

Strategies to Build Your Business & Personal Net Worth

Offshore bank accounts

The Internal Revenue Service (IRS) is using powers granted under the Patriot Act to obtain

credit card transaction records and catch Americans who may be evading taxes by opening offshore bank accounts.

It has asked Visa International, Mastercard International and Am-Ex to turn over 1998 and 1999 records for U.S. cardholders with

bank accounts in Antigua, Barbuda, the Bahamas, the Cayman Islands, Hong Kong, Singapore, Latvia, Liechtenstein, Luxembourg, Switzerland and the Netherlands.

The agency wants cardholders' names, addresses, Social Security numbers and telephone numbers.

It claims there may be up to two million U.S. citizens who have avoided income taxes by establishing bank accounts at these tax havens and then utilizing the offshore bank's credit cards to pay for their everyday expenses.

Accountability

BKD, you & the new rules

The Corporate and Criminal Fraud Accountability Act signed into law July 30 by President Bush contains several provisions affecting public companies.

The Act's provisions do not affect private companies, not-for-profit organizations and governmental entities.

BKD is monitoring interpretations of the new rules as a new oversight board is formed and the Securities and Exchange Commission (SEC) develops regulations. If you are a public company client, you will likely have already discussed with your BKD engagement partner how the Act will affect your organization and affect our responsibilities to you.

If you have questions about our quality control standards, contact your BKD advisor.

Key provisions

Creates oversight board - The Act provides for the creation of a

Public Company Accounting Oversight Board, accountable to the Securities and Exchange Commission (SEC), to oversee audits of public companies and related matters.

For nearly 100 years, BKD has been known for its integrity and honesty in client relations. Our founders set the standard: know right from wrong, then do what's right. Clients trust us to advise them on how to "do what's right" and to conduct their business affairs responsibly.

We remain committed to this high standard and to continuing to provide practical, timely and affordable solutions to your business and financial needs, within our code of ethics and the law.

Limits nonaudit services -

The Act also prohibits an auditor from performing certain nonaudit services for its public clients, such as bookkeeping, financial systems

design, appraisal/valuation, actuarial, internal audit, management, investment-related and legal services.

Final regulations for these prohibited services will be developed by the new Public Company Accounting Oversight Board or the SEC and are due within six months. The prohibition on these services is effective 180 days from the date the new board is formed. We will keep you informed as regulations are developed for such services.

Strengthens audit committees - The Act further defines the role of the audit committee and its oversight responsibilities with the auditor.

Provides for many other changes - The Act includes changes related to retention periods of audit workpapers, new reports, rotation of lead audit partners and reviewers, criminal penalties for record destruction or falsification and other issues. □

Confidence in CPAs still high

Small business owners continue to have high regard for the expertise and integrity of the independent CPA, according to a recent survey by Nationwide Financial, a

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distributor of retirement planning products.

It found 52% of small business owners chose their accountant over other financial professionals to deal with business financial matters.

In contrast, the percentages of other professionals chosen with respect to business financial matters were:

Bankers	12%
Attorneys	8%
Chartered or Certified Financial Planners	7%
Miscellaneous	21%

These results were corroborated by Towers Group, a public relations firm, and by Opinion Research Corporation, which found that despite the Enron debacle, individuals gave accounting firms high grades for honesty and integrity.

Checking your tax return

The IRS has announced expansion of its web site, www.irs.gov, to enable taxpayers to confirm receipt of their return by the IRS and to track the status of their tax refund.

There also will be an interactive e-mail system allowing taxpayers to submit questions to the IRS and obtain personal answers.

The site also has a "Tax Fraud Alerts" page, designed to raise taxpayers awareness of recent tax scams and inform them of investigations and

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and recent civil and criminal actions against scam artists, abusive return preparers and others who help to perpetrate tax fraud.

Being tax smart with NOL

In general, net operating losses (NOL) for 2001 and 2002 can be carried back five years and forward for up to 20 years.

The effect of carrying back an NOL is to obtain an immediate cash

infusion into the business in the form of a tax refund. However, taking a carry-back is not mandatory, and there are occasions when the proper tax strategy would be to forego the carryback and carry a NOL forward.

This would be the case if you expect to be in a higher tax bracket in the future, since there would be a greater saving of tax dollars. You have until October 31, 2002, to file amended returns for the federal carry-back. Most states have their own set of loss-use rules.

Insurance for displaced workers

The *Trade Act of 2002* recently signed into law by President Bush, includes a new, refundable credit for 65% of qualifying health insurance costs of workers who lose their jobs as a result of a

trade-related circumstance or are eligible Pension Benefit Guaranty Corporation (PBGC) pension recipients.

It also includes a temporary extension of the COBRA election period for some individuals.

Trade-displaced workers are generally those workers eligible for help under specified provisions of the government's Trade Adjustment Assistance (TAA) program, created to assist workers injured by imports.

Eligible PBGC pension recipients are individuals who have reached age 55 and are receiving a benefit any portion of which is paid by PBGC under Title IV of ERISA, dealing with plan terminations.

The new law provides for a temporary extension of the 60-day COBRA election period for an eligible recipient who had a TAA-related loss of coverage and did not elect continuation coverage within the 60-day election period.

The nonelecting TAA-eligible individual may elect continuation coverage during the 60-day period that begins on the first day of the month he/she becomes a TAA-eligible individual but only if the election is made not later than six months after the date of the TAA-related loss of coverage.

Tool rentals & payroll taxes

Some companies pay employees rent for using their equipment or a vehicle on the job to save payroll taxes, based on a 1968 IRS ruling. But in a recent ruling, IRS indicates the rental payments won't avoid payroll taxes and have to be reported on Form 1099.

The ruling indicates rents paid through 2002 are exempt from payroll taxes if the employees are given 1099 forms for payments. There also is a special rule for rig welders that goes into effect next year.

According to the IRS, pay-

ments of up to \$13 per hour (\$8 per hour if the employer provides the fuel) to employees who use their own rigs on pipelines will be treated as tax-free reimbursements.

The IRS may expand the special break to other types of firms.

Donating automobiles

The IRS cautions taxpayers who make car donations to a charitable organization and intend



to deduct the "Blue Book" value of their car that the deduction cannot exceed what the car is actually worth.

Therefore, you can deduct the fair market value of the car, which may or may not be the amount shown in the used car guide. Check the classified ads in the newspaper for a similar vehicle to estimate the deduction.

Also, make sure that if the deduction exceeds \$250, you get a receipt from the charity. If the amount exceeds \$500, include a Form 8283 with your tax return, and if the amount exceeds \$5,000, an independent appraisal is required.

The IRS is monitoring both charitable organizations that accept car donations and taxpayers claiming deductions to determine the deductions are appropriate.

Tax break for clergy reduced

Members of the clergy will receive a somewhat smaller tax break with respect to housing stipends beginning in 2002.

Tax-free housing stipends now cannot exceed the house's rental value plus utilities, even if the amount expended on housing is greater.

Tax tip

Donating life insurance

If your life insurance needs are diminishing, ask yourself if the benefit is worth the expense.

If the insurance is an ordinary life insurance policy that has built up a significant cash value, rather than cashing in the policy, consider donating the policy to a charity.

The charity would ultimately obtain the insurance proceeds on your death. Meanwhile, you would be able to obtain a charitable contribution deduction for the policy's cash value. If you continue to provide the organization with funds to pay policy premiums, these also would be deductible each year.

Social Security withholding

Failure to make timely payments of estimated taxes can result in stiff IRS penalties. This creates a particular problem for people who have recently retired and who are uncertain about the amount of

retirement income they expect.

One way to avoid a problem is to let the IRS withhold tax from Social Security benefit payments to cover estimated tax requirements. Social Security recipients can elect 7%, 10%, 15% or 27% withholding of the monthly bene-

fit by filing a Form W-4V with their local Social Security office.

At year end, the Social Security Administration sends a Form 1099 to the taxpayer, indicating the amount withheld.

Supreme Court interprets ADA

The Supreme Court has ruled that a company may refuse to hire a person with a medical condition for a job that could exacerbate the problem.

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Retirement planning update

Employees...

Taxing retirement plan contributions

Last year, Congress passed the *Economic Growth and Tax Relief Reconciliation Act (EGTRRA)*, which included provisions designed to enable employees to build retirement savings and lower taxes by increasing the amounts they can contribute to or defer in employer-sponsored retirement plans such as 401(k), 403(b) and 457(b) plans, and IRAs.

Unfortunately, more than a dozen states have failed to modify their tax laws to give effect to the changes, so that employees would be subject to state income taxes on the additional contributions now permitted under federal law as well as to possible penalties or disqualification of the pension plan.

States that had not changed their laws as of April to conform to the EGTRRA provisions are Alabama, Arizona, Arkansas, California, Georgia, Hawaii, Kentucky, Maine, Massachusetts, New Jersey, North Carolina, Pennsylvania, South Carolina and Wisconsin.

IRA distribution strategies

Generally, people are advised to wait until age 70½ and then to take only minimum distributions from a traditional IRA, to allow more of the funds to grow on a tax-deferred basis. But there are situations where this is an incorrect strategy. For example:

- ✓ If you are planning to make significant charitable contributions, it may be advisable to take a larger IRA distribution. This will increase your adjusted gross income (AGI), possibly enabling you to take a larger deduction for the donation, which, in turn will offset the added income that results from the larger IRA distribution.

- ✓ If you are in a low tax bracket because most of your money is in a rollover IRA account and you have little other income, distributions should probably begin at age 59½, the age at which the distributions are no longer subject to an early distribution penalty.

This strategy provides you with needed income and also is recommended because your low tax bracket provides little tax benefit from deferral of the distribution.

Employers...

Electronic information

The Labor Department has given the green light to electronic transmission of employee benefit information.

Summary plan descriptions, annual reports, COBRA notices about continuation of health plan coverage when leaving a job, benefit statements and much other information will be eligible for electronic transmission, effective October 9, 2002.

The decision is expected to save businesses millions of dollars in mailing costs. If workers do not have access to e-mail at work, they must give their consent to electronic delivery of the employee benefit information, or the data will have to be transmitted on paper.

Tax incentive for retirement plans

The *Tax Relief Act of 2001* established a new financial incentive for small businesses to

adopt retirement plans.

Effective with 2002, a nonrefundable tax credit is available for small businesses that adopt a new qualified defined benefit or defined contribution plan (including a 401(k) plan), SIMPLE plan or SEP.

The credit is equal to one-half the start-up costs incurred to create or maintain the new plan, with the amount limited to \$500 in any tax year.

The credit may be claimed for qualified expenses incurred in each of the three years beginning with the tax year in which the plan became effective. Expenses offset by the credit may not be claimed as a deduction for the year.

An eligible small business is defined as an employer with no more than 100 employees who received at least \$5,000 of compensation from the employer in the preceding year.

Furthermore, the employer's plan must cover at least one employee who is not highly compensated.

The credit is only available for new plans established after December 31, 2001, and is allowed as part of the general business credit for the tax year in which the plan becomes effective.

DOL monitors 401(k) payments

The Department of Labor (DOL) is keeping an eye on 401(k) plans of small employers who take an excessive time to transfer workers' contributions into the designated investment funds.

It claims one week is sufficient time to make the transfers and will penalize companies that delay longer. Some small employers take two months to transfer funds. □



by Wayne Starr, BKD Wealth Advisors, LLC

A cartoon recently printed in the **Cincinnati Post** depicts a man seated in front of his television watching the nightly **WealthPlan** market reports. The runner across the bottom of his screen shows the DOW, NASDAQ and S&P 500 all down.

Sound familiar? Rather than quoting the numbers, the newscaster says "Retirement age up 3/4." Your attitude toward the stock markets may be so pessimistic that you do not open your 401(k) statements anymore.

Worse, you may be considering wholesale shifts out of stock into other less volatile plan offerings just to stop the bleeding. Worst of all, you may have stopped deposits altogether.

The daily barrage of economic news is causing many people to be

at least mildly depressed. Even people who could not tell you there has been a recession or a bear market seem to be showing signs of diminished energy and expectation.

Jane Bryant Quinn writes in the August 10, 2002, issue of **Newsweek**, "Just when Americans thought they were headed for easy street, they got slammed by the deepest bear market since the late 1930s. Worse, their rock-star CEOs skimmed off the profits, leaving the little guys holding the bag and the 401(k). Suddenly their retirement plan feels like a hoax."

Diversify portfolio

Now is the time to learn from this painful experience. You have now seen what a bear market can do. Use the lessons learned to build a better 401(k).



A well-designed portfolio strategy will not provide total protection from a bear market, but it will cushion the fall.

Today, 401(k)s offer, on average, 13 investment alternatives. You can build a diversified portfolio with four or five funds. Having a wide range of alternatives creates the need for the 401(k) participant to be more judicious in making selections.

Age strategies

Age is a great place to begin setting a strategy. There is no one-size-fits-all approach. The younger you are, the longer you have to recover from the periodic ups-and-downs experienced by different asset classes—broadly, stocks, bonds, real estate, fixed interest accounts and money markets. Do you remember when even money markets yielded returns in the low teens?

You should begin moving to a more conservative mix when you are within five to 10 years of retirement. If you have sufficient other assets plus Social Security to meet your income needs, you may be able to plan on deferring withdrawals from the 401(k) until age 70 when required minimum distributions begin.

Deferring distributions means you can be more aggressive for a longer period. Creating a diversified investment plan for all of your invested assets is a must. The stock market risk you take within the 401(k) will have everything to do with your total investable wealth.

Dollar-cost averaging

If you have considered stopping your contributions altogether, don't. Besides losing the strong tax advantage of a 401(k) and foregoing the matching contribution, you lose the time-tested benefits of dollar-cost averaging.

Buying stock as prices fall is the great benefit of dollar-cost averaging. The prices will eventually go higher before you retire. Dollar-cost averaging is a very disciplined approach that helps to control the emotion-driven decision to just stop altogether.

Diversification within your 401(k) is critical. According to Hewitt Associates, most 401(k) contributions go into just three kinds of investments: large company stock funds; company stock; and guaranteed investment accounts, which pay a fixed rate of return

Tale of the Tape

Selected Returns through August 19, 2002

Benchmarks	1 Year	Year to Date
DOW	-12.88%	-10.28%
S&P 500	-18.84%	-17.19%
NASDAQ Composite	-25.88%	-28.50%
Russell 2000	-16.20%	-17.85%

Selected Asset Classes - Mutual Funds

Large Cap Growth	-20.72%
Large Cap Value	-14.02%
Mid Cap Growth	-23.96%
Mid Cap Value	-10.45%
Small Cap Growth	-24.94%
Small Cap Value	-6.86%
Science & Technology	-36.60%
International	-8.02%

Source - Wall Street Journal, August 19, 2002. As with a portfolio of all stocks and bonds, a diversified portfolio gives no guarantee of safety of principal, which is subject to fluctuation.

guaranteed for one to five years.

According to Sandra Block's column in the July 26, 2002, issue of **USA Today**, a mix of 40% in a large company fund, 25% in a small company fund and 30% international with the remaining 5% in a money market generated a loss of 10.2% through June 30, 2002. An allocation of 95% large-cap and 5% money market lost 16.2% in the same time period.

You must select an allocation that fits your risk tolerance and that is appropriate for your age. Some guidelines are presented in the table above

If your plan offers guaranteed, CD-like options you could substitute those for cash/money markets.

Rebalance

Finally, don't forget to rebalance. A key tenet of asset allocation is that you stick to your asset mix.

In the late 1990s, you needed to rein in the tendency toward greed and sell stocks bringing the allocation back to the target level. The reinvestment was generally to bonds or even real estate if offered in the plan. It was painless, as there was no tax to pay.

Today, the bond portion of the portfolio has swelled because of the drop in stock values and the positive returns in bonds. As tough as it might be in this fear portion of the cycle, it's time to sell bonds and buy stocks to get back to the target allocation.

We do not make this recommendation in haste or lightly. We do not have a crystal ball but believe in the long-term returns by the stock market.

All of the factors offered above

play a role in the management of your 401(k) and, more broadly, all your invest-able assets. Help is available from BKD Wealth Advisors' wealth management professionals who can objectively look at your total situation.□

Allocation Guidelines

	Large Co. Stock Funds	Small Co. Stock Funds	Int'l. Funds	Bonds	Cash/Money Market
Aggressive	40%	25%	30%	0%	5%
Moderately Aggressive	35	20	25	15	5
Moderately Conservative	20	10	10	45	15
Conservative	15	5	0	55	25

Source: Sandra Block's column in the July 26, 2002, issue of **USA Today**

Market commentary: second quarter 2002

by Jeff Layman, BKD Wealth Advisors, LLC

A slew of economic data was released during the second quarter that indicated an expanding U.S. economy, including:

- ✓ GDP growth in the first quarter exceeding 6%
- ✓ Productivity at the strongest increase in 18 years
- ✓ Strong consumer spending and consumer confidence statistics
- ✓ Declining unemployment in May
- ✓ Manufacturing indices that showed expansion in this sector of the economy for the first time in 18 months
- ✓ A robust housing market

In addition, stock market participants ignored these positive signs and focused on other looming issues: the integrity of corporate management, Middle East tensions and the potential for additional terrorist attacks. The major market averages are posted to the right with results for the quarter and the year to date.

International stocks also performed comparatively well in the

quarter, as the weakening U.S. dollar is beneficial to U.S. owners of foreign assets. U.S. multinational companies with significant international sales also will benefit from the weaker dollar.

Benign inflation statistics allowed the Federal Reserve to largely stay on the sidelines during the quarter. The Fed maintained its "neutral" bias regarding interest rates, with little reason to consider raising rates at this time.

Consumer spending remains remarkably resilient, growing about 3% year over year. This strength was reflected in consumer stocks, one of the few areas of the market posting positive returns so far this year.

Given the "crisis in confidence" involving corporate management, the investment community has adopted a "show-me" attitude toward improving earnings. Whereas the stock market has typically

rallied in *anticipation* of the earnings recovery that normally follows the beginning of an expansion in the economy (13 of 14 occasions in the past), market participants have chosen to wait until the improvement in earnings materializes.

In times of extreme pessimism, such as the current environment, investors can lose focus on the long-term benefits of equity investing.

At BKD Wealth Advisors, we remain confident U.S. companies will continue to lead the world in growth and innovation, that the financial markets will ultimately respond to the reality of an improving economy and that the current crisis in confidence will pass.□

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Second Quarter 2002

	2Q2002	2002YTD
S&P 500	-13.39%	-13.15%
NASDAQ Composite	-20.71%	-24.98%
Russell 2000	-8.35%	-5.29%
MSCI EAFE	2.82%	-2.77%
Lehman Aggregate Bond	3.69%	3.92%
Lehman Municipal Bond	3.66%	4.64%

Source: the Wall Street Journal

Accelerate deductions

- ✓ Realize losses on stock while substantially preserving investment position
- ✓ Use your credit card to prepay expenses
- ✓ Pay contested taxes to deduct them this year while continuing to contest them next year
- ✓ Buy equipment by December 31 to get six months' worth of depreciation deductions in 2002
- ✓ Settle insurance or damage claim if this will improve casualty loss deduction
- ✓ Apply bunching strategy to medical expenses and other itemized deductions to increase deductible amounts
- ✓ Extend subscriptions to professional journals, pay union or professional dues, enroll in (and pay tuition for) job-related courses, etc. to bunch into 2002 miscellaneous itemized deductions subject to the 2%-of-AGI floor

- ✓ Step up level of participation in business activity to meet material participation standard under passive loss rules



- ✓ Make expenditures qualifying for the \$24,000 business property expensing option
- ✓ Dispose of passive activity to free up suspended losses
- ✓ If a pass-through entity has insufficient basis, consider increasing basis to absorb losses
- ✓ Increase, or reduce, use of vacation home to have it treated as personal residence or passive activity, whichever yields best tax results

- ✓ Ask employer to increase withholding of state and local taxes to accelerate the deduction of those taxes into 2002
- ✓ Consider "new" property purchases to qualify for 30% additional depreciation on assets placed in service in 2002



YEAR-END tax tips

It's not too early to consider these year-end tax-saving steps

- ✓ Consider amending 2001 and claiming additional 30% depreciation on assets placed in service after September 10, 2001; the amendment must be done by the due date of the 2002 return (excluding extensions)

Defer income

- ✓ Arrange with employer to defer bonus until 2003
- ✓ Exchange matured Series E bonds for Series HH bonds to avoid realizing accrued interest
- ✓ Buy mutual fund shares after the record date for a shareholder distribution, particularly the large year-end capital gain distribution that many funds make
- ✓ Consider delaying the distribution of assets from a liquidating corporation until next year
- ✓ Consider holding capital assets

for five years to get the 2% break on capital gain rates

- ✓ To move interest income into 2003, transfer excess cash into accounts that will not let you make penalty-free withdrawals until 2003
- ✓ Roll over qualifying distributions from your retirement plans into an individual retirement account (IRA) to defer tax on the distribution

- ✓ Set up and contribute to a self-employed retirement plan
- ✓ Consider deferring debt cancellation event until 2003
- ✓ Consider catch-up contributions to IRA and 401(k) plans for individuals 50 and older



Accelerate income

- ✓ Consider receiving full payment on installment sales to offset realized losses
- ✓ Consider converting your traditional IRA into a Roth IRA. The tax consequences could be minimal because of poor market conditions
- ✓ If the alternative minimum tax

applies this year, consider shifting income into the current year

- ✓ If expiring NOLs exist, consider shifting income into the current year
- ✓ Consider selling appreciated stock to offset NOLs, and then buy the stock back

Other planning ideas

- ✓ Make gifts taking advantage of \$11,000 gift tax exclusion



- ✓ Avoid personal holding company tax by making dividend payments
- ✓ Take steps to avoid or reduce income tax on Social Security benefits
- ✓ Consider shifting unearned income to a child who will reach age 14 in the current year
- ✓ Consider paying your children wages and put the wages into a Roth IRA
- ✓ Consider investing in municipal bonds, stocks that pay little or no dividends, annuities, low-income housing, buildings that qualify for the rehabilitation credit or natural resources subject to percentage depletion

- ✓ Consider converting nondeductible personal interest to deductible interest by paying off the personal debt with a home-equity loan or other qualified resident interest
- ✓ Consider making charitable contribution with appreciated stock and other appreciated property

C an your business survive a disaster?

by Gary Farrar, BKD Technologies

The terrorist attacks on Washington, D.C. and New York City last September resulted in horrendous human loss. While paling in comparison, the impact on commerce also has been staggering.

Many businesses and jobs were destroyed almost instantly. The ripple effect will be felt throughout the global economy for months or years to come.

The notion that “it could never happen to us” has been destroyed, possibly forever. Instead, many business executives are now asking “what if it happened to me and my business?”

Whether terrorism, fire, tornado or other disasters, the end result can be devastating to a business. According to the U.S. Department of Labor, 43% of businesses experiencing a disaster never reopen, and 29% of those that do reopen close within two years.

Finding quick answers amidst chaos and confusion can be difficult, but speed is of the essence. It also is important to retain customer and employee confidence during this difficult time, so quickly regaining control of the situation is essential. A solution to both problems is to develop a business contingency plan *before* disaster strikes.

A business contingency plan describes in detail how the business will respond to a disaster if it occurs. Unlike a plan for simply restoring computer systems, the business contingency

When disaster strikes, the inevitable question is “What do we do now?”

plan provides for the complete restoration of important business functions. This may include office space, desks, supplies, telephones as well as computer systems.

The plan establishes priorities, roles, responsibilities, step-by-step procedures, etc. required to recover from a disaster. Following are the steps involved in developing a basic business contingency plan.

1. Perform risk assessment

Every business faces certain disaster threats. For example, flood may be a threat to a

business located near a river. Loss of Internet service may be a threat to a business that gets a substantial volume of its orders via the Web.

Consider both the likelihood of a threat occurring and the impact the threat would have on the business. Rank threats based on these factors and develop plans to respond to threats that have a relatively high likelihood of occurring or would have a significant impact on the business. It also may be possible to take preemptive steps to reduce the likelihood or impact of a threat.

2. Develop emergency actions

The first priority when disaster strikes usually is the health and safety of the people involved. People need to know how to evacuate the premises, seek shelter, notify emergency agencies, etc. Document emergency procedures, and train people to respond accordingly.

3. Plan communications

Effective communication with customers, vendors and employees is essential in a time of crisis. Rumors and inaccurate information are counterproductive. Lack of communication can result in loss of confidence.

Clearly define how information will be communicated and select an official spokesperson.

4. Prioritize business functions

Prioritize and document the order in which business functions should be recovered. Focus on functions most important to the short-term survival of the business.

5. Define recovery strategies

Document the basic approach for restoring critical functions. For example, the plan may call for temporary offices at the company’s warehouse and for relocating a computer server from a branch office to the temporary offices.

6. Identify resources

How many desks, chairs, etc. will be needed? What computer equipment and files? How much inventory? Where will the resources come from? The disaster may damage or destroy many existing assets, so the plan should



contain provisions for replacing resources that are needed for recovery.

Include information such as the names and telephone numbers of important contacts in the plan.

7. Store critical assets off site

Some resources needed for recovery may be difficult to replace quickly. Before a disaster, consider relocating these resources.

For example, a supply of important business forms may be stored at a remote location or backup copies of computer files may be made periodically and stored at a secure off-site location.

8. Define roles

Deciding who needs to do what after a disaster occurs can be difficult. Clearly define and document roles and responsibilities in your plan. Make sure people understand their roles.

9. Provide instructions

Disasters frequently make travel impossible. Employees, their homes and families may be affected along with the business. The plan should assume some key employees may be unavailable to assist in recovery.

Provide detailed, step-by-step instructions for recovering business functions so even someone with limited knowledge and familiarity could assist.

10. Test plan

Periodically verify the plan will, in fact, allow the business to recover. Walk through a disaster scenario or actually stage a mock disaster and execute the plan. Periodically review the plan and update it for changes in the business, technology, etc.

Your business may never be the victim of a disaster. But if it is, having a business contingency plan will greatly improve your chances of recovery. □

(continued from page 3)

According to the Court, the *Americans With Disabilities Act* (ADA) would not be violated in circumstances where the decision not to hire was because the job posed a

direct threat to the worker's health. In effect, companies may use health and safety as considerations in making hiring decisions.

In another case, the Supreme Court held that the ADA does not

require companies to accommodate a handicapped worker by offering a job that normally would go to a more senior employee.

Although the Court established the principal in this case that sen-

iority rights have priority, it also indicated such a presumption may be rebutted based on the employer's past conduct or because of special circumstances in a particular situation. □

Tax tips for home offices

Home use for S corp shareholders

The IRS has clarified the deduction rules for owners of an S corporation who conduct their business from the home and want to have the corporation rent part of the home for business use.

These are the consequences:

- ✓ Rent paid by the corporation will be deductible by the corporation and will have to be included in income by the homeowner
- ✓ The owner will not be able to take any business expense deductions for the office space because deductions are prohibited when a home is rented to one's employer and used to provide services to the employer
- ✓ Regardless of the business use, the owner will continue to be able to take ordinary mortgage interest and property tax deductions
- ✓ If instead of renting the space to the S corporation, the homeowner took a home-office deduction, business deductions such as depreciation on the space provided could be claimed but would need to be taken as an

employee business expense, subject to the 2% of AGI miscellaneous expense limit

To be eligible for a deduction, the home-office space must be used exclusively for business and be either the employee's primary place of business or be used to meet clients or customers on a regular basis, and the employee would have to show use of a home office is for the employer's convenience.

The decision to pay rent to a shareholder, claim a home-office deduction or forego any rent or deduction will depend on many factors, including whether the shareholder owns all or a portion of the S corporation's stock.

Depreciation

If you have an office at home, you are entitled to claim depreciation deductions on the portion of the home used for the office.

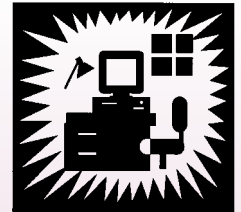
But when you sell the home, you will be taxed on the gain for the portion of the home used as an office because the home office is not considered part of your personal residence and is not eligible for the \$250,000 exclusion

(\$500,000 for a married couple).

There are ways to avoid this if you plan on selling your home while still in business.

One possibility is to stop claiming the home-office deduction at least two years before the sale of the home. This returns the space to personal use so that it qualifies for the tax exclusion, although you will be required to pay a 25% tax on the depreciation you had previously taken.

Alternatively, you can avoid even taking a home-office deduction. This does not preclude you from taking deductions for business-related expenses in your home. Thus, you would be able to deduct the costs of a business phone, as well as other direct costs such as office supplies, business insurance, etc. You'd also be entitled to deduct up to \$24,000 worth of business equipment you put into service this year. □



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