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HOLTZ RUBENSTEIN

adviser



OCTOBER, 2001

September 11, 2001

Holtz Rubenstein extends its condolences to all who were affected by the terrorist act.

This issue of the Holtz Rubenstein *Adviser* for the most part contains business advice articles pertaining to disasters. The articles were written by members of our staff, as are most of our articles each month.

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Tax Filing and Payment Relief Following Terrorist Attacks

In the wake of the terrorist attacks of September 11th, the Internal Revenue Service and other agencies were quick to offer relief to taxpayers affected by the tragedy.

Taking the position that all Americans may have been affected by the tragedy in some way due to the disruption of the nation's financial markets, transportation system, telecommunication and computer networks, as well as additional security concerns, the IRS issued a blanket extension for all taxpayers. All federal tax obligations (with the exception of payroll tax deposits) that were due between September 10th and September 24th 2001 were extended to September 24, 2001.

The IRS provided additional relief to those taxpayers directly affected by the terrorist attack, including all individuals whose principal residence is located in the disaster area; business entities with a principal place of business located in the disaster area; and any taxpayer who had records maintained in the disaster area. The presidential-declared disaster areas include all boroughs of New York City and Arlington County, Virginia. In addition, victims of the terrorist attack, relief workers and individuals employed in the disaster area are covered regardless of where they live.

The relief provisions for affected taxpayers are summarized as follows:

- Affected taxpayers (other than individuals) with ORIGINAL filing deadlines between September 11 and November 30, 2001 have been granted automatic additional time amounting to 6 months plus 120 days to file returns AND make payments.
- Individual taxpayers currently on extension have an additional 120 days to file their extended returns.

- Corporations, partnerships, trusts and other entities (which have extensions to file their returns between September 11 and November 30, 2001) also will have an additional 120 days to file their extended returns.
- Individual taxpayers owing estimated tax payments due on September 17 may postpone the payment and include them with the payment of the final estimated tax payments for the year, due on January 15, 2002.
- Corporate taxpayers with estimated tax payments due after September 10, 2001 and before January 15, 2002 may postpone that payment until January 15, 2002.

For federal purposes, penalties for non-payment of taxes will be suspended during the 120-day extension period. However, there are different rules for interest. Interest will accrue during the 120-day extension for obligations for which an extension already has been granted. Interest will not accrue during the 120-day extension period for obligations whose original due dates fell between September 11 and September 24.

New York State and New York City also have granted tax relief for affected taxpayers. However, unlike the relief granted by the IRS, in order to qualify taxpayers must be able to demonstrate that the disaster actually affected their ability to meet the original due date.

New York State has postponed the due dates for filing tax returns, making tax payments and other tax related deadlines that occurred between September 11 and December 10, 2001 until December 10, 2001 for affected taxpayers. New York State has suspended both penalties and interest during the extension period.

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Insurance Policy Review for Landlords and Tenants

In the wake of the attack, property owners and tenants will be reviewing their insurance policies carefully to make sure they receive every dollar to the extent they were covered. Many of those affected will be able to recover their financial losses because they were properly covered, while others will not.

There are several types of insurance policies landlords and tenants should have to cover their possible losses.

Landlords should purchase basic property damage insurance to cover costs of repairs to the façade of the building and common area, such as the elevator and hallways. Property insurance for tenants should cover everything within the walls of the office from the desks to the computers.

Business-interruption insurance allows landlords to cover lost rental payments if tenants are unable to pay. Proceeds from this insurance are used to cover the property's debt service.

Tenants also should purchase this type of insurance to cover any loss of income that would have been used to pay their rental expenses. These policies cover

expenses for temporary rental quarters, office-equipment purchases and moving costs. Some landlords may require this insurance to be purchased prior to signing the lease. This type of insurance is critical to keep businesses running when income can't be generated, following a disaster.



There are two additional types of insurance that landlords should consider. Rebuilding insurance will cover the cost of rebuilding in light of a tragedy. The owners of the World Trade Center carried \$3.5 billion in rebuilding coverage.

Landlords also should purchase liability insurance to cover possible lawsuits with victims who may sue for personal injuries they believe the landlord could have prevented or that they think would have decreased their injuries, such as improper evacuation plans.

Although your business or property may not have been directly affected by the tragedy of September 11, 2001, consider reviewing your business insurance packages to make sure you are fully covered.

CyberNotes – libertyunites.org

Since the attack on the World Trade Center, many of us are looking for ways we can help. **Libertyunites.org** is a website that provides information about organizations involved in the relief effort, as well as opportunities to support them. The site lists suggestions for Americans who want to help the victims of the attack, their rescuers, families, and communities. Information regarding volunteer work, blood donations and counseling centers is provided as well as related links.

One of the advantages of donating through **libertyunites.org** is that every penny of your contribution will go to your designated charity. The American Liberty Partnership, which is made up of several Internet-related corporations, is covering all of the transaction costs associated with collecting and distributing your contribution.

The site promises that the information provided to them is secure and will not be used for any other purpose. Donation also can be made anonymously. For those who prefer to send a check, the address of each organization is provided, at **libertyunites.org**.

BACKUP... BACKUP... BACKUP!

Recent events show that disaster can strike at any time. Whether you have a large, small or home business, you should have a plan in place that will allow you to continue to function should you experience some form of business interruption. A disaster recovery plan can be as simple as a daily backup or as complicated as off-site system duplication.

Take the following quiz to see how you would fair in a business interruption:

- 1) Do you backup your computer system daily?
- 2) Do you have a backup media (tape, disks etc.) rotation program in place?
- 3) Do you remove the backup media from the business premises at least weekly?
- 4) Do you test your backup media/hardware at least monthly?
- 5) Do you have a plan in place to restore your applications and data at a remote location should you be unable to work out of your normal place of business?
- 6) Do you replace your backup media at least annually?
- 7) Is the type of media/hardware you are using for backup still supported by the manufacturer?
- 8) If you do not understand one or more of the above questions, is there someone else in your organization that can assist you with them?

If you answered **NO** to any of the above, you and your organization may have difficulty recovering from a disaster.

With the options available to the end-user today in hardware, software and third-party services, there is *absolutely no acceptable reason* for not having some type of plan in effect.

If you require assistance with backing up your data or need to discuss the possibility of designing a disaster recovery plan, call Tony Romano, Director of Holtz Rubenstein Technology Services, Ltd., at 631-752-7400, x-255.

STRATEGIES FOR SURVIVING A CASH FLOW CRISIS

By: Patrick J. Fahey, CPA

The tragedies of September already are affecting our economy. During any economic slowdown, many business owners have experienced cash flow problems. Companies wrestle with excess inventories, which have depleted the availability of their credit facilities, while fast growing companies are finding it more difficult to raise money to continue their expansion. The following tips can help you keep your head above water during a cash flow crisis:

Alternative Financing

Factoring Accounts Receivable – Typically, a factorer will advance between 50% and 80% of the amount of the invoice. The advantages of factoring are that you'll receive the cash within 48 hours and that you're not limited by your balance sheet. The disadvantage of using a factor is that it is more expensive than a traditional bank line of credit. Most factors will charge the prime rate plus 2% in addition to a fee that ranges between 1% and 3% of the amount involved. Depending on your credit-worthiness, the fee can go as high as 8%.

Financing Inventories – Financing your inventory is similar to financing your receivables. You usually can borrow on between 30% and 50% of your inventory. An advantage of financing your inventory is that the lending institution will not focus on your financial statements. They'll base their decision solely on the value of the inventory itself. In addition, the application process is simple so you won't have a long wait for approval. Financing your inventory also has its disadvantages. As in financing accounts receivable, it's expensive – typically with interest at the prime rate plus 3% or 4%. Also, if you sell the inventory you'll have to pay down the loan immediately.

Reduce Overhead And Improve Your Cash Flow

When companies experience cash flow problems, business owners have to look closely at how to turn slow moving inventory into cash and reduce expenses

that drain the cash from their business. Many small companies cannot benefit from "just in time" inventory control.

As a first step, call your trade association to find out the average inventory turnover rate for your industry, and compare that figure with your own. If you find that your inventory is turning slower than your competition, examine the average turnover for each stock item. This should pinpoint which items can be reduced to the amount normally sold in a quarter, and where understocking could cause problems. This analysis also can identify items that could be dropped. Next, list the overstocked items that are selling well enough to warrant holding the excess and those that would be worth selling at a discount to recover the cash. You might be carrying items that turn over slowly because some of your better customers occasionally order them, or because they return exceptional profits. Instead, see if your vendor will accept orders for single units with 24-hour delivery. The additional handling charges probably will be less than your current carrying costs.


Examine your overhead costs in descending order of expense. Analyze results, not efforts, to gauge which employees should stay where they are, which should be retrained, and which may need to be let go. Determine your ideal number of employees by comparing your needs during your slowest times with your average days. Staff for your minimum needs as long as that level will not compromise service most of the time. It's less costly to pay overtime or bring in temporary help during peak periods than to keep unnecessary employees on the payroll. Compare your rent with what you might pay if you moved, and ask your current landlord if your lease can be renegotiated. If you are willing to sign a longer lease you may get a price break now, or have the rent forgiven or deferred in your slowest months. Also consider shrinking the area you occupy and sub-leasing some of the remaining space. If you own your building, ask your banker about refinancing at a lower interest rate or over a longer term.

Prepare a Cash Flow Forecast

Used properly, a cash flow forecast will provide you with the means to keep your business decision-making on track and

Stars and Stripes

Ironically, without knowing that there would be a sudden increase in demand for American flags, New York State recently amended the regulations that exempt from sales tax the sale of American and New York State flags.


The amended regulations expand the definition of the term flag to include accessories used to display the flag – such as a pole, rod or bracket when sold together with the flag as part of a kit. Previously only the cost of the actual flag was tax exempt. The amended regulations went into effect September 1, 2001. 

control your inventory purchasing. It also will serve as an early warning indicator when your expenditures are running out of line or your sales targets are not being met.

The completed cash flow forecast clearly will show a banker what additional working capital, if any, the business may need, and will offer proof that there will be sufficient cash on hand to service the credit facility. It is very important to prepare realistic cash flow projections when seeking financing. Bank lending officers get worried when cash flow projections deviate significantly from actual results and begin to question the business owner's credibility.

Each month's projected figures should be compared with each month's actual performance figures. Examine significant discrepancies between the projected and actual figures.

If the actual figures are failing to meet your cash revenue projections during a fiscal quarter it may be necessary to delay the purchasing certain inventory or apply to the bank to increase the upper limit of your revolving line of credit. Approaching the bank to increase an operating loan should be done well in advance of the date when the additional funds are required.

For more information, contact Audit Manager Pat Fahey at 631-752-7400, x-203 or PFahey@hrcpa.com. 

Disaster Loss Relief from the IRS

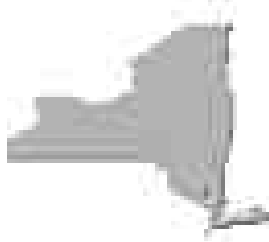
President Bush has declared the following areas to be disaster areas eligible for financial assistance: five New York counties consisting of the Bronx, Kings (Brooklyn), New York (Manhattan), Queens and Richmond (Staten Island). If you suffered property damage as a result of the disaster, you might be eligible for disaster area relief.

Taxpayers who suffered unreimbursed disaster losses of property from the World Trade Center attack can take the deduction in 2001, or can elect to deduct the loss in 2000. By amending their tax year 2000 tax returns, taxpayers may receive refunds in a few weeks rather than after the filing of a 2001 return. In order to expedite return processing, affected taxpayers claiming the loss on an amended return should put "September 11, 2001 Terrorist Attack" in red ink at the top of the return.

Taxpayers must make this election before the due date (without extensions) for filing their income tax returns for the tax year in which the disaster actually occurred. For calendar year corporations, the due date for the election to amend the 2000 tax return would be March 15, 2002 and for calendar year partnerships, LLCs and individuals, it would be April 15, 2002.

Business property disaster loss is calculated as your adjusted basis in the

property, minus any salvage value, minus any insurance or other reimbursement you receive or expect to receive.



Personal use property disaster loss is calculated as the smaller of your adjusted basis in the property or the decrease in fair market value as a result of the disaster. From the smaller of the amounts, you subtract any insurance or other reimbursement you receive or expect to receive.

The total personal property loss is reduced by \$100, and then the total loss is reduced by 10% of your adjusted gross income.

When a taxpayer's property is destroyed, the amount received from insurance for loss of the property may exceed the taxpayer's remaining basis in the property, and thus result in realized gain.

However, you can elect to defer this gain if you purchase property in a timely manner that is similar or related in use to the destroyed property. You have until two years after the close of the first tax year in which the taxpayer realizes any part of the gain on the involuntary conversion to purchase the replacement property.

If you would like more information, please contact Tax Manager Sid Leibowitz at 631-752-7400 x-265 or SLeibowitz@hrcpa.com.

REMINDER: Charitable Receipts

The generosity of Americans towards the many existing and newly created charitable organizations assisting in the September 11th recovery effort prompts this reminder:

If you itemize your deductions, or if you are a business making a donation, in order to claim a deduction for a charitable contribution it must be made to an organization recognized by the Internal Revenue Service (the IRS has established expedited procedures for

newly created charities assisting with the September 11th relief effort). Also, if the contribution is \$250 or more, you must have a receipt in your possession before filing the tax return on which the contribution is claimed.

Other special rules exist for the contribution of tangible (e.g., food, clothing, inventory, furniture, computers, real estate) and intangible (e.g., securities) property.

Contact Tax Supervisors Joel Ackerman (x- 262) or Brendan Logan (x- 253) for additional information.

Thank You DFK International Members

Although we, as Americans and New Yorkers, all were affected by the September 11th tragedy, we, as a firm and group of individuals, were fortunate not to have suffered casualties to our immediate families. Many of our DFK friends from around the world and United States checked in with us, with some very heartwarming and concerned e-mails and telephone calls, on September 11th and the days that followed, and we would like to thank them publicly, listed by city:

Australia (Brisbane; Canberra; Melbourne; Perth; Sydney)
Belgium (Brussels)
Canada (Calgary; Hamilton; Ottawa; St. John's)
China (Hong Kong)
Cyprus
Dominican Republic
England (London; Southampton)
France (Paris)
Germany (Dusseldorf)
India (Mumbai)
Ireland (Cork; Dublin)
Italy (Milan, Rome)
New Zealand (Auckland)
Netherlands (Amsterdam)
Singapore
Spain (Barcelona)
Turkey (Istanbul)
United States (Baltimore; Denver; St. Louis/St. Charles, MO.; Santa Rosa, CA; Seattle; Washington, DC)

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Tax Filing and Payment Relief Following Terrorist Attacks

New York City also has granted extensions until December 17, 2001 for all returns and payments that were originally due on, or extended to, September 17, October 15, and November 15, 2001. Although New York City also waived nonpayment penalties during the extension period, it nearly mirrors the federal government with respect to interest. For New York City purposes, interest will accrue on all tax payments received after their original due date, calculated from the original due date to the date of payment.

For more information, contact Tax Supervisor Brendan Logan at 631-752-7400 x-253 or BLogan@hrcpa.com.