Key Changes for Family and Medical Leaves

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send out FMLA eligibility and designation notices to employees.

Employee notice obligations: Prior to the new regulations, an employee could give notice of the need for an FMLA leave for up to two business days after being out on the leave, even if he or she could have provided notice earlier. But the new rules require employees to follow the employer's general call-in procedures unless unusual circumstances exist.

Note that the individual states may also impose rules relating to employee family and medical leaves. For example, a new law in New Jersey taking effect on July 1, 2009, entitles most employees in the state to take up to six weeks of paid family leave.

It may be necessary to obtain additional guidance concerning application of these new rules. Consult with a professional adviser.❖

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Key Provisions in the New Recovery Act
New tax breaks for individuals and businesses

The new American Recovery and Reinvestment Act of 2009 includes numerous tax breaks for both individuals and businesses. In general, the changes are retroactive to January 1, 2009. Here is an overview of several key provisions.

Making Work Pay credit: An employee or self-employed individual may claim a credit equal to the lesser of 6.2% of earned income (or $400 for single filers) or $800 for joint filers. This new credit, which is available for 2009 and 2010, begins to phase out if your modified adjusted gross income (MAGI) is $75,000 or more for single filers and $150,000 for joint filers.

Alternative minimum tax: Congress "patched" the alternative minimum tax (AMT) again for 2009 by extending the use of personal credits to offset AMT liability and slightly increasing the exemption amounts. The exemption amounts for 2009 are $46,700 for single filers and heads of household (up from $46,200 for 2008) and $70,950 for joint filers and surviving spouses (up from $69,950 for 2008).

New car deductions: Under the new law, you can claim an above-the-line deduction for the sales and excise taxes attributable to the first $49,500 of a new vehicle's purchase price. The deduction begins to phase out for an MAGI exceeding $125,000 for single filers and $250,000 for joint filers. It is only available for

see **Key Provisions in the New Recovery Act**, page 4

Facts and Figures
Timely points of particular interest

***Tax Judgment-**
If you prevail in a job discrimination lawsuit, you are generally taxed on the court award. New case: An ex-employee was pushed into a higher tax bracket after being awarded $200,000 in back pay and damages. To offset the increased tax liability, the Third Circuit Court added almost $7,000 in compensation. This effectively covers the income tax due because wages had not been paid over a period of time.

***Office Space-**
How can you stir up creativity among workers? One idea is to have two employees switch desks for a week. The theory is that a change in scenery may stimulate new ideas and a different "look" at the operation. It is easy to become bogged down in the same routine when you work out of the same office all the time. If this technique is successful, try it on a regular basis.
❖

Welcoming Summer...

As we approach the beginning of summer, we are still looking at an uncertain economic picture, but one a little more positive than a few months ago. There is no clear path toward an upward recovery, but many economic forecasts point to at least a slowing and eventual end to the declines we have seen, with several predicting the last quarter of this year and the first quarter of 2010 as pivotal times.

At Hood & Strong we continue to look positively toward the future. As with all businesses today, we struggle at keeping our costs down, but we recognize the areas where we need to continue investing - in our people and in providing quality service to all of our clients. We continue to be in hiring mode, searching out the best people available to provide our clients with the personal, valued service which they know is the Hood & Strong legacy. We continue to strive to improve our processes and service delivery, so that everything we do for our clients moves us closer to meeting their expectations and needs. We are well positioned to help our clients navigate through these challenging times. We continue to look for ways to better serve you and offer you the kind of support you both require and certainly deserve.

To this end, we would like to hear from you. Offer us your thoughts on how we can better communicate with you and meet your needs. We have redesigned our website to make it more efficient to navigate as well as easier for you to let us know what you are thinking. You can reach us by simply clicking on the "Contact Us" link on our website www.hoodstrong.com. While on our website, please check out our upcoming seminars and new e-newsletters, as well as catch up on the latest pertinent news in the areas of accounting, tax and consulting.

On a more personal note, I would love to hear what you think about Hood & Strong - things that we do well, things we could do more of, things that we need to shore up to better meet your expectations, or things where we just have to bite the bullet and change. Please feel free to email me at rraffo@hoodstrong.com. I appreciate hearing from you so that we can incorporate your thoughts into our plans as we continue to grow in the future.

In the upcoming summer months, I hope you and your loved ones have a very enjoyable season. We wish you all safe and pleasant travels.

Robert J. Raffo
Managing Partner

Estate Planning: Make It Your Business
Sound advice for busy business owners

When you own a small business, it seems as if every day is a whirlwind. No one could blame you for being overwhelmed-especially in this current economic environment. However, when it is possible, try to spare some time for estate planning.

This critical function is often overlooked by busy entrepreneurs. But a comprehensive estate plan may avoid a sale of a business interest at distress prices while managing to preserve assets for your loved ones.

Where do you begin? Start by considering the benefits you want to derive from your assets, the risks you are willing to take, and how much you will need for retirement or other purposes. Once you spell out your goals, you can formulate the best way to achieve them. Next, provide your advisers with an inventory of assets. You can do this by simply listing all the assets you own in addition to your business interest (e.g., real estate, stocks, bonds, bank accounts, life insurance, etc.). With professional guidance, you can project the future net worth of these assets.

Furthermore, seek to minimize potential estate taxes. Note that transfers between spouses are completely exempt from federal estate tax. Currently, the federal estate-tax exemption can shelter other transfers of up to $3.5 million for 2009 (up from $2 million for 2008); the estate tax is eliminated for 2010. However, the federal estate tax will be revived in 2011, unless new legislation is enacted. No one is quite sure how this will eventually unfold.

You might also reduce your estate through lifetime gifts. For 2009, the annual gift-tax exemption covers gifts of up to $13,000 per recipient (up from $12,000 for 2008). In addition, special estate-tax breaks for business interests may be available. For instance, the federal estate tax due on a large business interest may be spread out over a 14-year period if certain conditions are met.
Finally, consider life insurance as part of your estate plan. In particular, business owners may rely on life insurance for its liquidity. If the policy is structured carefully, the proceeds can be received free of both estate and income taxes. Of course, this is only a general overview that may not take your personal circumstances into account. It is important to have a plan designed to fit your specific needs.❖

Employers now have five business days (increased from just two days) to

How to Improve Customer Service-Fast
Practical ideas for these competitive times

In today's business climate, improving customer service is not a luxury; it is a necessity. Cutthroat competition, razor-thin profit margins and an anxious public have made this an essential element of doing business.

Fortunately, providing effective customer service does not have to be costly, complicated or even overly time-consuming. Service that pays off in satisfied customers is as much a product of common sense as anything else. Keeping that in mind, here are some practical suggestions to get the ball rolling:

* Make your company more accessible.
* Keep things simple.
* Stay in touch afterward.
* Follow up on customer complaints.
❖

Key Provisions in the New Recovery Act

cont. from page 1

purchases between February 17, 2009, and December 31, 2009.
First-time homebuyer's credit: The new law revamps the first-time homebuyer's credit for homes purchased in 2009 as follows:

* The maximum credit is increased to $8,000 (up from $7,500 for 2008) for purchases after December 31, 2008, and before December 1, 2009.
* Unlike the previous credit for 2008, you are not required to repay the credit over 15 years, as long as you live in the home for at least three years.

However, note that the credit for 2009 still begins to phase out for an MAGI exceeding $75,000 for single filers and $150,000 for joint filers.

Education credit: The Hope education credit is enhanced for 2009 and 2010 and renamed the "American Opportunity Tax Credit." For starters, the maximum credit is increased to $2,500 (up from $1,800 for 2008) and will be available for all four years of study. Furthermore, the phaseout thresholds are boosted to $80,000 of MAGI for single filers and $160,000 for joint filers.

Depreciation deductions: Under the Economic Stimulus Act of 2008, the Section 179 deduction limit was increased to $250,000 for 2008, with a phaseout threshold of $800,000. These figures were scheduled to revert to lower levels. The new law preserves the higher limits for qualified assets placed in service in 2009. It also extends the 50% bonus depreciation deduction for another year. This results in an $8,000 increase in the "luxury car" dollar caps.

Net operating losses: Normally, your company can carry back net operating losses (NOLs) for a period of just two years. Under the new law, the NOL carryback period is extended to as long as five years for a qualified small business with average gross receipts of $15 million or less. This change is effective for NOLs in tax years beginning or ending in 2008.

S corporation conversions: The built-in gains (BIG) tax applies to sales of appreciated assets after a C corporation converts to S corporation status. Normally, the holding period for assets subject to the BIG tax is ten years, but the new law reduces it to seven years for gains realized in tax years beginning in 2009 and 2010.

Work Opportunity Tax Credit (WOTC): Employers may claim a maximum $2,400 credit for hiring a worker from designated disadvantaged groups. The new law adds two new categories, disabled veterans and disconnected youth, for workers hired and starting work in 2009 and 2010.

Retiree payments: The new law provides a one-time payment of $250 to taxpayers living on a fixed income, such as Social Security recipients, railroad retirees, disabled veterans and certain government retirees.
Unemployment benefits: For 2009 only, no income tax is imposed on the first $2,400 of unemployment benefits received by a worker who loses his or her job.

Energy tax incentives: The new law also includes a slew of tax benefits for making various energy-saving improvements to a residence or business. This is just the tip of the iceberg. Obtain guidance from a professional tax adviser.❖

Keeping Your 401(k) Plan in Motion
Planning for retirement remains critical

The recent economic downturn is taking its toll. Case in point: Some employees are having second thoughts about the viability of their 401(k) plans. According to a recent report by an independent consulting firm, 4% of plan participants stopped making 401(k) contributions at the end of last year. Also, the percentage of 401(k) savings traded jumped to 5.3% in 2008 from 3.5% in 2007.

Nevertheless, despite the understandable concerns of employees in this uncertain economy, the fundamental principle behind 401(k) plans remains sound. Over time, this type of plan can provide a solid base for retirement savings.

Basic premise: In the typical 401(k) plan setup, an employer allows participating employees to defer part of their salary to their accounts on a pretax basis. Each employee determines the amount that he or she chooses to contribute each year, within certain inflation-adjusted limits. The maximum dollar amount allowed for 2009 is $16,500. Then the funds are invested on behalf of the employees according to their investment choices.

Although the employer is not legally required to provide additional funds, it may choose to do so in a matching plan. For instance, an employer may match contributions up to a stated percentage of deferral. With this add-on, employees are often able to set aside a sizeable amount for retirement. Of course, there are no guarantees as to investment earnings, but the contributions may accumulate on a tax-deferred basis over a lengthy period of time.

Furthermore, "catch-up contributions" are permitted for employees who are 50 years of age or older. For example, in 2009 you can add another $5,500 to the pot if you qualify. The total dollar limit for 50-or-older participants is $22,000.

Note that a 401(k) plan must benefit employees in general. It may be disqualified if highly compensated employees contribute a disproportionately higher amount than lower-paid employees. Withdrawals from the plan can be made when an employee separates from service after age 55 or due to death or disability. Otherwise, withdrawals before age 59½ are generally subject to a 10% tax penalty plus regular income tax.

In the last few years, several new features have enhanced the use of 401(k) plans. Here are a few key examples:

* An employer may institute an automatic enrollment program to ensure that the company meets certain participation requirements under the law.
* Solo 401(k) plans for small businesses have multiplied as administrative costs have been reduced.
* Safe harbor plans have been designed to reduce the strict compliance burdens facing employers. These plans allow you to bypass complex testing procedures and permit highly compensated employees to maximize their contributions.
* A Roth IRA feature can be added to an existing plan, enabling 401(k) plan participants to receive qualified distributions free of any income tax. This new feature first became available in 2006.

Reminder: There are no guarantees about investment earnings within a 401(k) plan. But reliance on sound financial concepts may put you in position to meet your retirement goals.❖

Facts and Figures
Timely points of particular interest

Test of Faith-
In a new case, a couple claimed charitable deductions for tuition and fees they paid for their children to attend a private school affiliated with a specific religion. But the Ninth Circuit Court said that the parents received a benefit from the education provided to the children. Therefore, they cannot deduct any school expenses as a contribution to charity.

Group Dynamics-
Do you want honesty from your employees? Consider posing questions to them in small groups. Not only does this create a forum for discussion, but the relative anonymity usually enables people to open up more easily. Caveat: You might not like what you hear, but it should reflect the honest perceptions of the workers.
❖

Key Changes for Family and Medical Leaves
New regulations modify existing rules

If you have owned a business at some point in the last two decades, you have probably heard plenty about the Family and Medical Leave Act of 1993 (FMLA). But you may not be aware of recent regulatory changes to this important federal legislation affecting both employers and employees. The new rules are effective as of January 16, 2009.

Background: Under the FMLA, an employee is allowed to take up to 12 weeks of unpaid leave from his or her job for the birth or adoption of a child, for reasons relating to a personal medical condition or to care for another family member. The employee can keep benefits during the leave period, but he or she must continue to pay the required employee portion for those benefits. In addition, the employee has the right to return to the same or equivalent position, pay and benefits at the end of the leave.

The new regulations include several significant changes and clarifications of these rules:

Military personnel: An employee with a family member who is on active military duty can now take up to 26 weeks of unpaid FMLA leave in each 12-month period to care for the military family member. The new regulations also define qualifying events that count as "military duty." Similarly, families of National Guard and Reserve members are allowed to take up to 12 weeks of job-protected leave per year to manage their affairs.

Serious conditions: The new regulations refine the definition of a "serious health condition" for FMLA purposes. It now requires two visits to a health care provider within 30 days of the period of incapacity (the first visit must occur within seven days of incapacity). Visits must be made in person.

Direct contacts: An employer may directly contact the employee's physician or other health care provider regarding health details on the employee's FMLA certification form. Note: The employee's "direct supervisor" is prohibited from making such inquiries. Also, the employer cannot request information beyond what is required by the certification form.

Employer notice obligations: Besides posting a notice about FMLA procedures in a prominent place at work (e.g., company bulletin board), an employer must provide the same notice in its employee manual or distribute a copy of the FMLA policy to its new hires.

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How Long to Keep Tax Records
IRS often focuses on four audit areas

Keeping accurate records is the best way you can protect yourself in the event of an IRS audit. But how long do you have to hold onto your records? There is no definitive answer. At the very least, you should keep your records until the statute of limitations for the return expires. Normally, this is three years after the due date (including extensions) or two years after the tax is paid -whichever is later. But the limit is six years if your gross income is understated by more than 25% of the amount shown on your return. Furthermore, there is no time limit at all if an income tax return is found to be false or fraudulent. Therefore, conservatively speaking, you might hold onto tax records for as long as, say, ten years.

What sort of tax records are we referring to? The obvious ones are your 1040s, W-2s, 1099s, K-1s and receipts of business expenditures. However, there are other records that may be overlooked or discarded prematurely, especially in the following four areas:

1. Charitable donations: Under new rules that went in effect in 2007, you must have a bank record or written communication from a charity for any monetary contribution. Furthermore, you are required to obtain a written acknowledgment for any single contribution of $250 or more. Other special rules apply for donations of property valued over $500. For donations valued above $5,000, you must obtain an appraisal of the property. Note that the cost of the appraisal itself is deductible as a miscellaneous expense. Your unreimbursed miscellaneous expenses are deductible to the extent the total for the year exceeds 2% of your AGI.

2. Investments: You should be able to document your gain or loss from the sale of all securities. In particular, it may be difficult to keep track of mutual fund sales. Be sure to supply your tax return preparer with all the relevant information. Because several methods may be used to calculate mutual fund gains and losses, this can make a big dollars-and-cents difference on your tax return.

3. Home sales: It is important to substantiate certain deductions (e.g., prorated mortgage interest and real estate tax paid up to the date of the sale may be deducted) to determine the "net" amount realized from the sale of a home. Similarly, detailed records of home improvement costs may help reduce your taxable gain when you sell the home.

4. Travel and entertainment expenses: Traditionally, the IRS pays extra-close attention to travel and entertainment expenses deducted by individuals. One reason: There are strict substantiation rules imposed by the IRS in this area.
As a general rule, you must document the date, amount of the expense, the business purpose and various other details (depending on the nature of the expense). Note that receipts are required for items of $75 or more.❖

No Ifs, Ands or Buts

Here is one common mistake that many business owners make: They say to a worker, "You did a great job on that project, but ..."

The problem is that the employee only remembers the "but" part of the comment. Instead of boosting the employee's spirits, he or she may end up demoralized and discouraged.

It is a small thing, but practice removing the "but" from your statements. Better to give a straightforward "well done" comment, when deserved, and leave it at that.

Don't feel the need to include criticism in every communication. You may find that this will have a positive psychological effect on your workers.
❖