse"

For tax returns due on or after January 1, 2009, the partnership and trust return extension will only be 5 months (one month less than the extension for individual returns). For Calendar year entities, the due date will be September 15 instead of October 15.

Federal Tax Due Dates For Calendar year taxpayers

September 15	Third 2008 estimated tax payment due. Monthly payroll tax deposits due. Corporate returns on extension due.
October 1	Last day to set up a SIMPLE IRA for 2008
October 15	Monthly payroll tax deposits due Individual and Partnership returns on extension due.
October 31	Third quarter payroll tax returns due if all payments haven't been deposited, FUTA taxes (if limits have been reached) due
November 10	Third Quarter payroll tax returns due if all payments were deposited on time
November 15	Monthly payroll tax deposits due
December 15	Corporations fourth estimated tax payment due Monthly payroll tax deposits due