

# IN THE BLACK

Volume 4, Edition 1

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## BRUCE A. RUKKILA, CPA, PC CERTIFIED PUBLIC ACCOUNTANTS

### What we offer you:

#### Auditing

- T Governmental
- T Nonprofit
- T Private

#### Tax Planning & Preparation

- T Individual
- T Business
- T Estate & Trust
- T Pension & Profit Sharing
- T Property & Excise Taxes
- T Nonprofit

#### Accounting Services

- T Payroll
- T General Ledger
- T Compilations
- T Reviews

#### QuickBooks® and Creative

#### Bookkeeping Solution

#### Consulting

- T Set up
- T Training
- T Support

#### Additional Service Areas

- T Business Valuations
- T Financial Reorganizations
- T Human Resource & Benefit Consulting
- T Business Plan Development
- T Personal Financial Statements
- T Financial Projections & Forecasts

### Welcome back to “*IN THE BLACK*”

The goal of our newsletter is to share information and tips that are relevant to you and your business.

at [www.brucerukkila.com](http://www.brucerukkila.com), send us an email or give us a call.

Bruce Rukkila, President, CPA, CVA

If you have questions, comments or suggestions for us, visit our web site

### Do you advance money to your employees?

Employee loans and other advances are tricky issues. In general when an employee receives something in value because of the employee relationship it is taxable to the employee at the time it is given. If you categorize the transaction as a loan, you need to treat it like a loan—have a signed note, charge interest, and set up a schedule for repayment. The interest needs to be at the market rate or the difference between the interest you charge and the applicable federal interest rate is added to the employees income if the loan is more than \$10,000. If you later forgive the debt remember to include the amount in the employees wage, the amount is also subject to income tax withholding and payroll taxes. The Trust Fund Recovery Penalty, up to \$10,000, can be assessed against managers and the company for failure to withhold or pay taxes on these amounts.

Salary advances and overpayments must be included in the employees wages when they are received and included in the payroll reports for the period.

Travel advances should be handled in a timely and consistent manner. Have a company policy that spells out when the travel expense report is due and when any excess needs to be repaid.

### 2004 Limits for Retirement Contributions

#### Normal limit (up to age 49)

401(k), 403(b), and 457 plans  
SIMPLE Plans

\$13,000  
\$9,000

#### Limits including catch up provisions (ages 50 and over)

401(k), 403(b), and 457 plans  
SIMPLE Plans

\$16,000  
\$10,500

## What to do with a fund prospectus

Are you thinking of investing in a mutual fund? Check out the funds basics in the prospectus first.

- Read the statement of objective - does this match yours? Is it income or capital growth oriented? Aggressive or conservative?
- Risk section - the main risk is loss of principal, but some funds have additional risks. Read this part of the prospectus carefully to see if there are risks listed that you do not want to consider.
- Fee table - this tells you what the fund is costing you. Look for 12b-1 marketing fees, redemption fees, and the total expense ratio amount. The expense ratio is the percentage of a fund's assets that are used to pay the expenses for the year. Bond funds should have lower expense ratios than stock funds.
- Dividends and gains payouts - this section will tell you the timing of the dividends and other payouts-monthly, quarterly, or annually.
- Management section - how is the fund managed and who are the managers. When did the management team start, notice if the manager is new, if so, the past historical performance of the fund would not be under their guidance.
- Statement of Additional Information - this section will tell you if the managers have their own money invested in the fund and whether there are any law suits pending.

## Succession Planning - Exit Strategies

“At some point, every owner leaves his or her business - voluntarily or otherwise. At that time, every owner wants to receive the maximum amount of money in order to accomplish personal, financial and estate planning goals.” John H. Brown

There are seven steps which need to be addressed to ensure a smooth transition for both the business and the business owner:

1. Decide what your aims are - retirement, new venture, when to exit, transfer or sell, etc.
2. Determine what your business is worth.
3. Plan how you will maintain and promote business value throughout the process.
4. Decide what you need for your future. Consider a sale to an outside party.
5. Plan the transfer of the business to an insider or family member.
6. Determine contingency plans for the business. Loss or disability of the owner or partner - is the well-being of the family protected?
7. Plan for your future - your next venture, retirement, and/or estate planning.

In future issues of **In The Black** we will discuss some of the above steps. If you are ready to begin your own planning process, call Bruce Rukkila, CPA, MA, CVA for a consultation. (906) 482-6601.

## Times, They are a Changin'

Is the cost of health insurance a major concern for your business and family? Are you seeing double-digit increases in your premiums? Is your monthly health insurance premium more than your mortgage payment? If you've answered yes to any of these questions, you'll want to pay attention to this article. Although many of you have considered dropping health insurance, the more logical approach is to minimize cost increases rather than try to eliminate them entirely. (Continued on next page)

## **Times, They are a Changin'** (continued)

Premium escalation can be traced to many factors, two of the biggest being aging baby boomers consuming more medical resources, and a steep rise in prescription drug usage. Both of these factors have hit the U.P. hard creating increasing costs in our region at a much higher rate than the national average.

For many years, especially in the U.P., we've come to depend on the reliable services offered by Blue Cross Blue Shield. We've been used to small co-pays for prescriptions and office calls and the majority of services and lab expenses to be covered without question, as well as accepted coverage by all regional doctors and hospitals.

While the traditional BCBS plan is still reliable and widely accepted, the cost may now be more than many of us can afford without tweaking the plan a bit. For example, following are some options you may want to consider:

- T Increase deductibles and co-pays.
- T Offer tiered or self-insured prescription drug cards.
- T For employees eligible for coverage under a spouse's plan, offer cash in lieu of enrolling in the company health plan.
- T Offer a Flexible Benefit Premium Only Plan whereby employees pay their share of the health insurance premium with pre-tax dollars (creating a minimum savings of \$.27 per each dollar spent).
- T A Flexible Benefit Plan for payment of out-of-pocket medical expenses and day care costs with pre-tax dollars.
- T A Health Reimbursement Arrangement where employees are reimbursed by their employer for out-of-pocket costs.
- T Move from a traditional plan to a PPO.
- T Consider lowering the co-pay percentage for out-of-network services.
- T Pay 100% of the employee premium, begin to pass on a larger portion of dependent coverage to the employee.
- T Educate and provide resources for employees to be smarter health-care consumers.

For those of you willing to make significant changes, there are many options for you to consider in addition to those listed above:

- T Self insure your entire employee group (for larger groups of 100 or more employees).
- T Change to a private insurance carrier - one that is a member of the PPOM network. (All of the doctors and hospitals in the U.P. are now participating providers.)
- T Consider a Medical Savings Plan, which is especially attractive to small business owners, specifically S-Corporations.
- T Offer more than one health insurance option to employees.
- T Implement a voucher system: the employee uses an employer cash contribution to purchase individual coverage on the open market.

As the future of health care changes, it is important to be aware of all the options available to you. Whatever strategy and/or mix of benefits a company adopts, we can assist our clients to consider the impact on the bottom line and on employee morale. We can play a key role in helping businesses actively manage health insurance costs. While such costs can be a volatile employee-relations issue, addressing them openly and proactively will bring better results than simply waiting for health care expenses to become unmanageable.

Please give us a call for assistance in designing a cost-effective, rewarding employee benefit package.

## **Tax Notes & Tips**

- < The IRS has reported that audits of individual taxpayers increased 14% in 2003. During the same time period, audits of high-income taxpayers increased 24%.
- < Do you have a cabin or vacation home that you rent out for less than 14 days? The rental income is not taxable, but check with your insurance agent to make sure you are covered for short term rentals.
- < Did you know that starting in 2003, if you take deductions for a home office and your office is a part of your home, it now qualifies as part of the \$250,000 to \$500,000 exclusion when you sell? Remember any depreciation taken after 5/6/97 must be subtracted from your basis and recaptured depreciation may be subject to a 25% tax.
- < Remember to keep records of the miles you drive for business or charity. Good written records will help substantiate your personal vehicle expenses for next year's tax return.

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Return Service Requested