



INSIGHTS

FOR BUSINESSES AND PROFESSIONALS

SUMMER 2011

Coping With Higher Gas Prices

Like most small business owners, chances are you and your employees are struggling to keep up with the rapidly escalating cost of gas. While there is little you can do about the upward trend in prices, there are steps you can take to help reduce the impact that the rising cost of filling up is having on your bottom line.

Here are some tips for minimizing the effects of gas price inflation on your business:

Switch to more fuel-efficient vehicles. If you have a fleet of vans, SUVs, or other vehicles that use a lot of gas, now may be the time to trade them in for more fuel-efficient alternatives. If hybrids are out of your price range or hard to obtain in your area, consider downsizing to the smallest vehicles that would meet your needs. Lighter cars are not only easier on gas; their lower sticker prices may also prove to be easier on your budget.

Plan trips in advance. Encourage your employees to plan their routes carefully before driving to meet

customers or make deliveries. Using Global Positioning Software (GPS) can help drivers identify the shortest and most fuel-efficient routes. Remind employees of the importance of booking appointments with the goal of reducing the number of trips they need to take, especially to more distant locations. If it appears that certain employees are using more gas than is necessary, offer to help them map out more efficient routes.

Find alternatives to driving. While sales representatives often meet with clients in person, it may be possible to conduct certain business over the phone, by e-mail, or even by webcam.

Encourage more fuel-efficient driving practices. Remind employees that there are several ways to cut back on the amount of gas they use on a given trip, including slowing down, accelerating gradually, and turning off the air conditioner.

Research low-cost gas retailers. Find out whether there are local gas stations that offer consistently lower prices, and instruct your drivers to fill up at these stations. There are websites that can help you track the lowest prices for gas in your area.

Set a gas budget. Monitor your company's gas consumption over a

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Heading Off Staff Conflict

An economic downturn can add extra pressure to businesses. Offices often become short staffed due to budget constraints, and employees are expected to do more with fewer resources. The inevitable result is conflict among staff members who may feel overwhelmed, exploited, or burned out.

According to a recent survey by Accountemps, a worldwide agency that provides temporary staffing for accounting, finance, and bookkeeping professionals, managers indicated that they spend about 18% of their time mediating staff conflicts. The survey included 1,000 managers at companies with 20 or more employees.

In fact, handling staff conflicts impedes productivity and imposes

unnecessary time constraints on a manager. Here are some tips to help prevent staff conflict and keep everyone working together to reach your business goals:

- 1) Recognize the best time for a manager to intervene rather than let a dispute escalate. Take steps to clear the air before disagreements or resentment interfere with employees getting their work done.
- 2) Acknowledge positive contributions by staff members with a small cash bonus, free movie tickets, or an "Employee of the Month" designation.
- 3) Encourage friendliness among employees by organizing fun activities, such as having lunch delivered to the office once a month. Interacting

in a relaxed work environment can help employees respect one another, especially when under pressure.

4) Take action if there is one repeat troublemaker stirring up conflict. Meet privately with that employee to discuss how collegial collaboration and professional behavior are required of all staff.

5) When hiring new staff members, seek out those candidates who are team players with good communication skills.

In today's workplace, where employees at all organizational levels and employers alike face many challenges, early conflict resolution combined with a fostered spirit of cooperation among staff members goes a long way.

Expansion of 1099 Reporting Requirements Repealed

On April 14, 2011, President Obama signed into law an amendment that repeals an expansion of 1099 reporting requirements for businesses that had been slated to go into effect in 2012.

The Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 repeals Section 9006 of the Patient Protection and Affordable Care Act of 2010 (PPACA), a provision that would have required businesses starting in 2012 to file more 1099 forms to help prevent under-reporting of income by vendors. In addition to completing 1099 forms

for payment of services rendered by unincorporated providers, as is the case under current law, businesses, charities, and government entities would have also been required to issue the forms for payments above \$600 in any year for all types of goods and services, and to all vendors, including corporations, that were previously exempt. The legislation further repeals a separate provision, under the Small Business Jobs Act of 2010, that mandated similar information reporting by landlords.

The National Federation of Independent Businesses (NFIB), a small business lobbying group, announced

it supported the repeal, having argued that the requirement that companies file 1099 forms for all transactions over \$600 would have amounted to a burdensome paperwork mandate on businesses.

Despite the relief offered to businesses, concern was raised about the cost of the repeal of the expanded 1099 reporting requirements, estimated at approximately \$25 billion over 10 years. Therefore, the new amendment includes a new provision mandating that individuals pay back Federal health care subsidies offered under PPACA if their income increases.

Key Employees: Protecting Your Most Valuable Assets

Suppose you were to arrive at your company one morning only to learn that a key employee had died unexpectedly the night before. Have you ever considered how such a turn of events might affect your company? Along with losing a valued member of your team, you may also be losing skill, “know-how,” and important professional relationships that were cultivated over the years.

Although it is impossible to predict and prevent the unexpected loss of a critical employee, you can receive compensation through **key person insurance**. A key person policy covers or “indemnifies” a company against the loss of a valued team member’s skill and expertise. The proceeds may be used to help recruit, hire, and train a replacement; replace lost profits; assure customers that business operations will continue as usual; and reassure lenders that funds will be available for repayment of business loans.

Typically, the company owns the policy, the premiums are not deductible, and the death proceeds are received by the company income tax free, although there may be **alternative minimum tax (AMT)**

consequences for businesses that are organized as **C corporations**.

WHAT APPROACH IS BEST?

Needless to say, it is difficult to place a monetary value on a key employee. To help determine that amount, there are generally three approaches:

- 1) The **“multiple”** approach uses a multiple of the key person’s total annual compensation, including bonuses and deferred compensation. The popularity of this method may reflect the difficulty of quantifying the value of a key employee. The disadvantage of this approach is that the estimate, typically for five or more years’ annual compensation, may or may not correlate to actual needs.
- 2) The **business profits** approach is more sophisticated. It attempts to quantify the portion of the business’s net profit that is directly attributable to the key person and then multiplies that amount by the number of years it may take for a replacement to reach the same productivity level as the insured. For example, if net profit attributable to the key employee is estimated at \$250,000 annually, and it would take an expected five years to hire and train a replacement, then

the policy’s face value would be \$1.25 million.

3) The **present value** approach calculates the present value of the profit contributions of the key employee over a specified number of years. This amount is then used as the **face value** of the policy. For instance, with an anticipated profit contribution of \$250,000 per year for the next five years and a discount rate of 8%, the policy’s face value would be about \$1 million. This method assumes insurance proceeds can be invested at a given rate of return and will be spent over a given period of years.

Business executives should consult with their insurer regarding which approach is best for the company because key person insurance is a vital component in protecting *your* business from the loss of your most valuable assets—the people who help it grow and prosper.

None of us can predict or prevent the loss of a key employee. However, having a policy in place to manage such an event at your company may make all the difference. So, talk to your professional advisors about protecting your business with key person insurance.

Expansion of 1099 Reporting Requirements Repealed

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These subsidies, which are not available until 2014, are tax credits paid in advance and based on income reported in prior years. Taxpayers who earn more than anticipated, and therefore receive a bigger subsidy than they are

entitled to, are required to return at least some of that overpayment. The bill increases the amount of excess subsidy for taxpayers who earn more than twice the Federal poverty level, and those earning over four times the

Federal poverty level have to pay all of it back.

For more information about the new law, contact one of our qualified tax professionals.

Promoting CEOs From Within Can Pay Off

Companies that exclusively promote chief executive officers from within outperform companies that recruit CEOs from outside the company, according to a study released in April 2011 by the Kelley School of Business at Indiana University and global management consulting firm, A.T. Kearney.

The study, "Homegrown CEO: The Key to Superior Long-Term Financial Performance is Leadership Succession," analyzed the performance of 36 S&P 500 non-financial companies across 25 industries that exclusively promoted CEOs from within their own ranks between 1988 and 2007. The results showed that these companies outperformed other companies across seven measurable

metrics: return on assets, equity and investment, revenue and earnings growth, earnings per share (EPS) growth, and stock price appreciation. The analysis further revealed that not a single S&P 500 non-financial company with an externally recruited CEO generated performance numbers over this period that surpassed, or even equaled those of the top 36 in the above metrics.

Researchers observed that these findings are particularly striking given that the median compensation (including salary, bonus, and equity incentives) for external CEOs is 65% higher than for those promoted from within. The results also indicated that 40% of CEOs recruited from outside remain with the company for two

years or less, and almost two-thirds leave before their fourth anniversary.

The study's authors made four specific recommendations for promoting CEOs from within the organization. First, involve the board early, providing access to internal talent on a regular basis, and exposure to the benchmarking of potential leadership and any gaps in leadership. Second, start the CEO leadership-screening process early in a candidate's career, so that the right fit can be found. Third, establish an effective search and nominating committee made up exclusively of independent directors. And, finally, engage outgoing CEOs in the CEO succession-planning process.

Coping With Higher Gas Prices

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period of time to better identify how many miles are being driven and how much gas is being purchased. Based on this information, establish targets for the amount of gas each employee is expected to use. While drivers may sometimes have good reasons for exceeding these targets, having limits in place will encourage employees to conserve fuel.

Communicate with employees about commuting costs. The extra money employees have to spend on commuting is not only taking an increasingly large chunk out of their paychecks, but it may influence whether they will stay with their current employers. If rising gas

prices cause employees to fall behind financially, they may consider leaving their current job if they could find a position closer to home.

To retain your staff hit hard by rising gas prices, organize a meeting, or speak individually with employees about the impact this is having on their commuting expenses. Whenever possible, encourage employees to carpool, take public transit, cycle, or walk to work. If your company is too small to make carpooling practical, think about getting together with other employers in the area to create a carpooling or vanpooling system. To reduce the amount of commuting mileage for employees,

consider allowing those who can to work from home, or adjust their schedules to make fewer trips to and from the workplace.

Raise prices or levy extra delivery charges. Customers are aware of gas price inflation; however, they are unlikely to bolt to the competition because of a minor increase in prices or a small additional charge for delivery. If you are uncertain about whether the market will bear these hikes, find out whether your immediate competitors have raised prices, or ask a few trusted customers whether they believe the increases you are considering are reasonable.