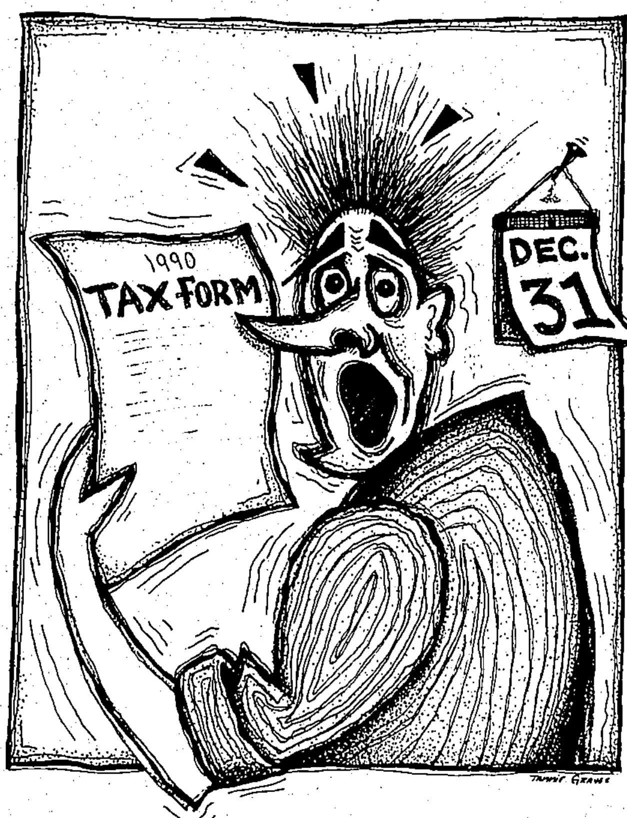
Farmington Observer

Business

INCLUDES CLASSIFIED

Marilyn Fitchett editor/591-2300

Thursday, December 6, 1990 O&E



Season's Greetings?

Get started now to ease tax crunch

By Doug Funke
staff writer

You can sigh, pout and grouse, but you still have to pay.

Federal income taxes, that is.

Although returns aren't due for another four months, the tax year for most individuals ends Dec. 31. You have until then to position yourself to minimize the crunch.

"Conventional advice is to defer income until *next year* and accelerate deductions this year," said Michael Licastro, a certified public accountant and tax specialist with Ernst & Young.

But changes in the tax rates for 1991 may prompt some wealthier taxpayers to accelerate income now — if possible — and pay at the marginal rate of 28 percent rather than 31 percent next year, Licastro said.

That stategy might be especially attractive to filers of joint returns with taxable income in excess of $162,770 or singles with taxable income of more than $97,600.

EXEMPTIONS will be phased out next year for joint filers with adjusted gross incomes exceeding $150,000 and single taxpayers with adjusted gross incomes of more than $100,000. Itemized deductions will be reduced for all taxpayers with adjusted gross incomes in excess of $100,000.

All the more reason why high wage earners may want to investigate accelerating income this year.

How exactly do you accelerate income?

Bonuses normally earned this year and paid next and accrued vacation wages earned for 1991 could be distributed this year. Investors can turn to treasury bills which pay interest immediately.

Dan Maher, a CPA and tax partner with Deloitte & Touche, wonders whether a difference of 3 to 4 percent on marginal rates is worth a lot of machinations even for the rich.

One federal deduction commonly overlooked by taxpayers in Michigan is the annual license tab fee for cars. That fee, now based on value rather than weight, can be claimed as a personal property tax on Schedule A.

"It makes a little sense to accelerate income, but it's not a tremendous savings. That is a narrow spread to go to a lot of unnatural lengths to accelerate income or deductions," Maher said.

Capital losses sustained since a dive in the stock markets in August could be used to offset capital gains realized earlier in the year. But tax experts caution that investments should be based primarily on economic grounds rather than on tax implications.

The standard deduction this year jumps to $3,250 from $3,100 for singles, $5,450 from $5,200 for marrieds filing joint.

You don't have to be Daddy Warbucks to load up on deductions to offset taxable income.

You can prepay property taxes and make a 13th mortgage payment in a year to claim the interest portion of the extra payment.

CHARITABLE contributions made by Dec. 31 can be deducted this year.

The deduction for personal interest payments declines to 10 percent this year and is phased out entirely for 1991.

"I would really encourage people who still have personal loans to take another look," Maher said. "The simplest solution is to pay them off. Another alternative is a home equity loan. My impression is pricing and interest rates have become more competitive in the last year or two."

A fully-deductible Individual Retirement Account contribution, if a taxpayers qualifies, can be made right up until returns are filed.

While it's too late now to defer income into a qualifying 401(k) retirement accounts, consider joining the program if offered through your employer early on in 1991.

ONE FEDERAL deduction commonly overlooked by taxpayers in Michigan is the annual license tab fee for cars. That fee, now based on value rather than weight, can be claimed as a personal property tax on Schedule A.

A 10-percent excise tax on expensive cars, boats, jewelry and furs kicks in Jan. 1. So if you're thinking about buying a car worth $40,000 (a luxury tax of $1,000 would apply), you will save money if you make the purchase by the end of this year.

More taxpayers should be able to file the simpler Form 1040A this year, said Elcy Maccani, spokeswoman for the Internal Revenue Service.

The form has been revised to include income from Social Security and pensions and credits for the elderly and disabled.

TAXPAYERS who are their own bosses will face a higher self-employment tax rate (15.3 percent this year compared to 13.02 percent), but will be able to deduct half of self-employment tax paid.

"The effect is pretty much a wash," said Scott Koll, a CPA with a private practice in Canton and Troy. "There's no big benefit, I believe."

If you're at the lower end of the income spectrum, check to see if you qualify for the earned income credit. You probably do if your wages are less than $20,264 and a child lives with you.

Tax planning should be an ongoing process rather than an annual December scramble. "They should be looking at it throughout the year," Licastro said.

To discharge humanely

By Janice Brunson
staff writer

Successful termination — it's an euphemism for being fired, but with a twist.

You've just been axed from your job and while experiencing the rage, disbelief and shock that is typical of such an awful event, your employer is trying to soften the blow by doing it under the best possible circumstances.

In increasing numbers, employers are turning to "outplacement" or career transition consultants to "successfully terminate" employees who are not performing up to par or are caught in cutbacks due to a soured economy or other reasons.

Firing an employee is never pleasant. "It's the least desirable part of our job, the number one worst thing," said Phil Bissell, a manager of employee relations for Federal Mogul, an international automotive supplier with offices in Southfield.

While Bissell is unwilling to describe the firm's exit interview for fired employees, he did say the company is increasingly turning to transition consultants to ease the departure process.

Drake Beam Morin (DBM), an international consulting firm fomerly of Birmingham and now of Troy, provided services this year to some 100,000 clients who lost jobs, according to vice president Jim Tutorow.

Experts in human relations, DBM counselors attempt to place as positive a spin as possible on an otherwise onerous event.

"EARLY MORNING ON MONDAY," Tutorow said, explaining the ideal time for a firing. "Imagine, interfacing all day with someone you're going to fire at 4 p.m. Get the job done."

In addition, a Monday termination permits time enough during the week for the fired employee to seek professional support and employment advice elsewhere.

Tutorow said is it important to prepare beforehand an exact script of the termination notice. During the interview, come directly to the point. Provide a list of all severance benefits in writing.

Ideally, the fired employee is then referred directly to transitional counseling services like those provided by Tutorow.

FIRING FIRMS

"We concentrate on recognizing a person's skills and interests, what they have to offer and what they like to do. You'd be surprised how many say, 'I should have left 15 years ago. I hated it. Now I have the opportunity.' "

Typically, staff morale and production suffers following a termination, especially in the event of mass firings for economic or other reasons. To minimize the effect, "survivors" or employees who are retained must be told what has been done and why, and given an complete explanation of expected changes.

"If done well," reads the introduction to a handbook Tutorow supplies to clients, "people will feel that they have been treated with dignity. Their self-esteem will have been protected. They will leave the organization feeling as positive as possible."

"I WAS VP of human resources for Chatham Super Markets when they filed chapter 11 in 1982. I was 54 years old and still had a child in junior high," said Sam Ray, president of The Transition Team in Troy. Ray also found himself out of work and in desperate need of a new job.

Drawing on this experience, as well as his experience as a transition consultant, Ray describes typical termination scenarios, from both an employee and employer point of view.

Case I: "The employee is not measuring up. He or she may be in denial but intellectually, they know they're not measuring up. Eventually the employer says, 'We can't put up with this any longer.'

"The employer does one of two things, fires the person outright or says, 'We share your problem. We want to provide you with the help you need to get on with your life.' "

If "sharing" the problem, the employer provides severance pay and medical insurance as a financial bridge to a new job or career. Transitional services assists former employees in redirecting skills and interests into new employment.

Please turn to Page 2

TERMINATION TIPS

Here's some tips for conducting a successful termination from "Manager Training Handouts, Terminated Employees," by Drake Beam Morin.

Delivering the message

DO'S

Invite the person to sit down.
Get right to the point.
Be clear about the action taken.
State, why, what and when.

DON'TS

Say "Good morning, good to see you."
Use humor.
Be apologetic.
Engage in small tak.

Managing Reactions

DO'S

Listen.
Wait for employee response.
Restate message if necessary.
Keep to the script.
Provide structure.

DON'TS

Defend, argue, justify.
Discuss other employees.
Use platitudes or gratuitous comments.
Try to minimize or offer false hope.

Structuring Next Steps

DO'S

Clarify official separation date.
Review separation package.
Explain logistics for leaving the company.
Close and agree to meet again if appropriate.

DON'TS

Allow the meeting to go on too long.
Make promises you can't keep.