BUSINESS MANAGEMENT

AMERICAN SOD PRODUCERS ASSOCIATION

4415 WEST HARRISON STREET
HILLSIDE, ILLINOIS 60162

Rush to: ▶ ▶ ▶ ▶ ▶ ▶ **FILE**

December '84/January '85

ASPA'S FINANCIAL & ESTATE PLANNING SEMINAR TO PROVIDE ANSWERS

On January 30 at the Contemporary Resort Hotel, Orlando, Florida, a special one day seminar will answer a wide range of questions regarding proper financial and estate planning for sod farm owners. Conducted as a benefit to its members, only ASPA members will be permitted to enroll.

To determine if you should attend, simply take the following short quiz.

Do you know:

1. How much estate tax your family may be required to pay?
2. How a corporation can help you reduce estate taxes?
3. What steps to take to insure the continuity of your family business?
4. Most "estate planning" wills executed before September 12, 1981, need to be revised?
5. How a corporation can substantially reduce your income taxes?
6. How to put a lid on the value of your business for federal estate tax purposes, despite inflation?
7. How to transfer future growth in value of your business to your children without a gift tax?
8. How to receive income from your business after retirement?
9. How to continue to enjoy medical insurance coverage after retirement?
10. How much you can save yourself and your business by attending the ASPA seminar?

The cost of ASPA's special seminar is only $125 for the first member and $75 for each additional member from the same firm. Detailed information and registration materials were sent to all members. Additional copies are available from the ASPA office by mail or telephone.

In this and future issues we hope to devote one page to a specific subject or theme. If there is a subject you would like to discuss, please let us know. This is your page and we would appreciate your comments.

TRUCKING - ITS POTENTIAL AS A PROFIT CENTER OR CURSE

Among growers there are two schools of thought regarding the best and most efficient method of delivering our product.

In some areas, especially in the south where sales volumes are high and timing less critical, most deliveries are contracted to independent truckers. This eliminates tying up capital in trucks and getting involved in hiring drivers, truck maintenance and, possibly, the Teamsters union, but the grower also tends to lose control of the delivery of his product.

The advent of the light-weight traveling forklift his changed delivery practices in most areas. In order to provide this unloading service, the grower is forced either to contract with a trucking company who is prepared to adapt his trailers to the forklift or to purchase his own trucks and forklifts.

For those about to be, or already in the trucking business, here are a few suggestions:

First - Whether or not the farm is incorporated, consider incorporating the trucking operation as a separate entity. Bring in one outside shareholder, as far as the IRS is concerned, to assure another corporate exemption.

Second - Don't insure the trucks with the same insurance company that insures your other operations. Trucks get into accidents and when they do, they frequently generate large claims which could drive the rates up on all operations. Most independent agents represent more than one company and can easily arrange coverage with a different carrier.

Third - Keep payrolls separate and don't intermingle employees. The whole point in establishing a separate corporation is to protect the sod farm in the event of a large claim. If it can be shown that the truck drivers also spend a significant amount of time on the farm payroll, there is a risk of the court concluding that the trucking company is not a truly separate entity. It is also a good idea to have a written agreement or lease between the two companies spelling out exactly what is expected of the trucking company as a contract hauler and containing a "hold harmless" clause.

Fourth - Treat the trucking company as a separate corporation with a separate set of books, etc. Break out all costs and have the companies bill each other for services. Knowing true delivery costs makes pricing decisions easier in competitive bidding situations.

These are generalized recommendations based on our experience and we will make no effort to deal with such things as axle weight laws, highway use taxes, federal excise taxes, etc. in this column. Suffice it to say that entering the trucking business involves a good deal of paperwork and requires the services of a knowledgeable attorney and accountant.

CECIL COLLINGS, ASPA Business Management Committee Chairman

PLAYING "SALARY CATCH-UP" WITH THE IRS'S APPROVAL

Frequently, when a farm is first established and cash-flow is bad and expenses high, the corporate owners/employees are forced to take small salaries, in the belief that as the operation improves, so will their income. In concept, it only makes good business sense to have such an approach. Unfortunately, the IRS is rather insistent about seeing such a plan on paper.

"Salary Catch-up" plans can be effected, but only if proper planning and paperwork are present to support an IRS challenge that the increased salary is really nothing more than a disguised dividend distribution.

The primary thing to remember in this arena is that you must prove that you were underpaid in prior years. Here are some of the other points to consider, but advice from your own accountant and attorney are recommended:

1. Establish a contingent compensation policy before the farm/corporation becomes highly profitable.
2. Regularly evaluate the corporation's bonus agreement and update it as necessary.
3. Bonuses should be declared in the beginning of the corporation's taxable year.
4. Compensation should not be paid according to the percentage of ownership of the chief shareholders working for the company.
5. The absolute must...keep a written record listing the executive's unique qualifications, responsibilities, special skills, etc., that amply justify the level of compensation with the success of the farm corporation.

While good records won't eliminate an IRS challenge, they will provide a strong level of credibility for your case.

DEDUCTING CASUALTY LOSSES WITHOUT FILING AN INSURANCE CLAIM

It's legal, says the Sixth Circuit Court of the US, to claim a casualty loss deduction even if an insurance claim was never filed. The court recently found that Section 165 of the Tax Code clearly limits the amount of the claim to any loss sustained, without regard to the filing of an insurance claim.

When the Code was first written by Congress, the effort was to eliminate those instances where a person or company did receive insurance compensation and also attempted to file a tax deduction for the loss. The court found that "not compensated" did not mean "not covered," so the case filed by the IRS was lost.

This all came about when an individual damaged his boat and decided not to file an insurance claim for fear that his rates would rise or he would be denied further coverage. Rather than filing an insurance claim, he simply took the loss as a deduction in filing his tax return. The IRS said, "No." The Sixth Circuit Court said, "Yes." The tax filing stood.

IRS ADDS TEETH FOR FAILURE TO FILE 1099-MISC

Poor compliance with previous laws caused Congress to add some sharp and pointed teeth to the IRS regulation that 1099-MISC forms must be completed by anyone receiving $600 or more in 1984 as a landlord, custom operator, or other independent contractor for rent or work on a farm.

Beginning with the 1984 tax filing, failure to provide the name, address and tax-payer identification number for the payee may result in the tax-payer paying 20% of the payment to the IRS as withholding.

Consult with your accountant to determine what information should be filed on a case-by-case basis.

CUT YOUR TELEPHONE BILL BY SAVING THOSE CARDS AND LETTERS

It used to cost nothing to dial for local or long distance telephone information, but that has changed. The interstate cost is now about 50¢ per call. To reduce or eliminate what can be a very burdensome expense to small businesses, many companies are filing notes and letterheads, expanding card references and placing the accumulated information in a central location.

Another useful source of names and telephone numbers is the ASPA Membership Directory. Recently mailed to all current members, it contains a complete address of every member, as well as the telephone number...for producers and vendors alike.

REPEAT ADS TO IMPROVE RESULTS AND SAVE MONEY

If you want your advertising message to reach the greatest number of people at the lowest possible cost, repeat the same advertisement in the same publication at least four times. That was the conclusion reached by the Marketing Communications Research Center in a study of 80 ads that ran in 23 business publications over an 18-month period.

According to the study, "Readers of industrial publications look at and read each of the four appearances in virtually equal numbers. The greater reach and coverage (was made) possible by using savings in creative and production expenses to buy more insertions."

The study also cited the cumulative effect of regular, successive exposures. In one case, 12 to 13 insertions in two publications in one year created 27% greater readership for each ad than using from one to five insertions over the same year in one magazine.

By repeating the same ad in the same publication, you will not have to pay for additional creative services and most publications offer substantial discounts for increasing numbers of advertisements placed during a year.