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A tax, business, and financial planning newsletter for our clients and friends

Better Ways to Control Accounts Receivable

With an uncertain economy on the horizon and unpredictable interest rates ahead, improving a company's cash position should be a major priority for any business. In most cases, the answer to this challenge is better control of accounts receivable.

Tuning up your collection system

Too often, companies allow their receivables to age to a point where the business is strapped for cash. It's not uncommon for four or five months to pass before management takes action to collect past due accounts, usually because the company doesn't have a clear collection policy.

Effective receivable control is based on a regular review of the company's receivables. Ninety days from the date a receivable becomes past due is the point at which your company should decide whether it wants to continue to do business with a late-paying customer.

If a customer is important, a mutually satisfactory schedule for payment of

past due balances should be set up together with an understanding that covers payment for future purchases. It's important to resolve both of these issues at the same time to avoid future problems while the customer is paying off past due amounts.

If you can't work out a satisfactory



schedule for payment of the past due balance within a reasonable amount of time, or if it becomes apparent that the customer is in real financial trouble, it's time to bite the bullet and turn the matter over to a collection agency.

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taxPOINTS

Retirement account withdrawals are subject to a 10% penalty if you receive the distribution before age 59 ½. **Loophole:** Early distributions from an IRA for medical insurance premiums of unemployed individuals, or to pay for qualified higher education expenses, or for first-time home buyer expenses are not subject to the 10% early withdrawal penalty.

Bad debts and worthless securities. These become deductible only when they lose all their value and you have documentation to prove it. **What to do:** Secure a deduction for a bad debt by getting a letter from the borrower saying that repayment became impossible during the past year. If you can't get such a letter, establish the loss by selling the account or security for a minimal amount (such as \$1) to a third party.

Attending a business conference on a cruise ship is deductible. **Loophole:** You can deduct up to \$2,000 annually for such conferences if all the ports are in the U.S. and the ship is registered in the U.S.

Loophole: Expenses of spouses who help entertain business associates on a trip can be fully deducted. The entertainment must be immediately before, during or after the business meeting or activity. You also must demonstrate that your spouse was helpful to the business relationship.



Pay Estate Taxes with Low-cost Insurance

The unlimited marital deduction generally exempts the estate of a married couple who leave their assets to each other from federal taxes when the first spouse dies. However, when the surviving spouse dies, the spouse's assets will be subject to federal taxes at a rate which can be as high as 45%. A problem can arise if there is not enough cash in the estate to pay the taxes.

Payment of a surviving spouse's estate taxes can be provided for by buying a type of life insurance known as survivorship or second-to-die insurance. In the case of a married couple, benefits from survivorship life insurance are not paid until the surviving spouse dies. The cost of this type of life insurance is considerably less than the cost of conventional life insurance because the insurance company's risk is based on two lives.



In addition to providing payment of the survivor's estate taxes, survivorship life insurance offers other advantages. Arrangements can be made to transfer the policy's ownership to the survivor's children. This removes the policy proceeds from the surviving spouse's estate and protects them from estate taxes.

Furthermore, it's often possible to buy survivorship insurance when one spouse can't get single life coverage because of poor health.

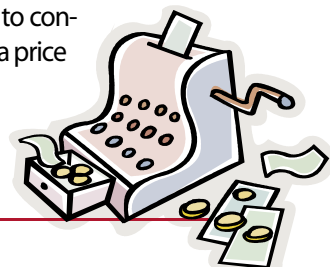
Best Pricing Strategies

SMARTER DISCOUNT POLICIES

- Whenever possible, avoid putting discount policies in print. If industry practice or business regulations require the publishing of discounts, keep your published discounts small so you can negotiate better prices for important customers.
- Change your discounts often. If discounts stay the same, they are often perceived as actual prices. This can make future price increases very difficult

BE A PRICE FOLLOWER...

- When your company is small and a few large competitors dominate your industry.
- When there's little or no difference between your product or service and that of your competition.
- When you are ready and willing to continue to be a price follower.



How to Cut Capital Gains Taxes on Investments

Capital gains tax rates are low and you can still take steps to reduce your capital gains taxes even more. If you have investments in securities, here are some valuable tips.

Sell the correct stock. For example, let's assume that you made three separate purchases of the same stock - 100 shares at \$10 a share, 100 shares at \$20 a share, and another 100 shares at \$30 a share. Assume that you can sell the stock now at \$40 a share. If you sell 100 shares now and don't tell your broker which of the three purchases to sell, the IRS will consider that you sold the first \$10-per-share purchase you made, and you'll be taxed on a \$30 gain.

You can avoid this problem by telling your broker to sell the 100 shares of stock you bought at \$30 so your taxable gain will be \$10 a share. (You might,

however, want to sell the \$10 stock if you have enough capital losses to offset your gain.)



Offset gains with losses. Consider selling some stocks at a loss if you have large capital gains. Remember that although you can deduct only up to \$3,000 in capital losses from ordinary income, there is no limit on the capital losses you can use to offset capital gains.

If you're reluctant to take a loss on a stock you think will go up, you can sell it and buy it back as long as you wait at least 31 days before you buy it back. If you don't wait at least 31 days, the IRS will deem the transaction a "wash" and won't allow you to take a loss.

Sell in the right year. Consider selling now if you expect to be in a higher tax bracket next year. If you think you'll be in the same tax bracket, you may be better off selling in a later year and deferring the tax on your gain.

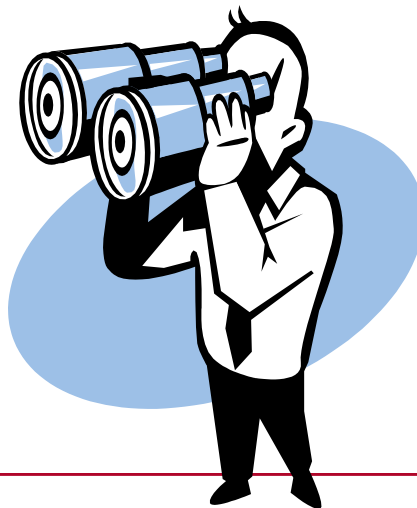
Make a charitable contribution of appreciated securities. If you've owned a stock for more than a year and donate it to charity, you can deduct its full market value as a charitable contribution. Be careful, however, because the gain on property given to a charity is subject to the alternative minimum tax.

Get All Your Deductions for Job Search Expenses

You can deduct the costs of looking for a new job in the same trade or business as an itemized deduction, subject to the 2% floor of adjusted gross income.

Even if you do not wind up with a new job, you can still deduct these expenses:

- Newspapers and business publications that you buy for their employment ads.
- Fees you pay to career consultants, recruiters, employment agencies, and resume writers.
- Resume preparation costs such as typing, printing, envelopes, and postage.
- Miscellaneous transportation costs such as taxi fares or parking costs for job interviews.
- Telephone calls made in connection with your job search.
- Out-of-town travel expenses including transportation, hotels, and 50% of the cost of all meals.
- Legal and accounting fees for tax advice about employment contracts.



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Accounts Receivable

An ounce of prevention...

Although there's no guarantee that better control over accounts receivable will result in the timely payment of all receivables, there are several other steps that a company can take to reduce the age of its accounts receivable.

- **Credit checking.** It's surprising how many businesses will accept orders from new customers without doing a thorough credit check. It's the obvious way to head off future problems. And it's just as important to make occasional credit checks for large existing customers to make sure that their credit ratings aren't slipping.
- **Applications for credit.** A credit application is another basic technique

to reduce collection problems. At the least, a company should know the names of its customers' owners, banks, and major suppliers. Not only is this information useful for immediate credit decisions, but it can be essential if a collection problem arises in the future.

- **Customer communications.** There's no better way to assure improved collections than to make certain that a new customer understands that your company must be paid in a timely manner. If a customer doesn't get a clear message to that effect, you can give the impression that prompt payment isn't really important to your company.

It's just as critical to keep in touch with new customers to find out if they are satisfied with your product. Make every effort to do this before payment

is due, to avoid future excuses for delayed payments because of problems you didn't know about.

Invoice discounts and late payment charges

Offering customers a discount for prompt payment usually won't speed up your collection. In fact, it can often backfire because customers take the discount but don't fulfill the terms. It's much better to bill a net amount and clearly indicate terms of payment on the invoice.

Some companies charge a penalty for past due payments, but unless a customer is made aware of this in advance, the customer is not legally obligated to pay late charges. It's best to stick with conventional invoicing and tighten up your internal controls over receivables.

A Better Way to Pay Part-timers

Before you hire more full-time workers, consider hiring part-time employees at "peak time" wages. It's an alternative that can save you money and actually increase productivity. The key to this strategy is to determine exactly when you need more employees. Then pay part-timers a premium to work just during those hours.

For example, your shipping department may appear understaffed, but when you look into the situation, you discover that there's a flood of outgoing orders on Friday. Instead of hiring more

full-time shippers at \$12.00 an hour, hire part-timers at higher wages - perhaps \$14.00 an hour - but just to work on Friday. The premium peak time wage will attract better workers than you could get for \$12.00 an hour and you won't have to pay for many of the benefits that full time employees get.

There are other advantages to peak time pay. Some companies that use it have been able to reduce the number of full-time employees because many workers decide to switch to part-time at peak time wages. In addition, you'll

be able to develop a pool of part-time workers who you can call on when you need them. And part-timers who usually job hop won't do so because peak time wages are attractively high. You might lower certain overhead costs, too.

For peak time pay to work, it's essential to make a detailed analysis of when peak workload periods actually occur.

