

# FORESIGHT

CONTEMPORARY IDEAS FOR BUSINESS MANAGEMENT

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## Take Steps Now to Prevent Employee Fraud

*Following is the third article in our series examining fraud.*

Whether they realize it or not, many small business owners face the very real risk of internal fraud and embezzlement. Unfortunately, this risk may be magnified during times of economic uncertainty — when employees may be facing extreme financial pressures.

More than half (55 percent) of the Certified Fraud Examiners (CFEs) surveyed in a report published by the Association of Certified Fraud Examiners (ACFE) last year said they believe the level of fraud slightly or significantly increased in the prior year.

According to the ACFE, asset misappropriation is by far the largest type of internal fraud committed within small businesses, occurring in nearly nine out of every 10 fraud cases. There are two primary fraud schemes involving payment receipts:

**Skimming** – These are schemes in which cash is stolen before it is

recorded in the books. For example, an embezzler could accept payment from a customer and simply pocket the cash and not record the sale.

**Cash larceny** – These are schemes in which cash receipts are stolen after they've been recorded. For example, an embezzler could steal cash and checks from daily receipts before they are deposited in the bank.

The best way to guard against these schemes is to segregate financial duties. For example, different employees should receive customer payments, fill out deposit slips, make deposits, enter them in the ledger, and reconcile the bank statement. If this isn't practical for a very small business, the owner should personally oversee these functions.

### CASH DISBURSEMENT FRAUD

Among the most common schemes involving cash disbursement are:

**Billing schemes** occur when an employee submits invoices to the employer for fictitious goods or services, or inflated invoices for more than the actual amount. A common scam is to create a shell company and bill for nonexistent services.

**Check tampering** occurs when an employee steals, forges or alters a company check and makes it out to him or herself, or steals a check the company has issued to a legitimate payee and tries to cash or deposit it.

**Fictitious expense reimbursements** occur when an employee makes a reimbursement claim for fictitious or inflated business expenses; for example, claiming that personal travel was done for business, or claiming nonexistent meals.

**Payroll schemes** occur when an employee makes false claims of compensation and attempts to receive payment for work not actually done, like overtime for hours that weren't worked. Adding ghost employees to the payroll is another example.

**Cash register theft** occurs when an employee makes false cash register entries (like voiding a sale) to conceal the removal of cash from the register.

The best defense is simply diligent oversight of all of the company's financial transactions. If your company is too large for this, at least perform periodic spot checks in each of these areas. This will go a long way toward making employees think twice before stealing from you. ❖

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by Going Green

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Work for Your Business?

## How "Going Green" Can Save You Some Green

It seems that everybody is "going green" these days, as environmental awareness continues to rise. This extends to small business owners, many of whom are wondering what they can do to run their companies in a more environmentally friendly way.

### FEDERAL INVESTMENT TAX CREDITS

Since the federal government also has a vested interest in promoting environmentally friendly business practices, it has created a variety of tax incentives for companies that implement renewable and energy efficiency improvements at their facilities.

**Solar:** This credit is equal to 30 percent of expenditures (with no ceiling) on new equipment that uses solar energy to generate electricity, heat or cool a structure, or provide solar process heat. Hybrid solar systems, which use solar energy to illuminate the inside of a structure using fiber-optic distributed sunlight, are eligible for the credit, but passive solar and solar pool-heating systems aren't.

**Fuel cells:** You can also claim a 30 percent credit for expenditures on fuel cells. This credit is capped at \$1,500 per 0.5 kilowatt (kW) of capacity. Eligible property includes fuel cells with a minimum capacity of 0.5 kW that have an electricity-only generation efficiency of 30 percent or higher.

**Small wind turbines:** The same 30 percent credit applies to wind turbines with up to 100 kW in capacity, with no maximum credit.

**Geothermal systems:** This credit is equal to 10 percent of expenditures on geothermal heat pumps and equipment used to produce, distribute or use energy derived from a geothermal deposit, with no maximum credit.

**Microturbines:** This credit is equal to 10 percent of expenditures on microturbines with up to two megawatts (MW) in capacity that have an electricity-only generation efficiency of 26 percent or higher.

**CHP systems:** The same 10 percent credit applies to CHP systems up to 50 MW in capacity that exceed 60 percent energy efficiency, subject to certain limitations and reductions for large systems, with no maximum credit.

The original use of the renewable energy equipment generally must begin with the business that installed it, or the system must be constructed by this business. Also, the equipment must meet any performance and quality standards in effect at the time it is acquired, and must be operational in the year in which the credit is taken.

### TAX DEDUCTIONS

In addition to these tax credits for renewable and energy efficiency improvements at your place of business, tax deductions are available for expenditures incurred to increase energy efficiency in commercial buildings. These expenditures include the installation of:

- High-efficiency insulation in walls, ceilings and floors
- Programmable thermostats and automatic lighting controls
- Energy-efficient doors, windows, light bulbs and fixtures
- Ultra-efficient air conditioners and furnaces
- High-performance glazing and other energy-efficient materials on a building's exterior

This Commercial Building Tax Deduction can be significant: up to \$1.80 per square foot of the building's floor area if the building achieves at least a 50 percent reduction in energy and power costs. The deduction falls to \$0.60 per square foot if the energy and power cost reduction is at least 16.66 percent. In order to receive the deduction, you must obtain certification that the upgrades meet the federal government's specific energy efficiency requirements. ❖

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*To learn more about federal tax incentives available for business energy efficiency improvements, please give us a call.*



# Defined Benefit Plans and Small Businesses

When most small business owners think about retirement plans for themselves and their employees, they think about 401(k)s, SEP IRAs and profit sharing plans. These are referred to as defined contribution plans.

However, there may also be a place for a defined benefit plan within a small business. Also known as pension plans, these are usually thought of as benefits for employees of large corporations or unions. But given the right circumstances, they can present a tremendous opportunity for small business owners to build wealth by saving significantly more for retirement than they can with defined contribution plans.

## THE BEST CANDIDATES

Defined benefit plans typically work best for relatively small companies where the owner is older than the employees and receives most of the compensation. They can be especially useful for professional services firms like doctors, dentists and attorneys.

Typically, the firm will set up a pension plan as a supplemental or overlay plan in addition to a defined contribution plan. With this structure, only 40 percent of qualified employees must participate in the pension plan, and they don't all have to benefit equally from it. There is no minimum number of employees required to set up a pension plan.

Contribution amounts for pension plans are determined based on the ages and compensation amounts of the owner and the participating employees. The older the owner or employee and the greater his or her compensation, the more money must be contributed to the plan.

An example helps illustrate how a pension plan can help a small business owner save large sums of money for retirement each year.

Consider a business with a 60 year old owner who is paid \$200,000 a year and four employees who earn a total of \$160,000 a year combined.

To maximize retirement savings, the owner could reduce his compensation to \$120,000 and put \$80,000 into the pension plan for himself. He could then put another \$20,000 in for his employees, to be split equally among them, for a total annual pension plan contribution of \$100,000.

But look at the impact of the tax savings: Since the \$100,000 contribution is fully deductible, it will result in an income tax savings of \$45,000 (assuming a 45 percent combined federal and state tax rate). Therefore, the owner's net contribution to his own retirement plan (after subtracting the tax savings) is only \$35,000. Put another way, the government is funding more than \$45,000 of his retirement contribution.

## TWO-EDGED SWORD

It's important to keep in mind that defined benefit plans are not without risk. Unlike defined contribution plans, they guarantee a future benefit amount to each participant, regardless of market performance.

As the financial markets have lost value over the past few years, many pension plans have become underfunded, leaving owners not only with shortfalls in their own retirement savings, but also large financial liabilities to participants.

One possible solution to this problem is to freeze the pension plan. During the time that a plan is frozen, the owner elects not to accrue additional benefits based on the current period activity. Freezing a plan may allow current contributions to be applied against prior liabilities. This helps make up the deficit many plans currently have due to the market downturn of recent years.

The Employee Retirement Income Security Act (ERISA) requires that employees be paid the full amount

of their vested pension plan benefit at the time they leave the company. This is a potentially large expense that must be incurred by the business, making freezing the plan an option if employees participating in the plan have left the firm recently, or if the firm has recently had to lay off participating employees. If a relatively low number of employees are participating, and the amounts guaranteed to them are relatively small, this strategy can also enable owners to replenish their own retirement accounts faster.



Freezing a pension plan may be especially attractive in light of what appear to be a rebounding economy and rejuvenated financial markets. But it does require a cash outlay in order to fully fund employees' accounts, which a business may not be able to afford. ❖

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*To learn more about the potential benefits of a defined benefit pension plan for you and your employees, please give us a call.*

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## Recession Rebound

**W**ith each passing month, there's more evidence that the economy is on the mend and we may finally be able to put the recession behind us.

If so, the coming months may represent a unique opportunity for entrepreneurs to ride the tailwinds of a robust economic recovery. Consider these four strategies for taking maximum advantage of the current economic environment:

### 1. (Re)-ramp up your marketing.

Many small businesses slashed their marketing and advertising budgets during the recession. Start planning now for the most efficient and cost-effective ways to re-implement

these programs. There are still some bargains to be found, whether in cash-strapped magazines and newspapers or advertising agencies willing to provide services at reduced fees.

### 2. Strengthen your cash flow.

With credit still tight, bankers are looking primarily at the strength of a company's cash flow to service debt when deciding whether or not to lend money. Scrutinize your financial statements now so you'll be in the best possible position to borrow money for growth if and when the need arises.

**3. Stay focused on business fundamentals.** The recession forced

most business owners to focus like a laser on fundamentals that often don't seem as important during good economic times: things like strong inventory management, receivables collections and cost control. Don't let up just because there's a light at the end of the economic tunnel. Diligence in these areas will continue to pay dividends in the months (and years) to come.

**4. Consider staffing up.** The stubbornly high unemployment rate is good news for businesses looking to hire top-notch employees. If you can afford it, now could be the perfect time to staff up in preparation for anticipated future growth. ❖



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