



1st Edition 2010

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Planning for Profitability in 2010

Fundamental to any decision to borrow money is the development of a business plan. A business plan will state the objectives of management and the amount of financing required, thereby assuring potential lenders that there is a rational and viable plan for achieving management's goals. Accordingly, these plans might include financial statements, descriptions of manufacturing methods, personnel sketches and hiring requirements, industry information, evaluation of competition, marketing information, names of company advisors and other information a creditor might find relevant.

An even more important reason for developing a business plan is to sharpen management's focus on its goals and their viability. For example, management can:

- Determine the nature of the financing that is required and the period over which it will be needed.
- Assess the amount of capital that will be required within specific time frames and determine the best source of funding.
- Use the plan as a road map for achieving specific business objectives and for measuring progress.
- Focus on issues that need further clarification to ensure that the plan can be implemented.
- Establish benchmarks that keep business progress under control and prevent diversions from the basic objectives.
- Evaluate competitive factors and develop solutions for dealing with them.
- Make a final determination on whether to proceed with the plan or scuttle the project.

New business owners, as well as established company managers, often seek our assistance with the development of short and long-range business plans in order to gain an unbiased view regarding attainment of their objectives.



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they can be corrected. Be aware that any suspicious entries in your report could be an indication of identity theft, which is another good reason to keep an eye on your credit report.

Skipping a payment or mailing your check a little late may not seem like a big deal, but it can cause a big headache. Not only will you likely be stuck with a late fee, but your creditor may also raise your interest rate. When other creditors see the late or missed payment, they may deny you credit or raise the rates they charge you. This small mistake can become a costly one.

If you are squeezed for cash, it is better to pay a little rather than



nothing at all, but try to pay off as many of your recent purchases whenever possible. If you pay as you go, you avoid interest charges on your purchases altogether. Even if you cannot cover your full balance, paying only the minimum due lengthens the amount of time you will have that outstanding balance — and the amount of interest you'll be paying.

Creditors understand that good customers sometimes fall on hard times, especially in the current troubled economy. And they are often willing to work with you to prevent your account from falling



into default, but you have to let them know that you are facing problems. If you lose your job or face some unexpected financial hard-

ship, contact all of your creditors immediately. Ask them if it is possible to pay a lower interest rate or minimum payment for the time being or if you can skip payments altogether for a few months until you are back on your feet.

If you have any questions about how to better manage your debt or cash availability, please contact one of our professionals today.

Favorable R&D Case Opens Opportunities on Supply Costs

The U.S. Tax Court issued a new ruling in November 2009 that is highly favorable for taxpayers looking to claim the R&D tax credit. In a case of first impression, the Tax Court ruled that molds used for production, if not depreciable by the taxpayer, may be eligible for the credit. The IRS had previously disallowed the cost of such supplies for the R&D credit.

The company involved in the case made automotive parts on a contract manufacturing basis. For each part that it manufactured, the company made a mold. Often, the company contracted with

outside manufacturers to produce an initial mold and then altered these molds to suit its needs. In many instances, once the mold was finished, its customers would take title to the mold while the company retained possession of the mold in order to produce the relevant part.

Under U.S. tax code, the cost of property that is of a character subject to depreciation cannot be claimed as a qualified research expense. The IRS has long contended that depreciable property is not allocable to the R&D tax credit, regardless of who owns the depreciable property.

The taxpayer in this case contended that the statute in question applies only if the property is depreciable in the hands of the taxpayer claiming the credit.

The Court sided with taxpayers in ruling that the company could claim the cost of molds owned by its customers for the research credit because the property was not depreciable in the company's hands. In doing so, the Court effectively overruled previous IRS guidance on the interpretation of the phrase "property of a character subject to depreciation."

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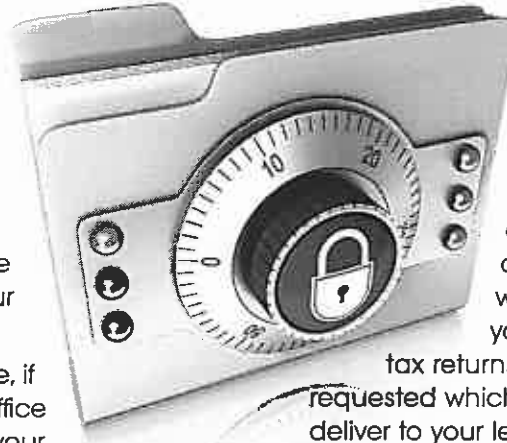
New Privacy Rules Affect Release of Your Tax Information

Our firm prides itself on its ability to keep your personally identifiable information safe and secure. However, because the IRS was concerned about the likelihood of personally identifiable information falling into the wrong hands, it has enacted some new regulations that will affect the way we can handle our individual clients' tax information, especially with regard to disclosures to third parties.

Because your tax information contains a great deal of personally identifiable and sensitive information, the IRS has made it more difficult on accountants across the nation. We are no longer permitted to send your tax information to a third party without prior written consent, which we must obtain through a form containing specific language mandated by

the IRS. While this is not very difficult to obtain, it may constitute an unfortunate inconvenience for some of our clients.

For example, if you call our office for a copy of your tax returns to send to your bank or mortgage broker for a loan, we cannot send a copy of your returns unless you have signed and returned the disclosure form. Previously, because we know you as our client and understand that this is not an unusual request, we would have gladly forwarded a copy directly to your mortgage broker or banker. But, because of



the updated regulations, we can no longer do this on your behalf. Aside from having you sign a disclosure, our only other option would be to send you a copy of the tax returns that you requested which you can then deliver to your lender.

When conducting business with lenders or in other situations where you may need a copy of your tax information, please ensure that you allow sufficient time for this new procedure. We encourage you to call our office should you have any questions about how the new IRS privacy provisions may affect you.

Debt Management Mistakes to Avoid

Most people carry some debt, whether it is a credit card balance or the money they owe on a car loan or home mortgage. Debt is not necessarily a bad thing, but it can become a problem quickly if you allow it to get out of control. Our suggestions below give you some insight into ways you can manage your debt and avoid it altogether.

If you have enough cash to pay for a purchase, try not to charge the purchase to your credit card. That's an easy way

to spend more than you intended — and in many cases spend more than you can really afford. Before you reach for that plastic, think about whether you've got the cash you need for the purchase. If you do, set the credit card aside for the bigger-ticket items.

Credit agencies maintain information on your credit history and give you a credit score based on whether you make your payments on time, accumulate heavy balances and other factors. Lenders use your credit score to decide whether you qualify for a new loan and what interest rate you should pay. If the information in your credit report is incorrect, you could end up being denied a loan or paying unnecessarily high interest rates. You are eligible to receive a free credit report annually from each credit agency, so take advantage of this option and review the information carefully. If there are errors, inform the agency and ask how

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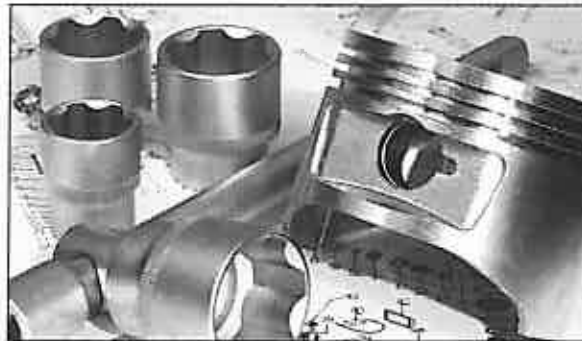


Favorable R&D Case Opens Opportunities

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The case is big news for contract manufacturers, tool and die shops and anyone else who uses property depreciable in the hands of another taxpayer in their R&D activities. Furthermore, the case disputes the IRS' notion that supplies must be consumed or destroyed in order to qualify for the credit. The molds at issue were sold to customers and used in the company's production opera-

tions. Thus, the Tax Court's ruling with respect to supplies should cause many taxpayers to reevaluate the costs that they have claimed for the R&D credit.



The case may open more opportunities for companies to claim the R&D tax credit and may stretch across industries in determining supply costs that are

eligible for the R&D tax credit. For more information on this important case and what it will mean to taxpayers claiming the R&D tax credit, please contact one of our firm's professionals today.

A newsletter dedicated to increasing your profitability

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