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TriCounty Area Chanber of Commerce President Dale Mahle and Congressman Jon Fox at the Chanber's Annual Economic Forecast Breakfast.

Photo by Bob Shoup Photography

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Avoid These Common Taxpayer Mistakes

By John A. Paciello, CPA, CFP

It's that time of year again—TAX SEASON is upon us! Each year I continue to hear people complain about paying income taxes. However, for many this irritation stems from their anxiety of paying more than their "fair share." Here are some common mistakes to avoid that will make the process less painful and possibly put more money in your pocket.

- **Poor record keeping.** Incomplete or disorganized financial records can lengthen the time it takes to prepare your tax return, boost the cost of having a professional prepare your taxes, or cause you to miss out on valuable tax deductions because you overlooked or can't support the deduction.

- **Failure to contribute to a tax-deductible/tax-deferred retirement plan.** Investing in a tax-deductible/tax-deferred retirement plan is one of the best tax tools available. It not only lowers your immediate tax bill—it helps you build a bigger retirement nest egg. The law allows for varying types of retirement plans depending if you're self-employed or an employee. Check today to see what tax deductible options are available to you.

- **Withholding too much pay.** Each year, millions of taxpayers receive tax refunds, often $1,000 or more. One way to look at this is you are getting a bonus or it's a form of forced savings. But another way to look at it is you have lent the government money tax free over the past year. Consider reducing you withholding and invest the extra take-home pay.

- **Wrong investment basis.** 1995 was a great year for many investors, and you may have taken some of those profits by selling some or all of your shares in one or more mutual funds. You'll pay taxes on the difference (capital gains) between what you invested in the fund ("cost basis") and what you sold it for. What many taxpayers forget, however, is to include their reinvested dividends and capital gains as part of their basis (distributions are taxed separately). Apply this same rule if you own stocks with automatic reinvestment of dividends (DRIPs).

- **Wrong inheritance basis.** Another common tax mistake involving investment basis occurs when people sell inherited property. If your aunt bought stock for $10,000, passed it on to you at death valued at $50,000, and you sold it in 1995 for $60,000, you should pay capital-gains tax only on the $10,000 difference between the $50,000 and $60,000—not on the $50,000 difference between your aunt's purchase price and your selling price. The basis for inherited property is generally pegged to the value of the property at death. (Caution—the cost basis rules are the opposite for gifts made prior to death).

- **Failure to bunch deductions.** Here's where long-term tax planning comes in. To itemize some deductions, you must exceed certain thresholds (7.5% of adjusted gross income for out-of-pocket medical expenses and 2% for miscellaneous deductions). Try to bunch as many expenses as you can in one year so you can deduct the amounts that exceed the thresholds (this strategy can actually increase taxes for those in higher tax brackets or subject to the alternative minimum tax).

- **Overlooked charitable deductions.** Most of us claim cash and property donations, but often overlook mileage, parking fees, postage, or long-distance phone calls associated with doing charitable work. You may find a tax deduction in doing something you enjoy.

- **Forget to claim deductions carried over from previous years.** Some deductions may be claimed this year if they were carried over from previous tax years. These include capital losses, passive losses, charitable deductions, and alternative minimum tax credits.

- **Failure to deduct refinancing points.** If you refinanced during 1995, you can deduct a portion of the points (prorated over the life of the loan). Don't forget to deduct the prorated portion on next year's return and there after up to the life of the mortgage.

- **The little things.** Double check your math, use the correct tax table, and sign the return.

Tax planning, education and organization will help relieve the anxiety of paying more than your "fair share."

John A. Paciello *is a Certified Public Accountant and Certified Financial Planner. He co-founded the firm of* ***Clairmont, Paciello & Co., P.C.****, Certified Public Accountants in 1975, and* ***C/P/C Financial Planning, Inc.*** *in 1988, servicing the Delaware Valley. For further information, please contact Mr. Paciello at* ***250 Tanglewood Lane, King of Prussia, PA 19406 or (610) 265-4122.***

1996 Economic Forecast for the Tri County Region

CoreStates Financial Corp. Executive Vice President and Chief Economist Dr. Carol A. Leisenring was the featured speaker at this year's TriCounty Area Chamber of Commerce Economic Forecast Breakfast, held at the Elks Home Association in downtown Pottstown on January 11. Dr. Leisenring, noted for her ability to transform complex economic data into easily digestible nuggets for the layman, told the room full of business owners and managers in attendance to expect for the most part a continuation of the same economic trends we saw in 1995—low, declining inflation, continued modest economic growth, and further cuts in interest rates—with perhaps less variation and volatility this year than in '95. The economy is still heading toward a "soft landing," Dr. Leisenring told those in attendance. "We haven't landed yet, but the wheels are down," she said.

Dr. Leisenring prefaced her forecast for the year with one important caveat, however. Glancing toward U.S. Rep. Jon Fox (R-13th District) seated to her left, she warned this is one of those rare times when the direct action—or inaction—of legislators in Washington could have a tremendous impact on the direction of the economy, referring to the current struggle between the President and Congress over how to balance the federal budget by the year 2002.

We are now in the fifth year of economic expansion, Dr. Leisenring pointed out. The growth rate of this expansion is more modest than in previous expansions. Dr. Leisenring described the current expansion as an "underachiever," particularly in terms of job growth. But she explained that the growth rate during the first year and a half of this expansion was especially sluggish, and if you discount that slow beginning, the economic growth rate has been very typical of postwar expansions.

"Consumer spending has also grown at a rate consistent with previous economic postwar expansions," Dr. Leisenring said. For 1996, consumer spending and income growth will continue to rise along with the overall economic growth rate, but at a slower rate than last year. Consumer spending may be further hampered by the fact that consumer debt has been rising much more rapidly than income, and debt to income ratios have risen.

What has really been fueling the current expansion, according to Dr. Leisenring, is a sharp rise in business investment in equipment and technology, and strong growth of U.S. exports. Export growth is expected to remain strong as economies of Europe, Japan, and elsewhere continue to improve. However, similar expectations over the past couple of years did not pan out as hoped. Still, business investment and exports combined to drive the economy forward last year and should continue to do so in 1996, in spite of a sharp decline in government spending relative to prior expansion periods.

Dr. Leisenring also discussed consumer price inflation, which has been very low—under 4 percent during the current expansion. The current rate is below 3 percent, and the forecast for '96 is for the rate to drift even lower, toward 2 1/2 percent. That's because the cost of employing people is rising at only a 2.6 percent annual rate, even though raw materials prices have increased. And attempts to raise prices are meeting a great deal of resistance from consumers.

Finally, Dr. Leisenring discussed the relationship between inflation and long-term interest rates. Expectations of future inflation are a prime determinant of long-term interest rates, she explained, and expectations of future inflation are adjusting downward again. That optimistic projection, along with the expectation for continued moderate economic growth and, she stressed, and prospects for a balanced budget agreement, have set the stage for lower long-term interest rates. At this point there is no disagreement on the need to balance the budget. But there is wide disagreement on where spending cuts should be applied and how much should be cut from Medicare, Medicaid, and Welfare expenditures. Even though the budget deficit as a share of the economy has declined in recent years, it will rise again if some action is not taken.

Prior to Leisenring's presentation, attendees at the Breakfast were briefly addressed by TriCounty Area Chamber President Dale Mahle, who Rep. Jon Fox called the "hardest working chamber officer in the country," as well as Rep. Fox himself and Carol-Rae Sodano, dean of the soon-to-be-completed West (Pottstown) Campus of Montgomery County Community College.

Both Mahle and Rep. Fox indicated their enthusiasm over the tri county region's prospects for growth and prosperity, and pointed out the unique and enviable position Pottstown and surrounding communities are in—situated in the path of business expansion along the Route 422 corridor. In his turn at the podium, Rep. Fox listed in general terms a few of the accomplishments of the Republican-controlled Congress in 1995—cutting costs, waste and perks, lobby and PAC reform, and limiting frequent flyer miles. He also spoke of his efforts to promote Schuykill Valley Metro—offering public transportation along the Route 422 corridor—as well as day care tax credits, and grants for local data terminals for township police. Rep. Fox also voiced his support for legislation allowing a presidential line item veto, and initiatives designed to reduce tax paperwork for business owners.

Using the analogy of giving birth (lots of labor and a "wonderful reward at the end"), Dr. Carol-Rae Sodano told business leaders in attendance of the present and future rewards the Western branch of Montgomery County Community College brings to the business community. She said the college will make a conscious effort to reflect the nature and personality of the community. "All of the elements of the community are important," she said. ". . . eighteen and nineteen year-olds as well as development of the adult population in whatever needs it indicates." Referring to how the business world has evolved to almost require continuing education for employees, Dr. Sodano said, "Our business is the business of development. We are creatively engaged in taking the potential of the individual and developing it to the best it can be."

Dr. Sodano closed her remarks by inviting members of the business community to engage in dialog with the college to the mutual benefit of both. "We are conscious that business and industry and education speak different language . . . but we are committed to communication and together we can create one of the most exciting educational experiences a community can enjoy."

TriCounty Chamber of Commerce members and visitors braved sub-freezing temperatures and negotiated the residue of the "snowstorm of the century" to attend this year's Economic Forecast Breakfast. If Dr. Leisenring's projections play out as expected, and our friends in Washington work out their differences on the budget issue, the rest of the year should provide for a much more hospitable climate in which to do business.

Graphically Speaking

Advertising:
Who, What, Where & Why?

Who should advertise? Anyone who has something to sell.

Where should one advertise? Through careful planning and by using common sense, a company will be able to establish that answer.

What are the two most important words to remember when planning advertising? Commitment and consistency.

Why advertise? To achieve what a good sales person should achieve—sales.

Advertising cannot be a hit-or-miss endeavor. First and foremost, you will need a comprehensive plan, which includes:

1. an advertising budget
2. total commitment
3. consistency in placing ads and types of copy
4. a list of those publications that are suitable for your ads
5. good, decisive copy
6. ability to keep track of those ads which are producing sales

Consistency of ads is the answer to successful advertising—not, as presumed, the size of the ads. Before deciding where to advertise, some questions should be asked:

1. What is the circulation of the publication being considered?
2. Who is the publication geared towards (Trade/Business/general public)?
3. Is the publication free or is it paid for?
4. Is it a daily, weekly, monthly . . .?
5. What is the number of subscribers?
6. What is of interest in the publication that makes it successful?
7. Do you or your customers read it?

Perhaps the answer to where to advertise lies with your customers. Ask them which publication they read, and the radio and television stations they enjoy, etc. This should give you a pretty good idea where to place your ads. Remember, picking the right publication or air spots can make or break your advertising budget. Also, check your competitors. Are they advertising? Where, when, and how often?

As Ben Franklin put it—"the empty wagon makes the most noise . . ."

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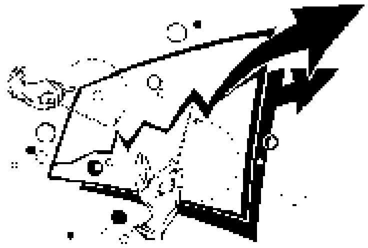

Rewarding Financial Moves for 1996

By Earl A. Clairmont, Jr. CPA, CFP

Finally, life has slowed down after the holidays. The January bills are paid off and you're catching your breath before April taxes are due. What a perfect time to take stock of your financial situation and make some rewarding moves for 1996. But be realistic, because a "to-do" list will be more effective than a "wish" list.

- **Take a financial snapshot.** Add up what you own (assets) and subtract what you owe (liabilities). The difference is your net worth. Is it positive? Use this figure as a baseline to see if your net worth grows from year to year. It's tough to make knowledgeable financial decisions unless you know where you stand financially.

- **Start a budget.** What's coming in, what's going out? Are you saving money or is it mysteriously disappearing? The acceptance of bank and credit cards at so many locations, even the grocery store, has made it very easy to overspend.

- **Keep accurate records.** What could be more boring! Yet keeping organized, up-to-date records is one of the best moves to make for your financial life. Good records can save taxes, boost your investments, and keep spending under control. If you have a computer, a financial software program can make this task much easier. But remember to back up your computer. Also, make sure to store your important documents in a safe, fireproof location. You should keep tax returns and records for at least seven years.

- **Set goals.** Talk over with your family their financial goals for 1996 and beyond. It's easier to accomplish the other strategies if you know why you're doing them.

- **Pay yourself first.** Set aside money for savings and retirement when you pay your monthly bills. Better yet, have it deducted automatically from your paycheck. It's painless that way, and what you don't have is harder to spend on other things.

- **Save at least ten percent for retirement.** Even if retirement is 40 years away. Social Security and company pensions won't make up as much of your retirement needs as they would have in the past. At the very least, you should save what the company matches. If you can't get by on ten percent less income now, you're going to have a tough time when you retire. The retirement savings plans in most cases are before taxes. Therefore, when you save a dollar and are in the 31% tax bracket, it's like the government gave you $.31 and you saved $.69.

- **Start an emergency fund.** Keep three months living expenses in a liquid cash reserve offering security of principal. Use it to see you through temporary unemployment or to pay off large, unexpected bills.

- **Pay off short-term, high-interest debts.** Paying off an 18% credit card is as good as earning 18% or more on an investment. Switch to a low fixed-interest, low-fee credit card and keep it paid off each month. Some banks are now offering tax deductible credit cards if you own a home. This is similar to a home equity loan.

- **Review your insurance.** Make sure your insurance coverage matches your current financial picture. You should have enough life insurance to cover your mortgage and your children's needs until they are living on their own. Also, insure your home for 100 percent of its replacement value at current construction prices. Raising your deductibles on home and auto can free up premium dollars for savings (but have that emergency fund in place).

- **Update your will.** Make sure your will reflects changes in estate-tax laws and changes in your personal life (birth, death, divorce, inheritance, etc.). In addition, your will names the guardians for your minor children in the event that both spouses are deceased. You don't want the courts deciding this important issue for you. Do you?

- **Think global.** Two thirds of the value of the world's investment markets lie outside the United States. Expand and diversify your portfolio. International mutual funds make foreign investing so easy.

- **Start a college fund.** With the skyrocketing cost of education, your kids are going to need every dime you can raise for school. Some estimates are that in 18 years the cost of four years of college education at an Ivy League school could be $400,000.

- **Start gathering 1995 tax documents.** Set up a file in which to put all of your 1995 tax documents as they are received. These could include W-2's, 1099's for interest and dividends, mortgage interest and real estate taxes paid, retirement and social security income, etc. This will save you time when you are getting ready for your CPA or tax return preparer.

- **Educate yourself.** Books, magazines, TV and radio, and seminars are good ways to learn about personal finance. Many firms, including mine, offer free seminars and newsletters. By being knowledgeable, you'll be able to ask intelligent questions and get the most out of your planning.

Investigate these and other strategies with your financial planner. Remember—the key to success is the "Five P's"—"Proper Planning Prevents Poor Performance."

Earl A. Clairmont, Jr. *is a Certified Public Accountant and Certified Financial Planner. He co-founded the firm of* ***Clairmont, Paciello & Co., P.C.****, Certified Public Accountants in 1975, and* ***C/P/C Financial Planning, Inc.*** *in 1988, servicing the Delaware Valley. For further information, please contact Mr. Clairmont at* ***250 Tanglewood Lane, King of Prussia, PA 19406 or (610) 265-4122.***

Trader's Edge

Adjust Business Strategies for Success

By Sam Loth

Larger retailers, sometimes referred to as "power retailers," have developed proven successful strategies for business success. Smaller, independent retailers can benefit from all the research and development of "power strategies" by reviewing and applying appropriate techniques to their own businesses.

Power retailers are consistent, directed and comprehensive in their marketing techniques. They identify customer needs, constantly adjust to the ever-changing marketplace and buy large quantities of products that dominate competitors both in price and selection. How can a small independent retailer contend with these strategies? By adhering to the key principles of power retailers:

1. Decide on a "Strategic Plan" for your successful business
2. Focus on how to satisfy the consumer.
3. Dominate or emphasize at least one aspect of your business and be most effective at it.

A strategic plan element might be for a women's dress shop which sells business clothing to maintain evening hours. This would be a minimum expectation of the working woman as a consumer and you may perform as a power retailer by being the only women's dress shop with evening hours in the area, thereby dominating the market.

Here are six ways any independent can act like a power retailer:

1. Appeal to price-sensitive shoppers by being cost efficient and price oriented.
2. Appeal to status-conscious consumers by focusing upscale and offering a full-service business atmosphere.
3. Attract convenience-oriented consumers with extended business hours and easy or improved access.
4. Appeal to variety and comparison shoppers by being dominant in certain strategic product lines and carrying wide selections in those lines.
5. Be customer-service oriented. Consumers in every walk of life are frustrated by the decline of retail service.
6. Be innovative and exclusive in your business presentation. Carry some product lines not offered by your competitors and be creative at your point of purchase displays.

Small retailers are actually lucky in some ways. They can learn from power retailers without going through all the expense and time for development of winning strategies. They can often be quicker to adapt to changes in the market. A small toy retailer might be able to offer that new doll for sale while the big boys are tied up in their buying committees. Any small retailer can be personable, service oriented, and build customer loyalty faster and more efficiently than power retailers. So remember, create a plan, focus on your customer needs, emphasize some dominant aspects of your business and win your share of the market!

Sam Loth is the Executive Director of the Pottstown Downtown Improvement District Authority (PDIDA). He can be reached at PDIDA, 204 High Street, Suite 200, Pottstown, PA 19464; (610) 323-5400, Fax (610) 970-1088.