

FogHorn



IMA

July, 2004

Institute of Management Accountants
San Francisco Chapter

www.sfima.imanet.org

July Technical Meeting

Meeting Place: The London Wine Bar, 415 Sansome Street,
(between Clay and Sacramento), basement floor.

Effective Risk Management for Increased Profitability-
Brent Babow, Vice President of Kempkey Risk Management
Services, Inc.

There is no question that the rising cost of workers' compensation insurance has had a tremendous impact on the bottom line profitability of most California employers during recent years. A driving factor is an increase in the cost of injuries, with the average cost of an indemnity claim double of what it was just five years ago. What is suppose to be a "no fault" system continues to involve litigation, with more than 75% of all permanent disability claims involving an attorney.

Employers no longer can afford to ignore these costs or wait for someone to "fix" the system. Conventional safety programs, based on theories dating back to the 1930s, do not work. In fact, they tend to be costly programs that reduce a company's bottom line.

Brent will show us how applying modern management theories and techniques, which proactively address and improve safety, can convert safety from a "profit taker" to a "profit maker".

Brent is vice president of Kempkey Risk Management Services, Inc., for the Sonoma County area. Kempkey Risk Management Services is a commercial insurance brokerage located in Napa, providing resources to help organizations manage risk and its associated costs.

This promises to be a very informative presentation in that for many companies, even smaller ones, the potential profit to be gained through safety runs into the hundreds of thousands of dollars.

For those interested in taking the CMA or CFM exam, be sure to mark your calender for the September 28th Technical Meeting. We will raffle off a free set of Gleim CMA/CFM Review Test Prep Software.

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Date:

Tuesday, July 27, 2004

Time:

5:30-6:00 p.m. - Socializing
6:00-7:30 p.m. - Dinner & Presentation.

Topic:

"Effective Risk Management for Increased Profitability"

Speaker:

Brent Babow, Vice President of Kempkey Risk Management Services, Inc.

Dinner Cost:

Members - \$25

Non-members - \$30

Students - \$15

Please bring your friends

Reservations:

Contact:

Vanessa Vercollone

(415) 434-1411

or via e-mail at

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AccountantsInc.com

President's Message
July 2004

The new IMA year has begun, and is off to a great start. On June 29, we were treated to an excellent presentation on the World of Fraud, by Ron Sheppard, of World Savings Bank. This was our first meeting at the London Wine Bar, which featured excellent food, and a large, quiet room making it easy to hear the speaker. We have also been able to reduce the price of the meal from \$35 to \$25 per person. Don't miss the next meeting on July 27.

Deanna Lutzeier has joined the board as our new treasurer. There are still several other board positions open, if you are interested in a fulfilling rewarding job.

The board has been busy arranging technical meetings, getting the newsletter out, working on the web site, and just starting the new year. We have entered into an agreement with Gleim Review Courses, to make study aids for the CMA exam available to IMA members at a discount. Please see the ad in this newsletter.

I hope to see more of you at the next several technical meetings.

Mark Birnbaum mbirnbaum@snader.com

Future meetings

July 27, 2004	Joint meeting with AMA on Marketing/Advertising.
Sept. 28, 2004	Technical meeting on Forensic Accounting.
Oct. 26, 2004	Technical meeting on Real Estate.
Nov. 16, 2004	Technical meeting on tax update.

A Summary of the June Technical Meeting by Greg Meldahl

June's technical session was held Tuesday, June 29. It was held at our new meeting location, the London Wine Bar at 415 Sansome. They have good food and large portions, plus a separate downstairs room which is very quiet.

The speaker was Ron Sheppard. He gave an update on Fraud. He's an ex-San Francisco police officer and has years of experience working for Financial Institutions. He currently works for World Savings.

He discussed the major types of fraud: stolen checks and stolen credit card information. He provided a number of useful tips to help avoid becoming a victim of these crimes and identity theft in general. Some of the most important include:

- * Mail checks from the post office. Do not put them in the mailbox in front of your house, where anyone can reach in and examine the contents.
- * Pickup new checks at the bank, don't have them delivered via the mail
- * Check your credit report every 6 months, or at least once a year
- * Tell your credit card company not to send convenience checks

He also discussed counterfeit cash and passed around several counterfeit bills - some were easy to spot, some weren't. He ended by discussing various scams used to defraud the elderly.

San Francisco chapter members
receive **30 - 40%** off all
CMA/CFM and CPE purchases.



Contact Lauren Jones at:
(800) 874-5346 Ext. 140
Or by e-mail at lauren.jones@gleim.com
www.gleim.com

Choosing A Corporate Entity

If you own your own business or are starting one, pay attention: The recent federal tax cuts could affect the kind of corporation you use and how you handle salaries, dividends and reinvested profits.

Pass-throughs still rule.

In recent years S corporations and other "pass-through" entities, such as limited liability companies, have become more popular than traditional C corporations. Rightly so, pass-throughs are not taxed at the corporate level. Instead their earnings, losses and credits flow onto the owners' tax returns. C corporations, by contrast, pay corporate income tax. If owners receive those profits as dividends, they are taxed again.

The new law seems to provide a big boost for C corporations, since the maximum tax on dividends is chopped from 38.6% to 15%. Look closer. Pass-through entities did well, too. How so? Your earnings from a pass-through do not qualify for the 15% dividend rate; they are taxed at ordinary income rates. But the top individual rate dropped from 38.6% to 35%, the same as the top corporate rate. And a double tax is still a double tax - the top combined corporate and individual tax on a dollar of distributed C corporation earnings is now 44.75%, compared with a 35% single rate for a pass-through.

Can't C corporation owners limit the double hit by taking large salaries and leaving less corporate profit to be taxed? Yes, but salary is subject to payroll taxes - at a combined employer/employee rate of 15.3% on the first \$87,000 in 2003 and 2.9% above that. With an S corporation you can take less salary and more profits, cutting payroll taxes. (Warning: Be reasonable. If you draw way too much or way too little salary, the IRS can challenge it.)

Consider a C corporation cash-out.

In the past many owners of C corporations have retained earnings, rather than pay them out as dividends taxed at a 38.6% rate. That way, when they retired, they would be able to sell their generously capitalized business for more, thus effectively converting high-taxed dividends into low-taxed long-term capital gains. Even better, if they held the business until death, their heirs would get a "step up" in its basis, thus avoiding the gains tax, too.

But the new 15% rate for dividends provides a tempting opening to distribute some earnings. Why not just leave all the cash in the company and defer taxes? Two reasons. First, under the new law the 15% rate, which applies to both dividends and capital gains, lasts only through 2008; in 2009 the top dividend rate returns to 35% and the gains rate to 20%. Second, if you accumulate too much in earnings in a C corporation, you could be hit with the accumulated earnings tax or the personal holding company tax. The new law drops the rates for these two penalty taxes from 38.6% to 15%, but again, only through 2008.

Don't act too fast, however. "Companies must be careful not to become overly emotional about this and over-distribute dividends," warns Michael Grace, a tax lawyer at Jackson & Campbell in Washington, D.C. Keep enough cash on hand to fund future operations. And before you distribute a penny, ask your tax accountant to calculate the impact on your state tax bill and your federal alternative minimum tax liability. You could be in for a nasty shock.

John Ziegelbauer, a partner with Grant Thornton in Washington, D.C., suggests that retiring C corporation owners may want to rethink their business sale plans. Instead of selling all the stock in their company to get a low capital gains rate, they may want to retain some stock, deferring gains taxes and drawing dividends over time. (This strategy will not look as good if Congress does not extend the 15% dividend rate beyond 2008.)

LLCs are great, but if you are starting a new business, the entity of choice is usually an LLC, says Peter Faber, a tax lawyer with McDermott, Will & Emery in New York. It is more flexible than an S corporation and has certain tax advantages. For example, you can create different shares of stock with different profit draws in an LLC, but not in an S corporation. And when an LLC borrows money, it adds to your basis in the company; when an S corporation borrows, it does not. If, however, you are converting from a C corporation to a pass-through, an S corporation is preferable - you can convert to an S corporation, but not an LLC, without triggering extra tax.

You will need a C corporation to go public. A C corporation might also work well if you are starting a sideline business and want to build up some capital. The first \$50,000 of income in a C corporation is taxed at only 15%, notes Phoenix CPA Edward Zollars. Even if you do take those profits out, you will still be better off paying a 15% corporate tax plus a 15% dividend rate, which works out to a combined 27.75%. Anything above the \$50,000 you can take as salary, so long as it's reasonable and not too obviously keyed to the level of profits. Warning: The lower rate is not available for professional service corporations, like law firms. And you must consider state corporate taxes, too.

FUTURE TAX TOPIC SUGGESTIONS:

Is there any tax topics that you would like to see addressed in future newsletters? Please feel free to send Joel an e-mail at the address given above with your requests and suggestions.

WANT ADDS

U.S. Securities and Exchange Commission

Staff Accountant

Staff Accountants conduct examinations of Broker/Dealers to ensure they maintain adequate net capital ratios and comply with federal securities laws. The position requires a Certified Public Accountant or Certified Internal Auditor designation and three or more years of experience with a strong knowledge of GAAP, auditing and some exposure to Broker/Dealer accounting (eg. net capital ratios and preparation and/or analysis of FOCUS reports). Candidates must be current US citizens. The SEC is an equal opportunity employer.

San Francisco

\$55,000 to \$100,000 per year

10 to 20% travel

Contact : Raymond Clark

Email: clarkr@sec.gov

COMING SOON TO THE IMA SAN FRANCISCO CHAPTER'S NEWSLETTER, WEBSITE AND MEETINGS:

The board has been working hard to revamp our programs to make our events, newsletter and website as beneficial to the chapters membership as possible. We want to encourage every member of the chapter to feel free to give their feedback and suggestions as to what they would like the chapter to provide them as far as topics for technical meetings, articles and other information for the newsletter, and information you would like to see posted to the website.

Below is a summary of some of the upcoming changes we have planned:

WEBSITE:

Due to technical difficulties our website has not been updated on a regular basis. The board has been busy doing everything in our power to remedy this situation. We are pleased to announce that we will have the site up and running again and being updated on a regular basis by the end of this month. On the site you will be able to access issues of the newsletter, both past and present, as well as get information on upcoming technical and board meetings, as well as other pertinent information that we feel will benefit the members of the chapter. Please check it out at www.sfima.imanet.org.

NEWSLETTER:

The newsletter will be put out on a monthly basis with information on upcoming technical meetings and events that are of interest to the chapter. In addition, we currently will feature two articles, one on tax issues and the other on finance to help educate the chapter on these subjects. We are also looking into including a career management article for the benefit of the members.

A help wanted section will be offered for free to those who wish to advertise an opening or to any member who wishes to advertise that they are seeking employment. This service is intended to benefit the membership by posting information on actual job openings and is not intended for job placement services to advertise.

The opportunity to advertise one's company or services will be offered, though. Below is a schedule of the advertising rates:

Business card printed in newsletter:	\$25
1/4 page sized ad:	\$50
1/2 page sized ad:	\$75
Full page sized ad	\$100

If you are interested in advertising in the IMA's newsletter please contact Joel Smith at Joel@bgwbcpas.com

Technical meetings:

As previously mentioned, the chapter has found a new meeting place at the London Wine Bar. We feel this place is ideal due to its convenient location in the financial district, the quality of the food and reasonable price in addition to being provided a separate, large and quiet room in which we may conduct our meeting in.

In addition, the board has been working really hard on scheduling topics that that will be timely and of great interest to the members. Please come to the technical meeting this month. We think you will be impressed!

Some of the topics we have discussed having include forensic accounting, a panel discussion on marketing, outsourcing, real estate, a panel discussion on the job market, real estate and the annual tax update.

Your suggestions:

This is where you come in. What would you like to see presented by the chapter in order to enrich your professional lives? Are there any special topics you would like to see addressed at one of the technical meetings? Maybe there is a certain kind of article you would like to see printed in the newsletter. Is there some kind of resource you would like to see available through the website?

If you have any comments or ideas on how we can make the chapter provide value to you, please contact one of the following:

Mark Birnbaum mbirnbaum@snader.com

Joel Smith Joel@bgwbcpas.com

Vanessa Vercollone vvercollone@AccountantsInc.com

Avoid Making Retirement Planning Mistakes

Whether you're a seasoned investor or you're just getting in the habit of putting money away, saving for retirement takes discipline and strict adherence to a well laid-out plan. Sometimes it may seem far away, but preparing now for the time when you'll be done bringing home a regular paycheck is critically important. And unfortunately, the prospect of running out of money during retirement is a very real possibility. To make sure you're on the right track with your retirement savings, take a moment to review the following mistakes investors make, because recognizing them is the first step in avoiding them.

Forgetting about inflation – Since the annual rate of inflation can seem like such a small number, you may not realize just how much damage it can do to your retirement savings. But because of this gradual increase in prices, your cost of living will likely double, or even triple, over the next 20 to 30 years. Conducting a simple financial analysis now – taking into account your current expenses, inflation, taxes and annual savings – will help to ensure you're prepared to keep up with rising costs.

Lack of proper asset allocation – The term asset allocation refers to the combination of stocks, bonds and cash in your portfolio and their proportions to one another. The main goal of allocation is to balance your risk and take advantage of return potential at the same time. If your assets are not properly allocated, you could be investing too conservatively or exposing your portfolio to undue risk, depending on your stage in life and your risk tolerance. In either case, having your portfolio out of line with your financial goals only hampers your savings progress.

Underestimating taxes – Just as inflation can eat away at your investment savings, taxes can take a hefty toll on your money as well. Including tax-deferred accounts in your retirement plan can lessen the blow, allowing your money to accumulate free of taxes until the time you choose to withdraw* funds. Simply put, this leaves you with more money to generate more retirement income for a longer period of time. Examples of tax-deferred savings options include annuities, IRAs and 401(k) plans. Roth IRAs also provide tax-deferred savings with the added benefit of income-tax free withdrawals during retirement if certain conditions are met.

Underestimating retirement spending – Another big mistake people make when planning for retirement is assuming that they will not need nearly as much income to sustain their retirement lifestyle. However, some find themselves spending as much as 85 percent of their pre-retirement income – or even more – once they reach retirement. Taking more vacations, making additional home improvements, and even eating out more often can all add up and put a strain on your retirement income. Most people also fail to plan for health care, long-term care and other unexpected expenses.

Unrealistic investment expectations – If you try to time the market by staying out when prices are down and looking for bargains to jump back in when its up, chances are you'll see it's a strategy that seldom works. Saving for retirement requires a long-term outlook, and staying focused on your goals is essential. Make a plan and then stick to it by getting in the market and staying there.

While these are just a few of the mistakes investors make, you can see that it's easy to get off track with your retirement savings. Regardless of where you currently find yourself on the road to retirement, take the time now to plan ahead so you can avoid making big mistakes.

***Any withdrawal before the age of 59 ½ may be subject to a 10% IRS penalty, and taxes will be due upon withdrawal.**