ClientLine®

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BIGGER Is Not Always Better

Chances are you can readily name the customers that generate the highest sales volume for your business. Are they also your *best* customers? If you haven't looked at your customers in terms of profitability, you may not know the answer to that question.

Not all big customers are good customers. The extra effort required to meet the special demands of high-maintenance accounts can eat into your profits. When that happens, it may be time to refocus.

IDENTIFY THE GOOD ONES

An analysis of cost and revenue data can reveal your *most profitable* customers or customer segments. Once they're identified, you can attempt to profile them. Do they have any characteristics in common? Why do they buy from you? The answers will not only highlight your company's strengths but also will help you zero in on new prospects.

EXPRESS YOUR APPRECIATION

Focus on making your best customers happy. Let them know they're appreciated with a personal note, extra discount, or invitation-only event.

IMPROVE MARGINS

You may be able to make some simple changes to help turn your not-so-good customers into more profitable ones. Examine your pricing model. Look for ways to reduce the costs of servicing the accounts. And you might try up-selling and cross-selling to boost profits — but only to customers with good credit and solid payment histories.

DON'T SPIN YOUR WHEELS

In the end, you may identify customers that are never going to be profitable. As difficult as it is to think about, some accounts are, literally, more trouble than they're worth. If you can't come up with a way to turn things around, finding a way to sever your relationship may be the best thing for your bottom line.

You're in business to make money. You need to use your resources to be as profitable as you can. That means focusing your time and energy on your core business, your best customers, and your best prospects for the future.

DOL Weighs In

The U.S. Department of Labor (DOL) recently addressed the question of how businesses should distinguish between employees and independent contractors. The new guidance discusses the six "economic realities" factors that need to be considered:

> Is the work an integral part of the employer's business?

> *Does the worker's managerial* skill affect the worker's opportunity for profit or loss?

> How does the worker's relative investment compare to the employer's investment?

> Does the work performed require special skill and initiative?

> Is the relationship between the worker and the employer permanent or indefinite?

> What is the nature and degree of the employer's control?

The DOL emphasizes that no single factor should be overemphasized and notes that most workers are employees under the Fair Labor Standards Act definition of "employ," which is "to suffer or permit to work."

GIFTS AND TAXES: A Tutorial

Leaving a financial legacy is a wonderful achievement. However, there's something to be said for sharing the wealth when you can experience the joy of giving. If you're worried about taxes taking a bite, you might be surprised at how much you can give away before the federal gift tax becomes an issue. Here's what you need to know.

HOW MUCH CAN YOU GIVE AWAY TAX FREE?

For starters, you can make gifts of up to $14,000 (per person) to as many people as you wish during the 2015 calendar year and generally no gift tax will be due.* This gift-tax annual exclusion (which is periodically inflation adjusted) allows you to give away a substantial amount. For example, you could give eight grandchildren $14,000 each this year — $112,000 total — and no gift tax would be due. Your gifts can be cash, securities, or other property. And you can make the gifts to anyone, not just relatives.

Married couples who satisfy certain tax law requirements can agree to split their gifts. With gift splitting, all gifts made by either spouse to third parties during the calendar year are considered made one half by one spouse and one half by the other. That way, a couple's combined annual exclusion gifts can be as much as $28,000 per recipient.

WHAT IF YOU EXCEED THE LIMIT?

Gifts that aren't protected by the gift-tax annual exclusion generally count against the cumulative amount that can be protected from gift and estate tax by your unified credit. This basic exclusion amount is currently $5.43 million.

ARE THERE OTHER TIMES WHEN THE GIFT TAX DOESN'T APPLY?

An unlimited tuition exclusion allows you to pay tuition at qualifying educational institutions. An unlimited medical exclusion allows you to pay medical providers for unreimbursed medical costs. Note that payments must be made directly to the institution and/or care provider and may be made on behalf of any individual, related or not.

Transfers to spouses generally are not subject to gift tax due to a marital deduction (exceptions apply). Similarly, gifts to charities aren't taxed in most circumstances because of a charitable deduction.

* To use the gift-tax annual exclusion, the gift generally must be of a "present interest" (i.e., the gift recipient's enjoyment of the property can't be postponed until sometime in the future).

Client PROFILE....

Over the past year, the Sheltons' bagel shop has experienced significant growth. They realize they can't handle the business alone anymore and are planning to hire their first employees. This step means the business will have to comply with a number of payroll rules and regulations.

With sales soaring, the Sheltons want to hire a baker and a cashier to help cover the morning rush and allow them to attend to their backlog of paperwork in the afternoons. But, before putting the "help wanted" sign in the window, they should make sure they are familiar with federal and state laws.

For starters, the Sheltons will be responsible for withholding taxes from their employees' pay and remitting those amounts to the government on a periodic basis. They'll also have to pay additional Social Security and Medicare (FICA) taxes and unemployment insurance for each employee. And they may have to take out workers' compensation and disability policies.

A recordkeeping system that tracks wages paid and withholding amounts is a necessity. The system should be capable of providing all the information the Sheltons will need to prepare a variety of reports.

The Sheltons also should decide what benefits they plan to offer employees. They will need to ensure their holiday, vacation, and sick leave policies comply with applicable state and federal laws.

Hiring new employees may seem like a lot of work, but employees are often critical to helping a growing business reach its full potential.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

REVISITING Rates

Investors get a tax break on their net capital gain, defined as the excess of net long-term capital gain over net short-term capital loss.*

Generally, the tax rate on most net capital gain is no higher than 15%, although a 20% rate can apply to some or all net capital gain if an investor is in the highest ordinary income-tax bracket. And investors in the 10% or 15% ordinary income-tax bracket may enjoy a 0% rate (i.e., no tax) on some or all of their net capital gain.

Aside from the 20% and 0% rates just mentioned, there are a few other exceptions to the 15% rate:

> Net capital gain from selling *collectibles* is taxed at a maximum 28% rate

> *Real property* gain attributable to depreciation is taxed at a maximum 25% rate

> A percentage of *qualified small business stock* gain is excluded, and the remainder is taxed at a maximum 28% rate

* The long-term holding period is more than one year.

A Chip on the Old CREDIT CARD

Businesses have been gearing up for changes in the credit card industry. The magnetic-stripe technology, still common in the U.S., is being replaced by EMV computer chip technology, which provides enhanced in-person payment security. EMV (short for Europay, MasterCard, and VISA) is the global standard for chip payment cards, and the technology is already widely used in Europe and Canada.

HOW IT WORKS

The information embedded in magnetic stripes is static, so cards are easy to duplicate. Cards with EMV technology have computer chips that validate the authenticity of the card and include a one-time security code in every transaction. That unique code makes the payment data much more difficult to counterfeit.

CHANGES GALORE

Improving payment security should benefit everyone. But the rollout is going to take time. Card issuers need to replace old consumer cards with chip cards, which is ongoing. And merchants need to convert point-of-sale (POS) terminals and possibly upgrade POS systems to accommodate the new technology. Because the conversion can't happen overnight, the first round of chip cards have been issued with magnetic stripes so they can be used on old *and* new POS terminals.

SHIFT IN LIABILITY

The transition will usher in another change. When a fraud occurred in the past, card issuers and/or payment processors were liable for the losses. With the switch to chip cards, the liable party will be the one with the least secure technology, which should "encourage" all companies in the payment chain to become EMV compliant. An October 2015 deadline was set (with some exceptions), although some industry experts expect it will take longer.

....Q&A

Q I've read that a mutual fund's portfolio turnover can affect my investment return. Why is that?

A Portfolio turnover measures the *percentage of the fund's* investments that are sold during the year. A higher turnover can mean a larger income-tax bill for you. If you hold fund shares in a taxable account, you'll have to report any capital gains the fund realizes and passes through to you for income-tax purposes. This will effectively lower your after-tax return on your investment. Higher turnover can also produce additional transaction costs (such as brokerage fees), which also can lower your investment return.

Q We recently took a business loan that is payable in monthly installments over a five-year period. How will the loan affect the company's working capital?

A The loan will reduce your company's net working capital, but perhaps not by as much as you think. Derived from figures on a company's balance sheet, net working capital is equal to current assets minus current liabilities. In this context, "current" generally refers to a one-year period. So only the portion of the loan payable within one year of the balance sheet date will be included in current liabilities. Net working capital is an important measure of liquidity. If the figure falls into negative territory, it's a red flag that a business doesn't have sufficient capital to finance its current operations.

ClientLine ITEMS ....

> **LONG-TERM CARE COSTS** may be a factor to consider when preparing for retirement. According to The Hamilton Project, almost one in five Americans who turned 65 in 2014 will have to pay more than $40,000 out of pocket for long-term services and supports.

> **THE U.S. GOVERNMENT HAS MET ITS SMALL BUSINESS CONTRACTING GOAL** for the second year in a row. Each year, the federal government must ensure that 23% of the nearly half a trillion dollars it spends on goods and services is spent with American small businesses. In fiscal year 2014, 24.99% ($91.7 billion) of all federal prime contracts went to small business contractors, and a record 3.68% ($13.5 billion) was awarded to service-disabled veteran-owned small businesses.

> **PARENTS ARE FOOTING THE LARGEST PORTION** of their students' college bills. A national study by Sallie Mae found that for the first time since 2010, parent income and savings (32%) surpassed scholarships and grants (30%) as the number one source of college funding. Families use student borrowing (16%), student income and savings (11%), parent borrowing (6%), and contributions from relatives and friends (5%) to cover the balance of college costs.

> **OFFERING BENEFITS IS STILL A PRIORITY** for many employers. Over the last 12 months, 58% of organizations have continued to offer the same amount of employer-sponsored benefits, while 35% have increased the number of benefits they offer, according to a report by the Society for Human Resource Management. Forty-three percent of organizations offer health savings accounts, and 90% offer defined contribution retirement plans.