



# focus

year end.2005

## **Still sitting on the fence?**

Picking the best retirement plan for your business

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through business intelligence**

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Cost-saving strategies

# Still sitting on the fence?

Picking the best retirement plan for your business

It's common business knowledge that the key to getting, and keeping, good employees is to offer a benefit package they'll appreciate. But you also want to make sure that you — as the owner — get all the tax breaks you're entitled to.

A retirement plan is a good place to start. Whether yours is a new business just starting out or an existing business now ready to set up a plan, many of the considerations are the same.

## Not one size fits all

Retirement plans are not a one-size-fits-all proposition. Most small to midsize businesses implement 401(k) plans, Savings Incentive Match Plans for Employees (SIMPLEs), and Simplified Employee Pension (SEP) IRAs for their employees. Regardless of the plan, employer contributions are deductible, employee contributions are pretax and plan funds grow tax-deferred.

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To determine which plan is best for your business, you'll need to consider a variety of factors. Tax treatment and contribution limits are obvious concerns. But other factors also matter: company size and employee limits, employee age and turnover, employee compensation and company profits, flexibility of contribution amounts, treatment for owners and other highly compensated employees, reporting requirements, and administrative costs.

## 401(k) plans top the list

401(k)s are by far the most popular form of retirement plan. They are contributory plans — meaning the employee makes contributions



through redirected salary. You can choose to match the employee's contribution, up to certain limits.

401(k)s have a higher employee contribution limit than either SIMPLE or SEP-IRAs — for 2006, contribution limits are \$15,000, plus \$5,000 for the age 50 and over catch-up amount.

Although the 401(k) has the advantage of higher employee contribution limits, it also has the most reporting requirements, making it more costly to create and maintain. Because annual requirements include filing a tax return (Form 5500) and compliance testing, most businesses turn over plan administration to an outside professional.

Employees are always 100% vested in their contributions to their account. Although amounts redirected to a 401(k) aren't currently subject to income tax, the earnings are subject to FICA and Medicare tax.

You have some flexibility in determining whether to match your employees' contributions. Employer contributions can vest over time, based on plan schedules. If the plan is top-heavy (favoring highly compensated employees), employer contribution matching and vesting become subject to IRS requirements. To maximize your own contributions — as the owner — you'll need to monitor and encourage employee contributions, perhaps by providing an employer match.

## SIMPLEs not just a runner-up

There are two types of SIMPLEs: a SIMPLE IRA and a SIMPLE 401(k). Both are contributory plans allowing employee contributions for 2006 of up to \$10,000, indexed for inflation, and an additional \$2,500 for employees age 50 and older.

With a SIMPLE, you are required to match employee contributions up to 3% of pay, or you can choose to contribute 2% of pay for each employee. This matching is mandatory, unlike with the traditional 401(k). All contributions vest immediately.

SIMPLEs have a major advantage over 401(k)s in that they are, in fact, simple. With no annual tax return filing, and minimal documentation requirements, SIMPLEs are easier to handle, and you may avoid administration fees altogether. However, due to their lower contribution limit, SIMPLE plans may not be a good choice for owners who are seeking to maximize their retirement plan contributions.

## SEP-IRAs funded entirely by employer

Unlike the SIMPLE and 401(k) plans, the SEP-IRA is a noncontributory plan — meaning no employee contributions are allowed. The SEP-IRA is entirely funded by employer contributions. Contributions are discretionary, but cannot exceed a specified limit — 25% of an eligible employee's compensation up to a maximum of \$42,000, adjusted for inflation in 2006. Participants are immediately vested.

SEP-IRAs are easy and inexpensive to set up and administer. No annual tax return is required, and you have until the due date of the company tax return (including extensions) to make your contribution. Although the company must include all eligible employees, because employer contributions are optional, contributions can be lower (or skipped) in a year in which your company is strapped for cash.

A business owner who is self-employed, or employs primarily family members, may find that a SEP-IRA provides significant retirement funding benefits. When there are other employees who must be covered, the employer contribution may be viewed as too expensive.

## Roth 401(k) offers a new way to save

At long last, the Roth 401(k) is ready for its debut. Enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001, the Roth 401(k) becomes operational in 2006.

If your plan is set up to accommodate a Roth 401(k), starting in 2006, participants in a 401(k) or 403(b) plan may designate some, or all, of their elective contributions as a Roth contribution. Roth contributions will be taxed (not tax-deferred as in a traditional 401(k)), but all qualified withdrawals will be tax free, which means participants may never have to pay tax on growth in the plans. Plus, there are no required distributions.

To have a qualifying Roth contribution program, your retirement plan must establish a separate designated Roth account for each employee and maintain separate recordkeeping for each account.

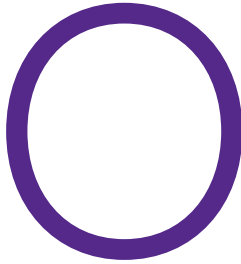


## You may get a credit for plan startup

If you're ready to take the plunge and implement a retirement plan, Uncle Sam may help with some of the costs. Small employers — those with 100 or fewer employees — may be eligible for a credit of up to 50% of the first \$1,000 spent on retirement plan administration and education for employees. This credit is available for the first three years of the plan — amounting to a maximum of \$500 credit for each year.

We've covered only a few retirement plans. Other possibilities include defined benefit plans and other profit sharing or defined contribution plans. The greatest benefits may result from a mix-and-match approach. Combining plans could increase the allowable contributions for owners. You may also want to evaluate nonqualified deferred compensation arrangements to meet your retirement funding goals. |

# Private foundations — a plan for family giving



Once considered only for the very wealthy, private foundations are now being established (and should be considered) by more “upper-income” individuals. Private foundations can provide both

income tax and estate planning benefits while enabling you, or your family, to make meaningful contributions that affect the charities and causes most dear to your heart.

Another benefit of private foundations is that you can exercise more control over how your charitable contributions are used.



## Make it a family affair

A private foundation is basically a charitable grant-making entity that is privately funded and privately controlled. It's typically established to

manage a long-term charitable gifting program, with annual distributions to one or more charities.

A private foundation can serve as a family affair, with your loved ones participating together to determine which charities or causes to support and to control the distributions to charities. In other words, you can create a family charitable legacy that benefits both the charities and your family.

## Decide which type to establish

Most individuals establish nonoperating foundations in which a donor, or group of donors, makes contributions to the foundation and the foundation then makes grants to charities. The donors and the foundation have no direct participation in charitable work — they just provide the funds.

In contrast, an operating foundation may have direct involvement in charitable work, such as operating a safe-house for abused women.

## Take advantage of income tax deductions

If the private foundation is properly established and managed, your family will be entitled to income tax deductions for donations to it. A private foundation can be particularly useful if you and your family haven't had a chance to select the specific charities: You can make your donation to the foundation, and garner an immediate income tax deduction. Then, once you've made the decision as to which charities to fund, funds from the foundation can be distributed appropriately.

The adjusted gross income (AGI) limitations for deductibility of contributions to nonoperating private foundations are lower than those for contributions to public charity 501(c)(3) organizations such as museums, schools and churches. Depending on whether cash or property is donated, such deductions are limited to 20% to 30% of modified AGI per donor return. (See “AGI limitations on contribution deductions.”)

The amount of a contribution deduction is generally the property's basis if ordinary income

## AGI limitations on contribution deductions

	Public charities	Private foundations	
		Operating	Nonoperating
Cash and unappreciated property	50%*	50%	30%
Ordinary income property	50%	50%	30%
Appreciated capital gain property	30%	30%	20%

\*Under the Katrina Emergency Tax Relief Act of 2005, 100% for cash contributions made Aug. 28 – Dec. 31, 2005

property is donated and fair market value for long-term capital gain property. As with other contributions, unused amounts can be carried forward for up to five years.

The gift and estate tax deduction is a bit more straightforward. There are no limitations, and the full amount of contributions to the foundation is removed from the donor's estate. A donor to a private foundation can, in effect, direct money to charities rather than to the IRS (in the form of estate tax). At the same time, a family philanthropic legacy is established that involves multiple generations and allows all family members to participate in the decision making. This often satisfies emotional concerns over distribution of family wealth.

### Follow rules regarding control

The increased donor control of a private foundation comes at a price. You must follow a number of rules designed to ensure that private foundations serve charitable interests and not private ones. These rules include requirements for the percentage of annual payouts and restrictions on most transactions between the foundation and its donors or managers.

Additionally, private foundations are generally prohibited from benefiting any private individual, with substantial penalties imposed for failure to meet these requirements. There are also restrictions on the types of investments that a private foundation may make, and investment income is subject to an excise tax of 1% to 2% each year. Finally, a private foundation is responsible for ensuring that the funds distributed to a nonpublic charity are properly expended.

### Weigh the costs and plan carefully

Before deciding that a private foundation is right for you, consider the administrative and legal costs of creating and managing it. Although a private foundation is tax exempt (except for any applicable excise tax on investment income), it's required to file an annual information return, Form 990-PF. And, the Form 990-PF must be made available for public inspection upon request. Smaller foundations will typically need outside help in meeting the compliance requirements.

The decision to establish a private foundation calls for advanced planning and consultation with your tax and legal advisors. |

## Boost your business's brainpower through business intelligence

**M**aking uninformed decisions can cost your company dearly in mistakes and lost profits. As your business's operations grow in size and complexity and competition intensifies, developing a business intelligence competency becomes increasingly important. The ability to make effective decisions quickly is essential to keeping a step ahead of competitors.

Through business intelligence, your company can learn how to better address customer needs and preferences so you can do just that. Thus, acquiring business intelligence is essential to position your company for competitive advantage and continued profitable growth.



### Intelligence in a business context

"Intelligence" is defined as the ability to learn, to reason and to apply acquired knowledge to successfully adapt to and improve one's situation.



In a business context, intelligence essentially entails the process of gathering, analyzing and applying business data to enhance a company's strategic decision-making capabilities.

The goal, therefore, is to help your company gain a sustainable competitive advantage by identifying its strengths, weaknesses, opportunities and threats relative to market trends and factors. You can then use these insights to help your business successfully adapt to and improve its situation in the market.

In other words, business intelligence is about becoming a learning organization.

### Intelligence-gathering methods

Before you begin the intelligence-gathering process, you must define what you want to know. For example, your goal may be to collect data to analyze the profitability of a new product. Or you may wish to analyze the cost effectiveness of a new marketing program aimed at raising awareness of your company's brand.

The goal is to gain a sustainable competitive advantage by identifying strengths, weaknesses, opportunities and threats relative to market trends and factors.

Then, start the intelligence-gathering process by looking at your company's internal sources for data pertaining to the business's strengths and weaknesses. This includes financial and operational trend data, such as product inquiries and

sales or returns, maintained in company systems, along with other insights from personnel.

You'll need to look outside your organization, though, to gain more information about your customers' needs and preferences, your competitors, industry and technology trends, market and economic factors, and other data that will also help you assess your opportunities and threats. For example, you may discover that a competitor has introduced a new product using an advanced technology, posing a threat to your marketshare.

Gathering the necessary data will require some legwork. Expect to invest considerable time combing through a variety of sources. Fortunately, however, you won't have to resort to industrial espionage to gather the data. You'll find a bounty of information from publicly available resources, such as:

- Industry analyst studies and reports,
- Industry association data,
- Customer and market surveys and focus groups,
- Commercial databases,
- Competitor Web sites,
- Internet searches, and
- SEC reports.

Most of your intelligence-gathering can be done on the Internet. For instance, SEC reports on public companies may be obtained electronically on the EDGAR Online site. Commercial databases, such as DialogWeb, Dow Jones, Dun & Bradstreet, and LexisNexis, also may be accessed over the Internet.

### Analyzing and applying intelligence

The critical analysis step entails translating raw data into meaningful and actionable intelligence. So, if an investment to produce a new product is

supported by data that shows strong sales and revenue growth, you can make an educated decision to continue offering the product. Fortunately, there are business intelligence software tools to facilitate this process.

It's important to understand, however, that there's more to the process than just interpreting tangible, financial-oriented results or metrics.

To effectively assess your business's position in the market and guide the development of strategies, you'll also need to establish a set of Key Performance Indicators (KPIs) to quantify the not-so-tangible, nonfinancial metrics specific to your business for gauging performance against goals. For example, KPIs used for measuring

progress toward a goal of improving product delivery might include the percent of on-time deliveries, accuracy rate of orders filled and number of returns.

Once your KPIs are defined, use the same set each year so you can easily compare current and historical trends.

### Step confidently

Trying to predict your competitors' next moves and determine the best course for your business can be agonizing. With business intelligence behind your company's decisions, you can step forward with greater confidence. ■

## Don't let the well run dry

### Cost-saving strategies

The inclination of human nature is that the more money you make, the more you want to spend. It's also common to develop a false sense of security and become lax about saving. When tough economic times hit, however, those who don't save can suffer a blow to disposable income.

To avoid that situation, apply these practical tips for reducing major drains of cash:

**Credit cards.** Make paying off high-cost monthly credit card expenses promptly a top priority to minimize interest charges and avoid late fees. Shop for better payment terms and rates as well as cash-back or other bonus programs. Also review monthly statements carefully to catch potentially costly billing errors and fraud.

**Insurance.** Use the competition among insurers in your market to your advantage by requesting comparative quotes and demanding better rates. Also look for insurers that offer reduced rates if you purchase multiple types of insurance from them. And ask about discounts available to low-risk customers. For example, you may be eligible for applicable discounts if you have installed safety features for your home, have a good driving record or are a physically fit nonsmoker.

**Mortgage.** Periodically evaluate the opportunity to refinance your mortgage at a better rate. Also consider rounding up your monthly mortgage payments; paying off your loan a little sooner may save you considerable interest over the long term.

**Around the house.** Compare rates from competing telecommunication providers, such as phone, DSL or cable. Just by asking, you can generally negotiate better rates. And consider whether you may benefit from installing new, more energy-efficient appliances and a programmable thermostat.

If you think you're living beyond your means in terms of the cost of your family's home and cars, compare the costs relative to your overall income and monthly expenses as well as the cost of inflation. As a rule of thumb, your home's mortgage cost shouldn't exceed more than two-and-one-half times your family's annual income, and your monthly home-related expenses shouldn't exceed more than roughly a third of income. As for your family's car expenses, they shouldn't exceed more than 10% of your income.

In the interest of your family's long-term wealth preservation and growth, you can never afford to stop exercising good saving habits.

## 2005-2006 Long Island Economic Survey and Opinion Poll

December is the time of year for cold weather, presents and the results of the Long Island Economic Survey and Opinion Poll. It seems like yesterday that we were mailing out our first survey questionnaire. Soon, the completed questionnaires were flooding our mailbox and now, finally, the results are in.

Throughout all twelve years, the Paul and Terry Townsend School of Business at Dowling College has been our partner in this project. Dowling has provided their expertise in the development of new questions as well as interpretation of the Survey results. We were fortunate to benefit from the insight and knowledge of the Dean of the Paul and Terry Townsend School of Business, Dr. Debra Fleming. It was a pleasure to collaborate with her once again.

The Long Island Business News has sponsored the Survey for the past nine years. They help us get the Survey results out to the Long Island business community through their publicity and coverage. John Kominicki, Publisher of the Long Island Business News and Carl Corry, Editor, also provided valuable input and helped formulate the survey questionnaire.

The business owners provided vital employment, revenue and profitability statistics. These statistics are both historical and prospective. Respondents provided their opinions on various matters such as the direction of interest rates, the stock market and real estate prices. Business owners identified plans for expansion and relocation and obstacles that Long Island faces in achieving greater success.

We also included quite a few new questions reflecting current events such as Hurricane Katrina and the accompanying economic effects as well as plans for alternative energy installations in the area. Additionally, this year we tried out a new larger format for the questionnaire itself, allowing respondents to comment on their answers to various questions.

If you have not received a survey questionnaire or the survey results in the past and would like to participate, please email [mhuss@avz.com](mailto:mhuss@avz.com) with your full contact information.

## AVZ Potpourri Building Update

After a slight delay, the construction of the new addition to the AVZ building has begun in earnest. As of this writing, the foundation has been poured, steel girders erected and the eastern exterior wall has been bricked. The AVZ "backyard" is a beehive of activity, with construction trucks and equipment rumbling in and out.

As a result of the building project, our parking lot has become a bit congested. The firm apologizes in advance for any trouble you might have finding a parking space when visiting our office. Be assured that there will be plenty of convenient parking spots available when the project is complete.



Progress has also been made with the interior design of both the present building and the new addition. Carpet and office furniture have been selected as well as some new fixtures. Everyone is looking forward to the final result. Keep checking our website [www.avz.com](http://www.avz.com) for the latest construction updates.

## AVZ TECH is California Dreamin'

Recently, AVZ Partner Bill Klein and Director of IT Services Doug Hart, traveled to Rancho Mirage, California to participate in the Hansen Network 2005 User Conference. AVZ TECH is a Certified Hansen Gold Partner in conjunction with its Microsoft Business Solutions Partner certification. At the conference, Bill and Doug attended training classes, participated in roundtable discussions and networked with like-minded professionals. To cap off their experience, Bill was privileged to be able to deliver the keynote address in front of a thousand of his peers.

## New Hires

Over the past few months, AVZ welcomed four new employees to the Firm:

**Patrick Bryan**  
*Staff Accountant*

**Tracy Concepcion**  
*Staff Accountant*

**Erin Dounelis**  
*Staff Accountant*

**Elise Manzione**  
*Receptionist*

## Happy New Year

Albrecht, Viggiano, Zureck & Company, P.C. would like to extend our warm appreciation of our association during the past year and send our very best wishes for a happy holiday season and a prosperous New Year.



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