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KEY TAX DATES

JUNE

15

Individuals.

Last day for nonresident alien individuals not subject to withholding to file income tax return for calendar year 2008.

Payment of second installment of 2009 estimated tax by individuals.

Estimated Tax. Calendar-year corporations must pay second installment of 2009 estimated tax.

Corporations. Last day for foreign corporations that do not maintain an office or place of business in U.S. to file income tax return for calendar year 2008.

JULY

31

Employers' Taxes. Employers of nonagricultural and nonhousehold employees must file return on Form 941 to report income tax withholding and FICA taxes for the second quarter of 2008.

President Obama's First Few Months Bring Some Clarity for Tax Planners

by Mark E. Cobetto, Tax Shareholder

President Obama's first few months in office brought two significant tax developments that will help tax planners to sharpen their focus for the next few years. In February, the president signed into law "The American Recovery and Reinvestment Tax Act of 2009," and in March, he rolled out his proposed budget for fiscal 2010.

Both the proposed budget and Tax Act of 2009 contain a multitude of income tax provisions that will affect just about every taxpayer in some way. However, many of the Tax Act's provisions are narrowly targeted to specific groups and industries, and most of the tax provisions in the proposed budget are, at this point, too speculative to influence tax planning. For the interim, what are the essentials and what type of tax-planning techniques should you start thinking about?

Businesses should plan to make major capital expenditures prior to the end of 2009.

The Tax Act of 2009 extends the "bonus depreciation" provision that allows businesses to immediately write-off 50% of the cost of new depreciable property placed in service before December 31, 2009. The law also extends through the end of 2009 the enhanced expensing allowance ("Section 179 expense"), which allows a write-off of up to

\$250,000 of capital expenditures subject to a phase-out once capital expenditures exceed \$800,000.

These provisions provide a huge, one-time tax depreciation benefit. Consider a business that places in service an \$800,000, five-year asset during 2009. The combination of the Section 179 expense, bonus depreciation and regular depreciation would result in a first-year depreciation deduction of \$580,000. So, do plan on taking advantage of these special depreciation provisions in 2009. In view of the troubled budgetary outlook, it is unlikely that they will be extended beyond the end of this year.

Business owners should shift estate planning into high gear.

Over the last several years, many business owners put their estate plans on hold pending further guidance on the future of the estate tax, which potentially included a total repeal. We now know that the estate tax will survive for the long term, and we also have a pretty good idea of what the amounts will be for the lifetime exemption. So, we can start planning again.

The president's proposed budget includes language that would freeze the estate tax at its 2009 level. Under this scenario, the first \$3.5 million of an estate would

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TOP STORY

President Obama *continued from page 1*

be exempt and the tax rate would be set at 45% (Married couples could claim a combined exemption of \$7 million, depending on how their marital assets are titled.) Even the Republicans in the U.S. Senate are pretty much resigned to this model, although they might, at best, be able to negotiate a slight increase in the lifetime exemption amounts.

Since business valuations are currently at historic low points, there is a unique opportunity for business owners to transfer some ownership to the next generation. Also, the IRS interest rates that must be used in connection with various wealth transfer strategies are at all-time lows right now (e.g., the March 2009 rate for determining a “remainder” or “reversionary interest” was 2.4%). The combination of the low business valuations and low IRS interest rates represents the “perfect storm” for the estate planner and makes a compelling case for wealth transfer strategies such as the Grantor Retained Annuity Trust (GRAT) and an installment sale to a defective grantor trust. Now is the time to act on your estate plan.

Individuals in top tax brackets should begin planning for a tax increase.

Under the president's proposed budget, beginning in 2011, the top individual tax brackets would be increased from the current 33% and 35% to 36% and 39.6% for married couples with income over \$250,000. The tax rate on capital gains and corporate dividends would be increased from 15% to 20% for taxpayers who are above the 28% bracket. These tax increases are almost sure bets. The consensus view is that the Republicans

in the U.S. Senate will not be able to stop these increases because they will be included in a budget bill, which cannot be filibustered.

Now that we know the tax increase is coming in 2011, it's not too early to start thinking about strategies such as accelerating income from 2011 into 2010 and deferring deductions until 2011. You will certainly want to do some extra planning in 2010 with respect to the timing of your capital gains (if you have any) and deductions for which you can control the timing of payment, such as state and local income taxes, real estate taxes and charitable contributions. Also, for those who have sources of passive income and can use losses and credits from passive activities, consider utilizing various investments that provide these favorable tax attributes. Low-income

housing tax credit partnerships are one example. Oil and gas drilling investments are currently another example; however,

the favorable tax attributes are being targeted for elimination under the proposed budget.

If you're still going to make over \$250,000 – don't worry about it too much. If you happen to live in a high-tax state, such as California, New York or Ohio, you may not see any increase in your federal income tax bill because you might still be paying the alternative minimum tax. That's because your state and local income taxes are deductible against your regular federal tax liability, but are not deductible for alternative minimum tax purposes. For example, even with an increase in the top regular tax rate to 39.6%, the alternative

minimum tax liability for a typical Ohio married couple making \$400,000 to \$500,000 would probably still be greater than their regular tax liability. Of course this result could change once the legislators and tax writers realize that not all taxpayers with income in excess of \$250,000 would pay higher taxes under the proposed budget.

The next few years promise to bring many more changes in the tax law that should keep tax planners very busy. For now, after just a few months into the Obama presidency, we have enough information on the direction of tax policy to get started with some specific strategies to reduce income and estate taxes for businesses and their owners. ■



MARK E. COBETTO
SCHNEIDER DOWNS TAX
ADVISORS
Shareholder

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FEATURE ARTICLE

Transformational Strategy: The Upside to the Downside *by Tricia Warrick, Managing Director, Schneider Downs Corporate Finance, LP*

Somewhere, maybe there's an answer to the age-old question: *Which is more effective in changing behavior, the carrot or the stick?* While

I'd like to believe that the carrot approach would win, my guess is that the stick is a better motivator to prompt rapid change. Personal proof comes from witnessing

amazing transformations in the lifestyles of family and friends in response to acute health threats. They lost weight, reduced stress, increased exercise, modified diets or stopped smoking. The alternative was bleak, and the changes they made had a lasting impact on their lives.

Most business leaders similarly respond quickly and decisively when faced with "sticks" such as external shocks or competitive pressures, declining revenues, instability of cash flow or losses, or loan covenant defaults. These pressures usually prompt operational turnaround and financial reengineering tactics: cost-cutting, the sale of underemployed assets and restructuring the balance sheet with cooperative bankers—moves that in the past provided bridge capital to better times without fundamental changes in strategy or business model. However, based on today's unprecedented global macroeconomic turmoil, operational and hard-to-find financial reengineering tactics may not be enough for long-term survival.

That said, it's tough right now to gain a clear picture of one macro future—in many industries, several different futures are possible. Consider the

residential real estate market, whose future will be written by intertwined, uncertain variables such as mortgage credit availability, interest rates, housing prices, foreclosure rates, employment levels, shifting demographics and changing regulations. While today's uncertainty makes it trickier, the

need for strategic planning has never been more crucial.

Many companies, large and small, are being forced to look for big strategic moves to transform their businesses fundamentally. Not all are in trouble—even healthy companies may need to proactively redefine strategies and business models in response to irreversible industry changes. Defensive strategic moves might include refocusing the company to its viable core business, selling or closing losing divisions and shedding weighty fixed costs. Offensive strategies beyond organic growth may include acquisitions and strategic alliances, reengineering antiquated processes to better serve customers and drive out costs, plus creating new competitive advantages through technology, new products, markets, channels and business models.

In good times or bad, developing a strategic plan will serve as the most effective roadmap to maximizing (and protecting) future enterprise value. The process should include four concise steps:



1. **SWOT:** An imperative foundation of any successful planning process is a rigorous, honest, fact-based assessment of strengths, weaknesses, opportunities and threats.
2. **Aspirations:** Meaningful measures of success boil down to future EBITDA (cash flow) and enterprise value. Key management and shareholders need to crystallize strategic objectives and establish measurement disciplines to "inspect what they expect." If the objectives aren't ambitious, it's likely that little will change.
3. **Strategies:** Creative brainstorming to develop a few key strategies to achieve the Aspirations should include meaningful representation throughout the organization to tap market and customer-centric knowledge and ideas and ensure future buy-in and leadership. A critical (and often skipped) sub-step is building the future story around each strategy into a comprehensive financial model.
4. **Implementation:** This is where change leadership takes flight and the real work begins. Clearly documenting the "who will do what by when" accountabilities, addressing roadblocks and periodically recalibrating the plan through road checks will ensure that the focus and

can-do momentum necessary to drive real change actually happens, and the plan does not instead end up as a desk ornament.

Indeed, through a transformational strategic planning process, there's upside to the downside. ■

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PATRICIA M. WARRICK
SCHNEIDER DOWNS CORPORATE
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Managing Director

Securing Mobile Devices

By Chris Watson, Internal Audit and Risk Advisory Services Manager

Using mobile devices is increasingly accepted in today's workplace. The size, portability and increased reliance on these devices have created specific risks associated with the theft or loss of these devices and any sensitive data they may contain.

One of the most effective methods for reducing the risks associated with mobile device usage is to establish security policies and provide training for users. Policies and training programs provide an overview of responsibilities for mobile device usage and establish consequences for noncompliance. In addition, providing real world examples of data loss incidents, as well as the consequences of those incidents, can help individuals to understand the risks of using these devices.

Establishing the following security standards can also reduce the risk associated with the loss or theft of a mobile device:

- Whenever possible, do not store sensitive information locally on mobile devices.
- If sensitive information is stored on the device, the data should be encrypted, password protected, and backed up to ensure it can be recovered.
- Mobile devices that have the ability to be remote wiped should be erased if they are lost or stolen, so there is no possibility of subsequent data recovery.

Establishing security protocols, authentication standards, security policies and training programs can help to minimize the risks of utilizing mobile devices in the workplace.

For additional information, refer to the National Institute of Standards and Technology's Guidelines on Cell Phone and PDA Security: <http://csrc.nist.gov/publications/nistpubs/800-124/SP800-124.pdf>. ■

Q & A

Schneider Downs Wealth Management Advisors, LP *Question of the Quarter*

Q. With the unemployment rate continuing to rise and consumer sentiment near all-time lows, why would investors even consider equity exposure at this point?

Since most of the economic news being reported prominently these days continues to show overall weakness, it is not surprising that a great many investors choose to stay on the sidelines. In fact, the trillions of dollars held in cash, as of the end of January, represent about 42% of the U.S. stock market's capitalization. This remarkably high level of apprehension is not surprising given the extremely volatile nature of the markets over the past year.

However, should investors wait until economic indicators such as the unemployment rate and consumer sentiment show a clear positive turn, a great deal of market return opportunity may have been lost. A look back at the market performance coincidental with surging unemployment and weak sentiment clearly shows that these two economic indicators fall within the lagging, as opposed to leading, category. Combined with the fact the stock market is a leading indicator of the economy, the unemployment rate and consumer sentiment historically have proven to be contrarian indicators for market watchers.

To illustrate this point, consider that there have been nineteen instances, dating back to 1949 and up until the recent bear market, when the monthly unemployment rate has spiked by 0.5% or more. The average 12-month return of the S&P 500 subsequent to these large spikes in unemployment is 28.2%. Moreover, the

lowest return among these nineteen 12-month periods is 17.6%.

The University of Michigan Consumer Sentiment Index hit a cyclical bottom four times in the years ranging from 1975 through 2005. The subsequent 12-month average return of the S&P 500 after these four instances is 25.6%, with the lowest return of the four being 18.1%.

The takeaway here is that, while the media instinctively focuses on bad economic news, there are often a number of economic indicators that tip off close watchers of the economy as to when things may be nearing an upswing. As of early May, there have been a small but growing number of data points that have been showing at least the beginning of a bottoming-out process within the broad economy.

Given the current valuation level of the stock market, it is possible that the unemployment rate and consumer sentiment will again serve as reliable contrarian market indicators over the coming market cycle. As always, however, investors should consider stock market exposure with a long-term focus, consistent with all of the factors that go into setting a reasonable investment objective. ■

Written by Patrick W. Fisher, CFA, Investment Advisor, Schneider Downs Wealth Management Advisors.



SDANNOUNCES

Around SD

Take Your Kids to Work Day!

On April 23, Schneider Downs' offices in Pittsburgh and Columbus participated in the national Take Your Kids to Work Day. Between the offices, 37 children spent the day learning about what their parents do while at work. The day was filled with presentations, games, contests and the opportunity to gain a first-hand look at a day in the life at Schneider Downs. Perhaps we gained a preview of the future leadership of Schneider Downs!



The children join together in the lobby of the Pittsburgh office for a group photo. Ages ranged from 7-14.



In the Columbus office, seven children met in the conference room. During the day, the children in both offices were able to meet each other via a videoteleconference.



Lauren Craig, Misty Parshall, Ed Friel and Jenny Powell go back in time at the Pittsburgh Children's Museum 80's Bash.

Schneider Downs' Pittsburgh office recently wrapped up the annual Scouting for Food Drive. This year the office collected 11,106 "points" (each item is worth a certain amount of points) and an additional \$350. *Pictured l-r: Scot Love, Judy Dué, Mark Poole, Mohamed Elkhaili, Joel Davis, Andrew Dickson, Wes Lausch and Kevin Hoover.*



The Pittsburgh Nonprofit Industry Group recently hosted a seminar titled, "One Foundation's Perspective." Grant Oliphant, President and CEO of the Pittsburgh Foundation, graciously agreed to be the keynote speaker. For more details on Grant's remarks, please visit the Insights section of our web site. *Pictured l-r: Susan Kirsch, Grant Oliphant, Nancy Bromall.*

New Hires

Our people are our greatest strength. We welcome our January, February and March new hires:

Gregory L. Allison
Abigail C. Cover
Thomas G. Lisak
Kunaka B. Moto
Daniel R. Nesbit
Stacy A. Synowiec

WELCOME

On April 26, 22 team members, composed of Schneider Downs employees, family members and friends, participated in the MS Walk. The team raised almost \$3,000 for multiple sclerosis (MS) research. Way to go! *Pictured l-r: Jennifer Cowles, Mary Richter, Jenny Powell, Sue Clark, Helen Craig and Lauren Craig.*



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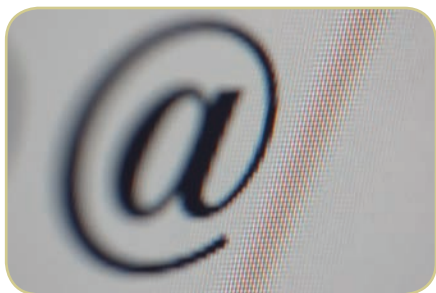
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PROFESSIONAL NEWS

Donald R. Owens, Director, Internal Audit and Risk Advisory Services, presented on the topic "Corporate Governance - What All Businesses Should be Practicing" at The Ohio Society of Certified Public Accountants' conference "Sound Strategies for Tough Times" on March 17. Don also attended The Institute of Internal Auditors' 2009 Leadership Conference for IIA officers, held April 26-28 in Orlando, FL.

Mary D. Richter, Tax Shareholder, as President of Three Rivers Workforce Investment Board, kicked off "Imagine Career Week," a series of events focused on preparing the region's youth for 21st century careers. She introduced the Mayor of Pittsburgh, Luke Ravenstahl, at the event. Mary also joined the United Way Women's Leadership Committee.

Barbara M. Balcita, Tax Manager, was quoted in the April 9 *Pittsburgh Post-Gazette* article, "Make tax time less taxing."

Michael A. Renzelman, Audit Shareholder, participated in a member call-a-thon for Builders Exchange of Central Ohio as a volunteer.

Henry J. Szymanski, Director of Automotive Services, was quoted in the May 1 *Pittsburgh Business Times* article, "Local dealerships deal with fallout from GM survival plan."

John H. Stafford, Technology Shareholder, and **Frank E. Dezort**, Internal Audit Senior Manager, presented "Ten Key IT Controls Every Executive Should Have in Place" to the Pittsburgh Chapter of The Institute of Internal Auditors.

Timothy J. Hammer, and **Michael A. Renzelman**, Audit Shareholders, and **Jeanne M. Barrett** and **Lara E. Fuller**, Audit Senior Managers, attended the AICPA National ERISA Conference in Orlando, FL in May.

Jeffery A. Acheson, Managing Director, SD Retirement Advisors, wrote the May 8 *Columbus Business First* article, "Private-sector options, personal involvement can keep 401(k)s healthy" in response to a segment that aired on the April 19 episode of *60 Minutes*.

Eric M. Wright, Technology Shareholder, **Roy M. Lydic**, Audit Shareholder, and **Jason M. Reljac**, Technology Senior Consultant, spoke at the West Virginia Community Action Association on May 6.

Patricia M. Warrick, Corporate Finance Managing Director, taught a class on Acquisition Strategies at Carnegie Mellon University's Tepper School of Business on April 10. Tricia was also named President of the Pittsburgh Chapter of the Association for Corporate Growth. She was also featured in *Pittsburgh Tribune Review's* May 13 "Newsmakers."

Edward R. Friel, Audit Shareholder, **Charles A. Oshurak**, Audit Senior Manager, and **Todd J. Lucas**, Audit Manager, spoke at the IUP Student Accounting Association on the impact of the economy on the public accounting profession.

Joseph J. Patrick, Jr. and **Roy M. Lydic**, Audit Shareholders, **Staci L. Ziants**, Audit Senior Manager, and **Kurt D. Herdman**, Audit Manager, attended the NACUBO Higher Education Accounting Forum in May held in Miami, FL. Staci also spoke at the National Business Institute seminar, "How to Keep Tax-Exempt Organizations in Compliance" on May 20.

Steven D. Thompson, Audit Shareholder, and **Michael S. Collins**, Assistant Director of Human Resources, participated on a panel on careers in public accounting at a Beta Alpha Psi meeting at Penn State University.