

Fall

2003

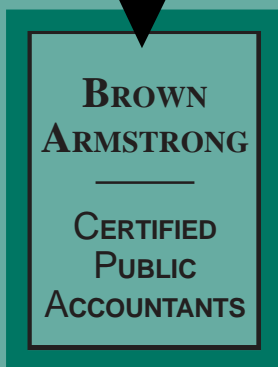
FINANCIAL NOTES

Published quarterly for clients and friends of
Brown Armstrong Paulden McCown Starbuck & Keeter

Volume XIII / Issue 3

Inside this Issue:

- New Business Tax Breaks
- Disaster Survival For Your Business
- Staff News
- Employment Development Department News



4200 Truxtun Ave. Suite 300
Bakersfield, CA 93309
Ph: (661) 324-4971
Fax: (661) 324-4997
Toll: (800) 565-1040
e-mail: barrinfo@barrcpa.com

Can Your Company Survive A Disaster?

When we hear the words “disaster,” we commonly think about earthquakes, fires, and floods. But, as demonstrated by the power blackout that occurred over a large part of the U.S. this past August, “disasters” can come in several other forms as well.

When disasters happen, they can destroy buildings, equipment, and hard-to-replace data, in addition to harming employees. They can disrupt businesses in more ways than one can count. It can take weeks — and sometimes months — for a business to resume operations after a disaster. Some never recover.

You can't predict when a disaster may strike your business. However, you can certainly prepare for one. Disaster planning can minimize the potential damage and may protect you and your employees from harm. Knowing what to do if a disaster strikes is half the battle. Wise business owners draw up disaster plans and update them regularly. They consult with experts and draw on the lessons learned from the past. They cross each “t” and dot each “i” by designating alternate business sites, arranging for the preservation of critical information, and

ensuring that the business' insurance coverage is sufficient.

Drawing Up a Disaster Plan

As long as you have a business to protect, it is never too late to devise a disaster plan. If you do not already have a plan for your business, now is a very good time to start one.



How do you put together a disaster plan? You can begin by forming a planning committee consisting of managers and key employees and assigning that committee the task of crafting and implementing a disaster plan for your business. Give committee members the

opportunity to attend seminars and take training courses related to disaster planning. And, if the need arises, give them the ability to bring in a professional who can help guide them in their efforts.

If your disaster plan is to have any value at all, it must, at the very least, outline in detail all of the steps managers and employees need to take if disaster hits. The main goal is to have a blueprint for getting your business back up and running as soon as possible.

(Continued on pg.2)

Can Your Company Survive A Disaster

(Continued from Cover)

An effective and workable disaster plan should also cover personnel safety and, in the event of a worst case scenario, management succession.

Personnel Safety and Management Succession

An effective disaster plan should clearly identify an evacuation route as well as safety areas for employees. Specific individuals should be responsible for confirming that all employees have reached the designated safety areas. The plan also should outline a chain of command, indicating the responsibilities and duties assigned to each manager or employee during a disaster.

An important feature of the plan is to have readily available a list of emergency phone numbers — hospitals and other emergency care facilities, fire and police departments, and the company's lawyers and accountants. Be sure to include the home phone numbers of employees and the names of family members who can be contacted in an emergency.

Ensuring management continuity after a disaster should also be a top priority. Procedures should be established that set forth the responsibilities and duties of each member of the management team in the days and weeks after a disaster.

The procedures should clearly define a line of succession and give instructions on how changes and other information should be communicated to employees, customers, vendors, and professional advisors. Creating and implementing these procedures will help keep your business operational during a very difficult time.

Alternate Business Facilities

Getting your business restored after a disaster is much easier if you store vital backed-up data at an off-site location. You'll need to be able to access customer and vendor lists, accounts receivable records, and other critical data if you are to resume operations quickly.

Make sure you identify and classify corporate data according to its importance and begin to back it up and store it off-site as soon as possible.

It may be worthwhile to look into alternate business sites (essentially facilities with computers, work areas, and phones) that you can utilize when necessary. If a disaster strikes that destroys your main facilities or makes them unusable for a

period of time, you then can move your personnel to the alternate site, at least temporarily.

Insurance Coverage Review

As part of your planning, review your business insurance policies to identify any potential shortfalls in coverage. Business interruption insurance — which compensates a business for the loss of operating income when normal operations are disrupted by disaster — is a key component in business insurance planning. Take the time to periodically re-examine your business' liability, fire, vehicle, and property insurance. Keep copies of all your policies at an off-site location.

Don't Let Your Plan Stagnate

Once prepared, your disaster plan is a living document. It needs to be reviewed and, if needed, revised on a regular basis. Your business is changing all the time. It makes sense that your disaster plan should reflect those changes.

Making sure the business has an effective disaster plan should be near the top of an owner's or manager's to-do list. Should a disaster strike, you will be thankful you took the time to develop and update your disaster plan.

New Business Tax Breaks Offer Big Advantages

Owning a business — whether it is incorporated or not — has several advantages from a tax perspective. And the tax law enacted earlier this year has added to those advantages.

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, businesses are given additional incentives to invest in new equipment and other depreciable assets. The new law:

- Provides businesses with an annual write-off of as much as \$100,000 (up from \$25,000) of the cost of qualifying assets, rather than re-quiring those assets to be depreciated over time.
- Expands and modifies the bonus first-year depreciation rules. Now, 50% of the cost of qualifying new assets can be claimed as additional depreciation in the year the assets are placed in service.

The two provisions can be used alone or in tandem to allow a business to reinvest in itself while generating additional cash flow through lower tax bills.

Staff News

Annual Expensing Election

The expensing election, called the "Section 179 election," now allows a business to deduct up to \$100,000 of the cost of qualifying depreciable property placed in service during the tax year.

Example: If your business buys equipment for \$100,000 in 2003 and meets the law's requirements, you may deduct the full \$100,000 cost on your business' 2003 federal tax return, instead of claiming depreciation deductions over several years. For a business in the 35% tax bracket, this means that \$35,000 of the cost of that equipment is, in effect, picked up by Uncle Sam this year.

Of course, some requirements must be met.

- The amount that can be expensed cannot exceed the business' annual taxable income from an active trade or business.
- Once the total amount of qualifying asset purchases for the year exceeds \$400,000, the \$100,000 expensing limit is reduced dollar for dollar. (This limit was \$200,000 under prior law.) Thus, if your business spends \$500,000 or more on qualifying assets during the year, no Section 179 election is available.

The new expensing limit is in effect for the 2003, 2004, and 2005 tax years. Afterward, the expensing election rules go back to the way they were prior to the new law.

Bonus First-year Depreciation

In 2002, a tax law provided for bonus first-year depreciation as a way to help businesses retool during the recession of the early 2000s. The 2003 law expanded the bonus depreciation provisions.

Under the new law, businesses may claim additional first-year depreciation equal to 50% of the adjusted basis (essentially, the cost) of qualified property. In general, the property must be depreciable under the modified accelerated cost recovery system (MACRS) and must have a recovery period of 20 years or less. Most business equipment, etc., falls within that definition. Other qualifying assets include certain computer software and leasehold improvements. The original use of the property must commence with the taxpayer, and the property must be acquired and placed in service after May 5, 2003, and before January 1, 2005. Other requirements and exceptions apply.

Example: Suppose your business buys a delivery truck for \$50,000 in 2004. The normal first-year depreciation for the truck would be \$10,000. If your business qualifies for the bonus 50% first-year depreciation, you may claim \$25,000 of bonus depreciation. On top of that, your business may claim regular first-year depreciation for the remaining 50% of the cost of the truck, or another \$5,000. Total first-year depreciation: \$30,000.

A Tandem Benefit

As mentioned, a business can use both of the new provisions during the year for its asset purchases. Using these new tax beaks in tandem can result in significant tax savings.

(Continued on Pg. 4)



Diana Branthoover, CPA joined the firm as a Tax Manager. She has been a practicing CPA for more than 18 years focusing on construction, real estate and escrow companies.



Natalie Petersen is a new staff accountant who recently graduated from Cal State University Bakersfield.



Jeff Dunlap is a new staff accountant who recently graduated from California Polytechnic University, San Luis Obispo.



Natalie Arduain joined the firm's bookkeeping department. She is a Senior at Cal State University Bakersfield studying Accounting. She expects to graduate in June 2004.

Congratulations!

Marketing Director, **Deanna Blaise** and her husband Kenny welcomed their new son, **Hayden Bradley**, 7 lbs. 6 oz. born June 18.

Tax Secretary, LeShell Murray and her husband Jason welcomed their new son, **Dagan Jason**, 8 lbs. 15 oz. born September 18.

Sr. Accountant, **Matthew Gilligan** and his wife Sheri welcomed their new baby girl, Melanie Rose, 7 lbs. 13 oz. born September 24.

New Business Tax Breaks *(Continued from pg. 3)*

Let's say your profitable business buys and places in service \$150,000 in new qualifying assets in September 2003.

These are the business' total asset purchases for the year. The business may deduct the following amounts on its 2003 tax return:

- \$100,000, using the Section 179 expensing election, and
- \$25,000 of bonus first-year depreciation (50% of the remaining \$50,000 of asset purchases), and
- regular depreciation on the re-remaining \$25,000 of asset purchases for which expensing and additional first-year depreciation have not been claimed.

Thus, by using both provisions, your business may be able to write off 85% or more of the cost of the acquired assets in 2003.

Take Advantage This Year

The Section 179 expensing election and the 50% bonus depreciation provisions are a "use it or lose it" proposition for each of the next several years. If you don't purchase qualified assets during the year, you lose the ability to claim these benefits.

Of course, any asset acquisitions should be made with your business goals in mind and tax savings should be a secondary consideration. But, if your business has a need for new assets, using the new law to offset part of the cost of acquiring those assets is smart tax planning. Contact us today to find out more about how the new law can benefit your business.

Payments to Employment Development Department to increase?

The EDD announced that the Unemployment Insurance fund balance will be a negative number by January 2004. To address the fund's demise, EDD is reviewing various scenarios that include increasing the taxable wage base (currently at \$7,000 per year), changing the negative reserve balance, and extending the rate schedules.

State Disability Insurance (SDI) is almost certain to increase. First, the SDI wage base is increasing from \$56,916 in 2003 to \$68,829 in 2004. Although we don't currently know the SDI rate for 2004, we do know that there will be an SDI surcharge of 0.08 percent beginning January 1, 2004 to fund the Paid Family Leave program. Employees may begin claiming PFL benefits on July 1, 2004. The six-month difference is to allow time for the fund to build up before employees can begin claiming benefits.