

# Trendlines

*New Directions in Business and Personal Planning*



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# On the road, on the cheap

## *Budget-friendly travel tips for businesses*

To keep any company growing, its owner and perhaps some of its employees must usually travel at some point. Sales calls, client meetings and industry conferences all beckon — promising profitable deals, enduring relationships and fortified networking. But in a world of tightened purse strings and heightened security, business trips are no longer the expense account free-for-alls they once were. Here are some budget-friendly travel tips you can use to go on the road, on the cheap.

### **Travel agent advice**

Although booking through a travel agent may have made sense in the past, nowadays it could be costing you. Self-booked online fares cost an average of 24% less than those booked by travel agents, according to a comparative study by e-travel software provider FareChase. Thus, training yourself or an administrative staffer to use travel sites, such as Orbitz and Priceline, could cut your airfare costs considerably.

Then again, though self-booking typically saves you money, it also takes more time. And that's where travel agents still have an edge. So if you or your employees travel widely — especially internationally — you may wish to stick with your agent or find one. Just make sure the agency is the right size (smaller ones benefit smaller companies) and is approved by the Airlines Reporting Corporation. Another option: Use a one-time, fee-based agent. Many charge well under \$100, which is money well spent

compared with the time you or another highly paid employee would exhaust putting together an itinerary.

### **Transportation tips**

Whether or not you use a travel agent, some relatively simple ways exist for you to cut transportation costs. For starters, reduce or eliminate first class or business class airfares, instead offering incentives (such as comp time or free lunches) to employees who voluntarily downgrade to coach. Also, try to avoid airline “hubs” such as LAX and JFK International. Outlying airports (say Orange County and Newark, respectively) usually cost less and may not be any farther from your ultimate destination.

When you're on terra firma, approach rental car arrangements carefully. In fact, you may wish to avoid them altogether. Many major cities, including Chicago and Atlanta, offer train service from their airports to both downtown and suburban areas. Sure, you'll sacrifice some comfort and privacy, but weigh the \$1.50 cost of traveling from O'Hare



airport to downtown Chicago against a more expensive — and probably time-consuming — car or cab ride.

If you do opt for a rental car, consider ordering a compact initially. Rental companies tend to run out of this car type about half of the time, in which case they'll upgrade you to a midsize at no extra charge. And even if they don't run out, you can always upgrade to a midsize at the counter. Whatever wheels you rent, try to refill the gas tank *before* returning it. Rental lots' prices are typically much higher than those of local gas stations. If time is an issue, however, pay the extra gas charge — the savings may not justify missing your flight!

### Hotel hints

Like airfares, hotel bookings are an endeavor best approached in advance and in front of a computer.



You can usually find plenty of good deals on the Web. But rather than searching for the lowest room price, bear in mind the many potential extras hotels offer. Making the most of perks such as free or low-cost meals, shuttles, and parking can lower your overall travel expenses. Also, booking a suite might enable you to hold your business meeting right there, eliminating the need for a costly conference room.

An additional key factor in choosing a hotel is location. On the one hand, picking a downtown hotel may cost more up-front, but you might be able to skip cab and rental car expenses by walking to your meetings. On the other hand, if you can't avoid renting a car, look into suburban hotels. These may be less expensive and just as nice.

### Roadside assistance

These are but a few commonsense ways you and your "road warriors" can do battle away from the home office for less. If you'd like some more specific tips on lowering your company's travel costs, please call us. We'd be happy to provide the roadside assistance you need to hit the bricks without getting knocked out by high expenses. □

### 2 ways of handling travel expenses for tax purposes

An often overlooked side effect of business travel is its tax impact. Generally, how the federal government taxes your employees' travel expenses depends on whether you reimburse workers under one of two types of plans:

**1. Accountable.** According to IRS rules, arrangements under which you advance, reimburse or provide allowances for travel expenses will qualify as "accountable" if they meet three criteria. First, costs workers incur must be for "ordinary and necessary" business expenses (such as airfare and lodging charges.) Second, employees must substantiate these payments — including amounts, times and places, and purposes — typically within 60 days. Good record keeping methods include keeping a "travel diary" and attaching receipts.

Last, workers need to return any advances or allowances that they can't substantiate within a reasonable time, typically 120 days. You may deduct accountable-plan expenses (subject to a 50% limit for meals and entertainment) and employees may usually exclude 100% of them from their income.

**2. Nonaccountable.** If you don't follow the three criteria just described, the IRS deems your arrangement "nonaccountable." Here you must report reimbursed travel expenses in employees' income as wages, subjecting them to withholding and payroll taxes.

Workers may still deduct any expenses they aren't reimbursed for as miscellaneous itemized deductions. But such deductions are subject to limitations and are an employee's responsibility to claim and support.



# Don't give up on giving away

## *3 myths about the annual gift tax exclusion*

As you may know, gifts you make during your lifetime are subject to federal gift tax. For 2003, the top gift tax rate is 49%. It goes down to 48% in 2004, gradually decreasing to 35% by 2010. But you have not only a lifetime gift tax exemption (\$1 million), but also the ability to exclude gifts of up to \$11,000 per recipient annually (\$22,000 if you and your spouse jointly make a gift or your spouse elects to split a gift with you on your gift tax return). This exclusion is indexed for inflation every year, but goes up in only \$1,000 increments — it rose to the current amount in 2002, but didn't change in 2003.

To make such annual exclusion gifts, you must give recipients a “present interest” in the gifted property, which means they must have some access to the funds. This requirement, as well as the exclusion's amount, has given rise to three distinct myths about these gifts.

### **1. They're unaffordable**

Many people flinch at dollar amounts such as \$11,000 and \$22,000, believing that annual exclusion gifts are simply unaffordable. But bear in mind these are the *maximums* of what you can give. And you shouldn't even give these amounts without first consulting your financial or estate planning advisor. He or she can help you decide whether to “max out” your annual exclusion gifts or give a smaller amount.

If giving away the full \$11,000 or \$22,000 seems unrealistic, you can still do plenty of good for both your recipients and your estate. For instance, a \$3,000 gift would help a teenager maximize his or her annual contribution to an IRA (as long as the child has enough earned

income to qualify). Plus, the child may enjoy a tax deduction for that contribution, extending your gift's value.

### **2. They permit irresponsibility**

Other people may dismiss annual exclusion gifts because of their prospective recipients' finances rather than their own. That is, the idea of handing over cash (or other assets) to the average young person, or even an adult child or grandchild, may seem tantamount to throwing it away. But you can protect what you give.



One way of doing so: a Crummey trust. This arrangement originated with the Crummey family, who wanted to create trusts for their relatives that qualified for the annual gift exclusion without granting recipients complete current access to those funds. So language was inserted in the trust that allowed the beneficiaries a limited period in which to withdraw the trust funds — a provision known as a “Crummey” withdrawal



power. If they did not withdraw the funds during this window of time, the assets remained tied up in the trust.

Because beneficiaries retain a present (though temporary) ability to withdraw funds, gifts to Crummey trusts are eligible for the annual gift tax exclusion. And as long as the funds remain intact, you'll accomplish your goal of restricting access to them. Your primary risk, however, is that your beneficiary will take advantage of the withdrawal period anyway. To guard against this, explain carefully and kindly to beneficiaries that your goal is to make this type of gift *over the years* and have it remain in the trust. They should get the message.

### 3. They forfeit control

Yet another group of potentially generous souls aren't necessarily concerned about lacking the funds to give or worried that their prospective recipients will squander these gifts. They reject

annual exclusion gifts for fear of losing control of their funds. But again, you needn't completely surrender power over your assets to give them away and reap the gift tax and estate planning benefits.

For instance, by creating a family limited partnership (FLP), you essentially convert your estate plan into a family business with you acting as its general partner. As limited partners, your children (or grandchildren) are passive investors with no control over the assets. Therefore, you:

- ❑ Maintain *sole* responsibility for managing the FLP's underlying assets (including the business itself, or securities or real estate),
- ❑ Can continue to remain actively involved in its management throughout your lifetime, and
- ❑ Possess the ability to make gifts of limited partnership units, which qualify for the annual exclusion.

Moreover, because of limits on transferability, marketability and minority interests, FLP interests may be discounted for gift tax purposes. This allows you to make larger tax-exempt gifts of limited partnership units to your children (or grandchildren).

*You shouldn't give away any amount without first consulting your financial or estate planning advisor.*

Here's how it might work: Georgia wants to give her four grandchildren limited partnership units using the \$11,000 annual exclusion, meaning her total gift for gift tax purposes is \$44,000. Using a 30% discount rate as an example, she may actually gift FLP units worth \$62,857 (or \$15,714 per child) without incurring gift tax, because each grandchild's entire gift (after the discount) equals \$11,000 and qualifies for the annual gift tax exclusion. But don't let this simple example fool you — creating an FLP is complex and you must



follow the rules to escape IRS attack. And even if you do, the IRS may still dispute the discount amount, so obtain professional advice if you decide to go this route.

### The truth helps

When learning about the annual gift tax exclusion, the truth doesn't hurt — it helps. Making qualifying gifts transfers large amounts of wealth to family members (or others) tax free without reducing your lifetime estate tax exemption. Plus, gifted assets are removed from your taxable estate now, which can be a big advantage for property expected to appreciate in value over the years. The only catch is time — and if you've already run out of it to make your 2003 annual exclusion gifts, make sure this same fate doesn't befall you in 2004. For help planning, please call us. □



### Moneylines: News briefs for businesses and individuals

**New IRS revenue ruling determines children's "tax birthdays."** Many tax breaks depend on when a child reaches a specific age. These include the Child, Adoption, Earned Income and Dependent Care credits; exclusions for dependent care assistance, foster care payments and adoption assistance; and deductions for dependency exemptions. The IRS clarifies in Revenue Ruling 2003-72 that, for these provisions, children reach the relevant age on the anniversary of their birth dates. Don't rely on this uniform definition, however, for the kiddie tax. Doing so may subject a child's unearned income to a parent's top tax rate for an additional year.

**Physician rankings may cut benefits costs.** More and more insurers are implementing ranking systems that rate doctors on price, efficiency and success. And if a high number of your company's employees visit highly ranked physicians, your premiums may drop. Why? Because better doctors generally mean faster recovering patients, which reduces costs. Ask your insurer whether it has such a system or is planning to establish one.

**HUD homes in on financing hassles.** Closing costs are every new home's rude, unpredictable party guest. You know they're coming, but you don't know how badly they'll behave. And good faith estimates (GFEs) aren't always accurate or required by law until three days *after* you apply for a loan. Fortunately, the Department of Housing and Urban Development (HUD) is trying to remedy this situation. As of this writing, it was developing a proposal to compel mortgage companies to provide borrowers with: 1) Reasonably certain GFEs (for a small fee), which would trigger penalties if excessively inaccurate, or 2) Bundled closing fees called "guaranteed mortgage packages." HUD believes these measures could save homebuyers about \$8 billion a year.

**Recent survey supports strategic planning.** Is all that haranguing your financial advisor gives you about having a strategic plan really necessary? Yes, says a recent survey. It found that companies with such plans average \$40.9 million in annual revenues, whereas those without them average \$29.3 million. And about two-thirds of "fast-growth" businesses use strategic plans, with the average one covering three to four years and undergoing re-assessment at least annually.



# Saving the day with the new retirement plan rollover rules

When Francine quit her job to become self-employed earlier this year, she knew re-establishing her finances wouldn't be easy. "But at least I know what to do with my retirement plan," she quipped to her husband and daughter. Francine simply rolled over her qualified plan's funds into a traditional IRA offered by her bank.

Three months later, a bank representative happened to notice that an administrative error had dumped her funds into an old savings account, where they've languished long past the IRS 60-day deadline for such transfers. Her heart sinking as she pictures a devastating tax bill, Francine heads to her financial advisor to confirm the bad news.

He tells her that, yes, the IRS has long restricted taxpayers to a 60-day period in which to make "indirect rollovers" — where retirement assets are paid out to a qualified plan's owner, who must then transfer those funds to a new plan or IRA. And, sure, failing to do so within that time frame could trigger not only considerable income tax, but also a 10% penalty on top of that for those less than 59½ years old. Worse yet, should someone transfer those same funds into an IRA or other qualified plan *after* the 60-day period, they'll likely be subject to an excess contribution excise tax. Last, he tells Francine she doesn't have a thing to worry about.

## Learn the rules — old and new

For many years, the IRS would waive the 60-day rule only for taxpayers performing military duty in a combat zone or those affected by a presidentially declared disaster. But then came the Economic Growth and Tax Relief Reconciliation Act of 2001, which permitted waivers when failing to do so would "offend equity and good conscience." Such circumstances typically included death or injury, disasters, or other events beyond a person's control.

Finally, in January 2003, the IRS released Revenue Procedure 2003-16. It states that the agency will *automatically* waive the 60-day rule when taxpayers follow a financial institution's procedures to deposit retirement funds into an eligible plan, but the institution itself errs in administering those funds. In such cases, as well as for military service or presidentially declared disasters, individuals need no IRS private letter ruling.



When other circumstances prevent you from meeting the 60-day rule, you may request a private letter ruling for a \$90 fee. In response, the IRS will consider whether a financial institution committed errors (other than those qualifying under the automatic waiver) or the rollover was delayed by your death, disability, hospitalization or incarceration; a foreign country's restrictions; or a postal error. The agency will also consider whether you spent the distribution and how much time has passed since the distribution occurred.

## Proceed with caution

Imagine Francine's relief when her advisor told her she would suffer no penalties or additional tax liability because of her bank's gaffe. Now think about your own retirement assets — might you need to roll over a qualified plan at some point? If so, proceed with caution so you won't even have to worry about relying on these rules. □

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