

## THE CRASH DIET: GETTING A RETURN ON RISK MANAGEMENT

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**M**ost business owners are in a constant state of risk management, whether they realize it or not. By taking some time and investing a small amount of resources into formalizing your risk management program, you are bound to see a return on your investment. Yes...we mean money in your pocket.

The task may seem daunting as there are so many areas of your business that have risks. One of the elements of risk management is deciding how much risk to accept or try to mitigate versus just avoiding the risk all together. The goal of formalizing your risk assessment is to put together a plan to document your risks, (this is all the stuff that keeps you up at night) and then secondly, documenting your reaction to the risk, which is how you will respond to the risks you identified.

We all want a weight loss plan where we see overnight results without having to



put in a lot of work. Unfortunately, we don't have that answer; however, we can provide you with a few suggestions to get an immediate return on your risk management efforts.

### ROI - Return on your insurance

Do you have an active road map for improving your risk profile? Most companies have areas of exposure that can be reduced by implementing proper business rules and protocols. Whether it's implementing a Safe Equipment Design Checklist, or taking proper measures to protect personal and private data, you have the ability to improve your risk profile in the eyes of your insurer. These checks and balances, when communicated effectively to the insurance market, can also positively influence premiums.

Whether it's done through a banker or your insurer, insuring lines of credit is gaining popularity. It not only provides indemnification from customer non-payment, it can also be used as a sales expansion tool by insuring receivables and providing additional means (and comfort) to sell to new customers or to expand to new international markets. By insuring receivables, you can often secure better financing terms and increase lines of credit. It can also free up cash for the company by reducing bad debt reserves. Lastly, trade credit premiums are tax deductible, but bad debt reserves are not.

### Reviewing business processes

This is easy money in your pocket. By having a review of your processes which highlights inefficiencies as well as unnecessary risks and missing

controls can create an instant return. Bill Greene, General Manager at Reber Ranch, recently had their processes reviewed by Shannon & Associates. He commented, "we have begun to implement the recommendations and mitigate the risks identified by Shannon & Associates, and we expect to recoup our cost in just a few short weeks, and we can see the significant return this will provide for our business going forward."

### Red Flag Reporting

There are many risks that go along with having employees. Although, we want the employees to be one of a company's most valuable assets, they can, at times become a significant liability. This liability can result due to fraud, a lawsuit involving an employee or an employee

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Reviewing your internal processes and controls  
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## TIME TO START USING THE NEW I-9 FORM

The US Citizenship and Immigration Services will release the new I-9 form on May 8, 2013. The new form was designed to minimize errors in form completion and includes improved instructions, revised layout and additional data fields. Employers are required to maintain Forms I-9 for as long as an individual works for the employers and for the required retention period for the terminated employees (three years after the date of hire or one year after the date employment ended – whichever is later). Unless re-verification is required, employers do not need to complete the new I-9 form for current employees for whom there is already a properly completed I-9 on file.

Be sure you download the new form and begin using it within the 60-day grace period. You can find the form at <http://www.uscis.gov/files/form/i-9.pdf>



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claim due to unsafe working conditions, etc. Three out of every five companies will be sued by an employee for a matter that occurred sometime between the pre-hiring process through the exit interview, and the average court settlement for an employee-related claim is \$40,000.

Red Flag Reporting is a service that allows a company to implement an independent third-party hotline to

receive calls from employees related to known or suspected fraud, as well as human resources concerns such as harassment and unsafe working conditions. According to the Association of Certified Fraud Examiners (ACFE) 2012 Fraud Report to the Nations, an average of 5% of an organization's revenue is lost to fraud every year. Utilization of a proper reporting mechanism is what the ACFE identifies as among the most cost-effective fraud prevention

and detection systems.

### Conclusion

By undertaking this crash diet in risk management, your organization should be able to see an immediate return on its investment. This sets the stage for successful continued risk management efforts and continued rewards throughout the entire process.

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## REDUCING UNCERTAINTY, INCREASING COMPLEXITY

**E**ach April, most Americans file their income tax returns for the previous year. By this time next year, in April 2014, you'll be filing your tax return for 2013—and the rules will be governed by the American Taxpayer Relief Act of 2012, the last minute deal that averted the so-called "fiscal cliff."

The good news is that large portions of this new law are permanent, or at least as permanent as any tax law can be. The major portions of the law won't "sunset," so the nation won't have to relive the uncertainty about tax law that captured headlines in December 2010 and December 2012.

In addition, many taxpayers will not face major changes under

the new law. It's true that Social Security payroll taxes will rise for all workers, but that partial "holiday" was a temporary measure in effect during 2011 and 2012 to spur a slow economy. The income and estate tax benefits from earlier in this century largely remain in effect.

The catch? Taxpayers with higher incomes face a variety of higher taxes. Those taxes are imposed at different levels of income and on different types of income: adjusted gross income (AGI), modified adjusted gross income (MAGI), and taxable income. Owners of S corporations and limited liability companies (LLCs) who report business net income on their personal tax returns may be especially vulnerable to the higher rates. Similarly, taxpayers who report

much higher income in a given year, perhaps because of a Roth IRA conversion or an asset sale, might have to wrestle with the higher rates and increased complexity of the new law.

**Have questions regarding the American Taxpayer Relief Act of 2012? Call us! We would love to help!**



# LOWER INCOMES, HIGHER TAXES

Individuals with taxable income over \$400,000 and married couples who exceed \$450,000 generally will be the ones paying the restored 39.6% top income tax rate, as well as higher tax on long-term capital gains and qualified dividends. However, such taxpayers aren't the only ones facing tax increases. Some people with lower incomes also will owe two taxes that reappear in the new law.

## Eroding exemptions

Prior law included a phaseout of personal exemptions for taxpayers with high incomes. That phaseout had been—yes—phased out in recent years. Now, the original phaseout has returned as a permanent feature of the tax law. In 2013, this phaseout will affect people with income over:

- \$250,000 for single taxpayers,
- \$300,000 for married couples filing joint returns and surviving spouses,
- \$150,000 for married individuals filing separately, and
- \$275,000 for heads of households.

As you can see, these income thresholds are lower than the thresholds for the 39.6% top tax bracket. They also refer to adjusted gross income (AGI), the number you

report on the bottom of the first page of your tax return, before you take itemized deductions. Therefore, people with taxable income far from the 39.6% bracket may owe more tax because their personal exemptions are devalued. Generally, for each \$2,500 (or fraction thereof) of AGI taxpayers are over their threshold, they will lose 2% of their personal exemptions. They can lose up to 80% of their exemptions this way.

**Example:** Sarah and Todd Bailey have two young children, so they can claim four exemptions. Personal exemptions are \$3,900 per person in 2013, so the Baileys could claim \$15,600 in deductions for their four exemptions. If the Baileys' AGI in 2013 is \$330,000, they are \$30,000 over the relevant threshold, which is 12 times \$2,500. Twelve times 2% equals 24%, so the Baileys personal exemptions would be reduced by 24%, from \$15,600 to \$11,856.

## Declining deductions

The same income thresholds apply to the phaseout of itemized deductions. Under this provision, itemized deductions will be reduced by an amount equal to 3% of a taxpayer's AGI over the relevant threshold. Thus, if the Baileys have AGI of \$330,000, which is \$30,000 over their threshold, they will lose \$900 of their itemized deductions: 3% of \$30,000. (Deductions for medical expenses,

investment interest, casualty or theft losses, and wagering losses are excluded from the calculation.) Again, high-income taxpayers can lose as much as 80% of their itemized deductions.

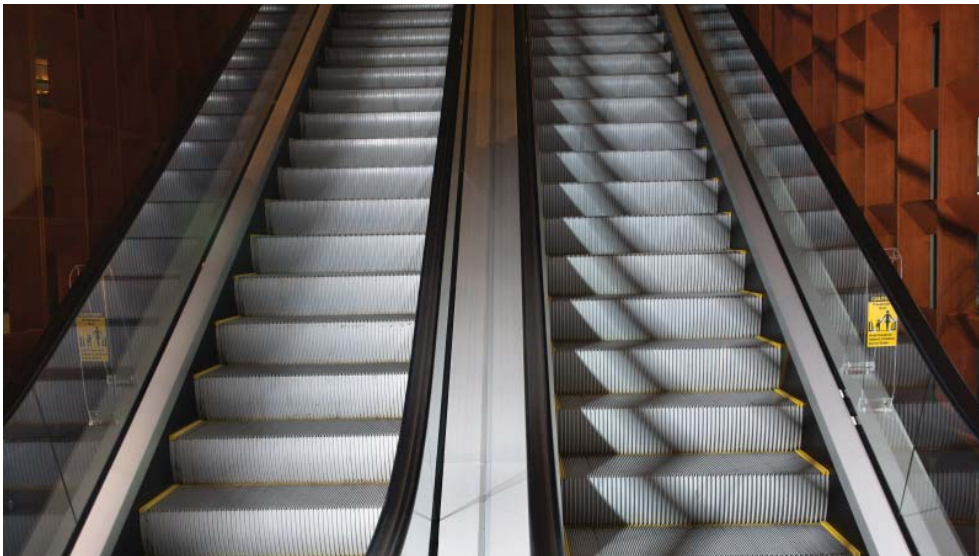
## Sustaining surtax

In the new tax law, Congress took no action regarding the 3.8% Medicare surtax, included in prior health insurance legislation. This tax takes effect in 2013, affecting people who top these income levels:

- \$250,000 for married couples filing joint returns and surviving spouses
- \$125,000 for married individuals filing separately, and
- \$200,000 for all other single taxpayers

For this surtax, the thresholds are based on modified adjusted gross income (MAGI), which is AGI plus any net foreign income. For many taxpayers, MAGI will be the same as AGI.

As you can see, lowering your AGI may be able to help you reduce or eliminate the 3.8% surtax and the two phaseouts described in this article. Tactics that lower AGI, such as taking capital losses and maximizing deductible contributions to retirement plans, may also lower your exposure to these taxes.



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# PROS AND CONS OF LIVING TRUSTS

**E**state planning often involves the use of trusts, which come in two basic forms: revocable and irrevocable. If you create a revocable trust and transfer assets into it, you can change your mind and terminate the trust, reclaiming ownership of the assets that were in the trust.

An irrevocable trust can be established in your lifetime or after your death, as per your instructions. A revocable trust, on the other hand, can be established only while you're alive. Therefore, revocable trusts may be called "living trusts," and they have become increasingly popular.

## Deflate probate

Living trusts have been promoted as a means to bypass probate at your death. In some circumstances, the probate process may be time-consuming and expensive.

**Example 1:** Annette Dawson dies with many assets held in her own name, including real estate, bank accounts, and securities. Those assets go to her three children, according to Annette's will. The executor of Annette's estate must prove to a local court that Annette has left a valid will, identify the assets that pass under her will, value those assets, pay any debts and taxes, and see that the remaining assets are properly distributed. (If Annette had died without a will, her assets would have gone through probate anyway and been distributed under state law.)

The entire proceedings can take a little or a great deal of time, depending on state law and the size of the decedent's estate. An estate going through probate typically will owe legal and court fees, which may be substantial.

**Example 2:** Beth Emerson, Annette's sister, has similar assets. However, Beth has created a living trust and transferred her assets into

that trust. Beth dies in the same state as Annette.

Any items that Beth has not transferred to her living trust will have to go through probate. However, assets held in trust don't go through probate. The assets that Beth transferred to her living trust will avoid probate and can either stay in trust or pass to other parties at her death, according to the trust terms Beth had specified.

## From one pocket to another

Creating a living trust can spare your heirs some time and money in the future. What's more, you can remain in control of your living trust. You can collect any investment income generated by your trust assets; you can sell them and replace them with other assets, if you like. In addition, you can revoke a revocable trust if you become unhappy with the arrangement. Then the assets will move from the trust back into your own name.

A revocable trust can provide another valuable benefit: you can use it as a form of incapacity protection.

**Example 3:** When Beth creates her living trust, she names her son Rick as successor trustee. If Beth loses the ability to manage the trust assets, Rick will replace her as trustee. Then Rick will manage those assets on Beth's behalf. Beth's family won't need to petition a court to appoint a guardian to manage the assets held in the trust.

## Paying the price

If those are the advantages of a living trust, what are the drawbacks? You'll probably pay legal fees to create the trust, and you will have to retitle



your assets to the trust. If you don't take the time to move assets into a living trust, the assets you leave out won't get the benefits of probate avoidance and incapacity protection.

Additionally, depending on your situation, you may not need a living trust to avoid or minimize probate at your death. Assets such as IRAs, other retirement plans, annuities, and life insurance proceeds pass directly to a named beneficiary without going through probate. The same is true for bank and investment accounts with a payable-on-death or transfer-on-death designation. If you hold property titled in joint tenancy with right of survivorship, your co-owner will inherit your share automatically, without probate.

Weigh the merits and drawbacks carefully before deciding if a revocable trust can offer value to you and your loved ones.

Call us to speak with one of our trust specialists!

# BREAKS FOR BUSINESS OWNERS

Several provisions of the new tax law apply to businesses. For the most part, these provisions extend previous law, often through 2013, while some are retroactive to 2012.

## First-year equipment deductions

Under Section 179 of the tax code, businesses can take a first-year “expensing” deduction for equipment placed in service, rather than spread depreciation deductions over several years. Thus, equipment purchasers get the tax benefits more rapidly, which makes them more valuable.

Throughout 2012, business owners believed the expensing limitation for the year would be \$139,000 of equipment, with a phaseout, dollar for dollar, starting with \$560,000 of purchases. The new tax law sets the expensing limit at \$500,000, with a phaseout beginning at \$2 million. The higher limits apply retroactively to 2012 as well as to 2013.

**Example 1:** Smith Corp. buys \$400,000 worth of equipment in 2013. It can take a \$400,000 deduction, under Section 179.

**Example 2:** Jones Corp. buys \$2.2 million worth of equipment in 2013. Therefore, Jones Corp. is in the phaseout range by \$200,000. Consequently, the company’s first-year deduction will be reduced from the maximum \$500,000 to an allowable \$300,000.

In 2014, the Section 179 deduction is scheduled to drop to a \$25,000 maximum, with a phaseout beginning at \$200,000 of purchases. However, Congress has

consistently agreed to increase these amounts substantially, with short-term extenders.

## Bonus depreciation

In example 2, Jones Corp. buys \$2.2 million of equipment in 2013 and expenses \$300,000 of those purchases under Section 179 of the tax code. The remaining \$1.9 million of equipment purchases must be depreciated.

Typically, businesses must spread depreciation deduction over several years. In recent years, though, “bonus depreciation” has allowed more rapid recovery of the cost of qualified property (which includes most equipment and machinery). The new tax law extends 50% bonus depreciation through 2013. Therefore, Jones Corp. may be able to take an additional first-year tax deduction of \$950,000 (50% of \$1.9 million) for its equipment purchases in 2013. The \$950,000 balance will be deducted over a multiyear schedule.

Bonus depreciation applies only to new equipment. By contrast, businesses may take first-year expensing deductions under Section 179 for purchases of new or used equipment.

## Credit check

Several other business-related provisions were extended through 2013 in the new tax law. They include the research tax credit, for increases in qualified R&D; the new markets tax credit, for certain investments in low income communities; and the work opportunity tax credit, for hiring individuals from certain groups with high rates of unemployment. Under the work opportunity tax credit, employers who hire a covered individual generally receive a tax credit equal to 40% of first-year wages, up to \$6,000. The tax credit for hiring certain veterans can be as high as \$9,600.



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