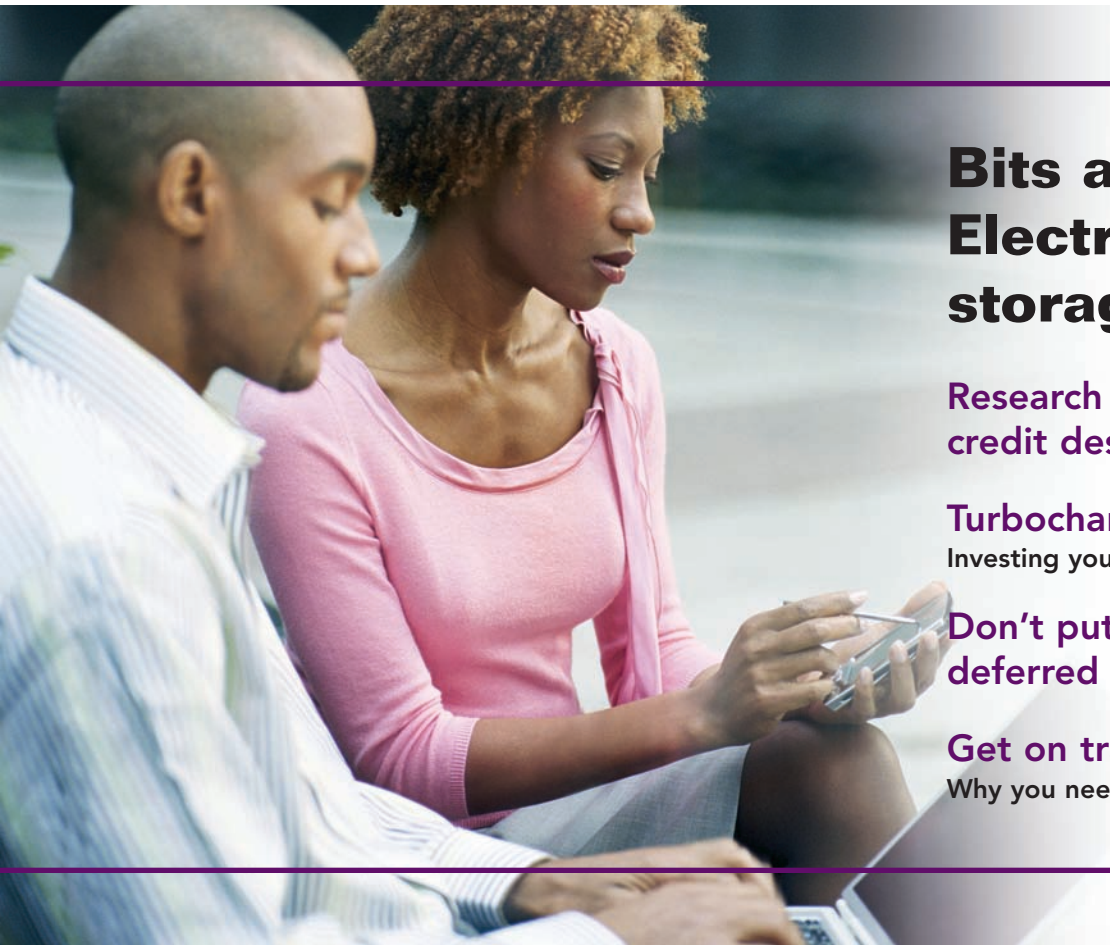


# focus

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# Bits and bytes: Electronic data storage solutions

**A**s your business grows, so will your electronic data storage requirements. Data storage is essential to sustaining a company's day-to-day operations and fueling its mission. The inability to quickly access or recover vital customer and transaction information, as well as other mission-critical data, can cost you plenty and even bring your business to a grinding halt.

## Minimizing risk

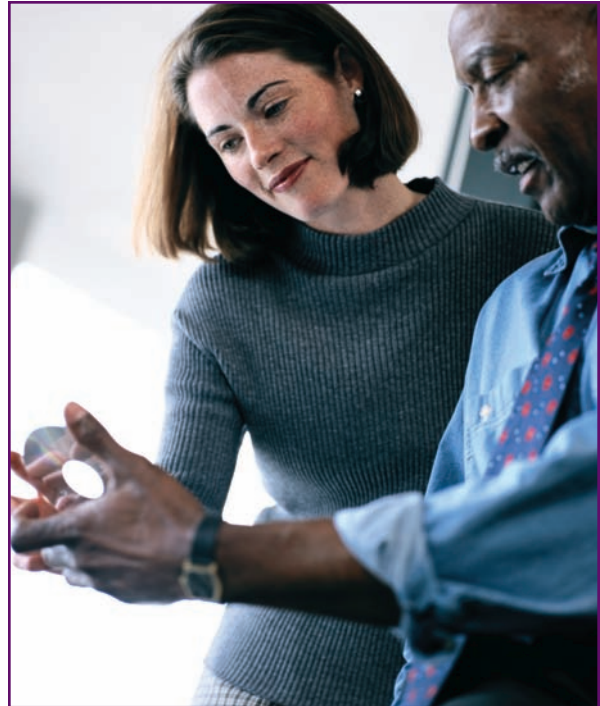
Consider all the information your company relies on to sustain its operations and enable continued growth — from databases to document, presentation and spreadsheet files to graphic, video and audio files to e-mail. All those data sources can be wiped out in a moment due to any of these potential risks:

- ◆ Natural disasters,
- ◆ Fire, arson or vandalism,
- ◆ Water damage,
- ◆ Building structural or mechanical system failure,
- ◆ Software viruses and programming bugs or malfunctions,
- ◆ Thieving employees or hackers, and
- ◆ Human error.

In addition, there may be legal, regulatory and other reasons for devising a plan to preserve and diligently back up company data, such as satisfying requirements set forth by Uncle Sam, customers, or your insurer or banker.

## *You'll likely benefit from selecting and implementing multiple storage solutions.*

When it comes to data storage, a haphazard approach can waste time, space and money, proving hazardous to both your business's operations and bottom line. Therefore, take a methodical approach when devising your data storage plan.



## Analyzing needs

Before you start, analyze the type of data your plan should address. Determine whether you need to store every bit and byte of information or just select data. The more you need to store, the higher the cost in terms of hardware, software and related IT equipment, labor, services, and system support.

Consult your managers and department heads to determine what data they believe is worth storing and backing up in terms of:

- ◆ Currentness of file date,
- ◆ Accuracy,
- ◆ Quality and quantity, and
- ◆ Relevancy and usefulness.

In addition, you'll want to consolidate data sources as much as possible to avoid storing duplicate or redundant data, which adds excess storage costs. Also consider your company's needs in terms of storage capacity, how and where your workers need to access the data, how often and how quickly they need to access it, and how often it must be backed up.

## Selecting solutions

Your data storage needs will vary based on the nature of the work performed across different company departments and worker travel requirements. Thus, you'll likely benefit from selecting and implementing multiple storage solutions, which might include:

**Network storage.** This is a large-capacity, yet economical, data storage solution, accessible to multiple authorized users over a networked computer system. Consolidated and simplified storage administration reduces storage costs and facilitates data backup and recovery.

**Online storage.** This solution offers password-protected remote server storage and backup capabilities over the Internet. Users can access data using a computer from virtually any location.

**Managed storage.** Here an external vendor provides storage and backup capabilities for a monthly fee.

**USB flash memory thumb drives.** These are small, "thumb-size" portable storage devices that allow workers to back up their individual computer files on the road. Some thumb drives also offer e-mail and calendar storage capabilities, allowing workers to access such data using any computer.

**External hard drives.** These external units also connect to your workers' individual computers and provide a larger capacity, portable storage backup solution.

**CD or DVD burner drives.** These internal or external units allow workers to back up data and media to a portable CD or DVD format.

As you sort through your storage solution options, make sure your plan provides for data to be stored and backed up in more than one location in case it becomes inaccessible in one of the locations because of a disaster.

## Finding help

Make preserving and backing up your company's precious data a top priority. To help analyze your company's different data storage needs and select and implement appropriate solutions, consult with an experienced IT advisor. He or she can help you effectively assess current vs. future needs so you can invest wisely in the most practical storage solutions for your business. ♦

## Data storage solutions boost efficiency and productivity

Investing in electronic data storage solutions offers many benefits beyond protecting your business against natural or manmade disasters. Examples include:

**Data sharing.** Employees can share company data and project-related files electronically over a company network, the Internet and e-mail.

**Portability of data.** Workers can take critical data with them on the road or access it from offsite work locations.

**Consolidated archiving.** Your company can consolidate and organize business records in a centralized place on your company's computer system for easier access.

**Space savings.** Most storage solutions require minimal space for hardware, software and related equipment.

**Paperless office.** Electronic data storage will help eliminate unnecessary paper waste.

An added bonus: Greater workplace efficiency and productivity will help your business save money.



# Research and development credit deserves further study

It's time to do your homework. That's right, the Tax Relief and Health Care Act of 2006 (TRHCA) not only extended the research and development (R&D) credit through the end of 2007, but also enhanced its value for many taxpayers. Moreover, the act included a new provision making this tax break available to many businesses that were previously unable to take advantage of it.

## Background research

The purpose of the R&D credit is to provide companies with an incentive to increase their research activities. The credit was first established more than 25 years ago but has never been made permanent. Instead, the credit has expired and been reinstated 12 times since 1981.

The definition of "research" is complicated but, in general, the R&D credit is available to companies that invest in developing new products, processes or software. It isn't limited to manufacturers; the credit may be available to companies in a broad range of industries, including technology, health care, construction, finance, agriculture and retail.

The R&D credit applies to qualified research expenditures (QREs) — including wages paid to employees conducting research, supplies and 65% of consultants' fees — as well as certain basic research payments to universities or other qualifying research organizations.



## 3 types to choose from

Before this year, there were two types of R&D credits to choose from. Thanks to TRHCA, there are now three:

**1. The traditional credit.** This credit is equal to 20% of the amount by which your QREs in the current year exceed a base amount, plus 20% of basic research payments. To determine your base amount, your company's research intensity — the ratio of QREs to gross receipts — during the 1984-to-1988 base period must be measured. This base period percentage is then multiplied by your company's average gross receipts for the previous four years to arrive at the base amount.

If your company didn't exist during the base period, or it had insufficient QREs or gross receipts during that time, the startup rules must be used to determine your base amount. A startup is defined as a company that either: 1) had both gross receipts and QREs for the first time after Dec. 31, 1983, or 2) had both gross receipts and QREs in fewer than three tax years during the base period. For startups, the base period percentage starts at 3% for the first five years and is adjusted in subsequent years.

There are two important limits on the traditional credit: First, your base period percentage can't exceed 16%. And second, your base amount can't be less than 50% of current year QREs.

## 2. The alternative incremental credit (AIC).

This version, created by the Small Business Job Protection Act of 1996, benefits many companies that otherwise wouldn't receive a credit. For example, a company that has had an historically high research intensity or gross receipts that have increased sharply in recent years may not be entitled to a traditional credit. The AIC kicks in when your QREs exceed a specified percentage of your average gross receipts.

Your CPA can help you with the calculations, which can be quite complex.

**3. The alternative simplified credit (ASC).** Previously, many companies couldn't take advantage of the R&D credit — despite significant research activities — because their spending failed to exceed gross receipts thresholds. The ASC eliminates this obstacle by taking gross receipts out of the equation.

The credit equals 12% of the amount by which your current-year QREs exceed 50% of your average QREs for the previous

three years. If you had no QREs during those years, you can claim a credit of 6% of the current year's QREs.

### **Conduct a thorough investigation**

If your company engages in research activities, you should strongly consider reevaluating the R&D credit in light of these recent tax law provisions. Even if you haven't benefited from this tax break in the past, it may now lead to a significant breakthrough in tax savings. ♦

## Turbocharger or troublemaker?

### Investing your IRA in real estate

If you're like many people, you've set aside a substantial nest egg in an IRA. Given the size of these accounts, their rates of return can dramatically affect their performance. Consider this: If you invest \$200,000 in an IRA that grows at a rate of 7% per year, it will be worth about \$774,000 in 20 years. Boost the rate of return to 11% and that figure more than doubles to over \$1.6 million.

One option for turbocharging your IRA's performance is to invest it in real estate. But this strategy has its drawbacks.

#### **Avoid the land mines**

Despite the potential for explosive growth, investing your IRA in real estate requires you to navigate a tax landscape littered with land mines. One misstep and the strategy can blow up.

The two biggest dangers are the unrelated business income tax (UBIT) and prohibited transaction rules. If real estate in your IRA is mortgaged, a portion of any rental income the property generates will be considered unrelated business taxable income. You can avoid this tax by paying for the property in cash, but you'll lose the benefit of leveraging your investment with a mortgage.

The prohibited transaction rules are even more treacherous. If your IRA engages in a prohibited transaction with a "disqualified person" — including you, certain family

members, businesses that you own and other related parties — you'll immediately owe income taxes on the entire IRA balance, regardless of the transaction's value. And if you're under age 59½, you also will owe a 10% penalty.

### ***The two biggest dangers are the unrelated business income tax (UBIT) and prohibited transaction rules.***

What is a prohibited transaction? Among other things, a disqualified person can't sell property to your IRA, make or guarantee a loan to it, pay any expenses related to real estate the IRA owns, or provide your IRA with any goods or services (including property management). If your IRA owns real estate, it must be held strictly for investment and not for personal use by you or your family.

#### **Walk softly to evade tax traps**

In addition to the land mines described above, other disadvantages threaten the feasibility of holding real estate in an IRA.

For example, you'll lose certain benefits of real estate ownership, including depreciation deductions. And if you have a traditional IRA, capital gains will eventually be taxed at

ordinary income tax rates. Also, you'll be required to take minimum distributions once you reach age 70½, so you'll need to have sufficient liquid assets in the IRA to meet this requirement. For these reasons, a Roth IRA may be a better vehicle for investing in real estate.

Finally, many banks and other IRA custodians won't permit you to invest in real estate. If you decide to go this route, you may need to roll over an existing IRA into a "self-directed" one that allows this type of investment. The

land mine here? You may have to pay higher administrative fees.

### **Handle with care**

If you're willing to assume some additional risk and plan carefully to avoid the various traps, real estate may be a good investment strategy for your IRA. But talk with your financial advisor first. He or she can help you evaluate your investment options to determine whether the potential returns justify the risks. ♦

## **Don't put off compliance with deferred compensation rules**

If your business has nonqualified deferred compensation (NQDC) plans or arrangements, you have until the end of 2007 to bring them into compliance with Internal Revenue Code Section 409A. Doing so is critical, because the penalties for violating Sec. 409A are severe: immediate taxation of vested benefits plus a 20% excise tax and interest.

### **What's covered?**

Sec. 409A applies to bonus plans, supplemental executive retirement plans (SERPs), stock option plans, certain severance pay plans and other deferred compensation arrangements. It doesn't apply to qualified retirement plans or to certain welfare benefit plans, such as vacation, sick leave and compensatory time, and disability and death benefit plans. Also exempt are short-term deferrals, such as year end bonuses paid within 2½ months after the end of the tax year.

Stock options and stock appreciation rights aren't considered NQDC so long as they're not discounted — that is, the exercise price is equal to or greater than the stock's fair market value on the grant date.

### **What's required?**

If Sec. 409A applies, NQDC plans must meet three requirements:

1. Initial employee deferral election must be made before the year in which the related services are performed, with some exceptions.
2. Payments must be made on a fixed date or schedule, or upon a specified event, such as death, disability or separation from service.
3. With limited exceptions, payments can't be accelerated.

The second requirement is a problem for stock options, whose value depends on the recipient's ability to control the timing of exercise. So it's important to ensure that stock options are issued at fair market value. Generally, the best way to do this is with periodic independent appraisals of the company's stock.

### **What should you do?**

Between now and the end of 2007, you'll need to: 1) determine whether you have any NQDC plans or arrangements, 2) amend the plans to bring them into compliance or modify them so that Sec. 409A doesn't apply, 3) be sure that employee deferral elections for 2008 compensation have been made, and 4) identify any discounted stock options and consider increasing the exercise price to the grant-date fair market value.

# Get on track — and stay there

## Why you need a personal financial plan

**M**any professionals and business owners are so occupied with earning money that they leave little time to manage the money they're making. If you make the effort to do some financial planning, though, you'll likely be pleasantly surprised at how easily you can reach your financial goals.

### Start with a plan

Financial planning is the process of selecting and applying specific strategies to reach your financial goals. The word "process" is important, indicating that financial planning is a means and not an end in itself. Without at least an annual review and update, a financial plan becomes obsolete.

It's important to know — in detail — your complete financial picture. A financial plan can help you do this by:

- ◆ Showing you what money you have coming in,
- ◆ Stating what you need for basic, regular expenses as well as for major, periodic expenses,
- ◆ Estimating what you need to put aside for future security,
- ◆ Telling you what is left over for luxuries, and
- ◆ Helping you establish expectations regarding future income and expenses.

So, rather than feeling uncertain about your financial future, developing a financial plan



will help you understand where your money is going today and where it will be tomorrow.

### Gauge your progress

When you take your family on a road trip, you probably use a map or GPS navigation system to tell you how to get from point A to point B. Likewise, a financial plan will help you understand where you are now by analyzing your net worth in regard to liquidity and retirement plan assets and then show you how to get where you want to go.

To ensure you're on the right track to meeting your financial goals, you'll need to regularly revisit all related areas and factor in any changes that stand to affect your ability to achieve those goals. These might include revisions to your:

- ◆ Current and future living expenses,
- ◆ Federal, state and local income tax obligations,
- ◆ Insurance policies (such as property, auto and life),
- ◆ Property investments,
- ◆ Retirement investment savings,
- ◆ Estate plan, and
- ◆ Costs associated with transferring assets to your heirs.

If you're diligent in mapping out, following and updating your financial plan, it will help keep you on course so you can afford to, for instance, buy that vacation home, put your child through college or simply maintain your lifestyle after retirement.

### Navigate the road ahead

The road ahead will likely be full of twists, turns and unanticipated bumps. A well-drafted and regularly updated financial plan can help you navigate. But you need not go it alone. Enlist the help of your financial advisor to design your financial plan and conduct periodic reviews to track your progress and make necessary adjustments so you can stay on course toward fulfilling your financial goals. ◆