



Surviving a Volatile Market

The recent drop in the world's stock markets is making even veteran investors shake their heads. With the headlines screaming "Worst week ever" and "Markets in panic," it's easy to see why the regular person on the street is feeling nervous right now.

Investors are often warned that the investment markets can be volatile—and, as we're seeing these days, that may be an understatement. Despite the sometimes dramatic ups and downs that investors face, regularly saving and investing long term in the markets has long been a key to a financially secure future.

However, that approach gets seriously tested each time the investment markets drop dramatically for a prolonged period. And it's no different this time.

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What's an Investor to Do?

So, is this market downturn foretelling the end of the financial world as we know it? Will stocks ever return to their former values during our lifetimes? Should we just cash in everything and put the money in a metal box in our backyards?

While no one knows the answers for sure, it's

probable that, as with the market crashes of 1987 and 2002, we will also see the markets recover—maybe even well beyond previous highs. In the meantime, what should you do now? A lot depends on your goals and your timeframe for meeting them.

If you are young and are saving for retirement, you most likely have a lot of time to see your retirement account recover. Young investors may want to consider taking advantage of the low "bargain" stock prices available now and start adding more stock or stock fund investments to their retirement or savings accounts. A simple way to take advantage of these lower prices is to change your investment elections in your retirement account. This will let you buy more stocks or stock funds while they're at discount prices.

If you are older and retirement is right around the corner, you need to look closely at your options. If your retirement accounts have experienced a serious loss, you might need to revisit your investment strategy and your retirement plans. You might have to work longer than you planned or adjust your projected post-retirement living style. You might need to increase your contribution levels, sacrificing your current lifestyle for the future. In any event, make sure your asset allocation (how your retirement money is allocated among stock, fixed income and cash equivalent investments) fits your current situation. Assuming you have several years left to allow the market to potentially recover, now may be a good time to convert your IRA accounts to Roth IRA accounts with substantial tax savings for you now and in the future.

Should You Give Up on Investing?

Many investors have been hit hard over the past few months. And, yes, it is difficult to think about the losses you've likely suffered in your accounts. However, remember that while things may take some time to recover, now is the time to think about your future and plan how to meet your financial goals despite the losses the market has delivered. While these economic times are certainly unprecedented in our recent history, they also provide us with unprecedented opportunities to secure a stronger financial future. ■



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Compensating Corporate Officers for Services Performed for the Corporation

The Internal Revenue Service specifically includes a corporate officer within the definition of “employee” for employment tax purposes. When corporate officers perform services for the corporation and receive (or are entitled to receive) payments, their compensation must be considered wages. These payments are not to be treated merely as distributions of cash, property, or loans to a shareholder. S-Corporations should not attempt to

Reasonable compensation should be based on the job description and location where the corporate officer is performing the services.

avoid paying employment taxes by having an officer’s compensation treated as a distribution, a payment for personal expenses, or a loan. The corporate officer should be paid a “reasonable wage” by the corporation for the services he/she performs for the corporation. This reasonable wage should be paid as compensation and is therefore subject to employment taxes. Reasonable compensation should be based on the job description



and location where the corporate officer is performing the services. For assistance in determining what a “reasonable wage” is, go to www.salary.com and choose your job title and zip code. ■

Employers: Keep Good Records

Employers have a responsibility to keep accurate, up-to-date business records, including employment-related records. Employment tax records must be maintained for at least four years after the later of the due date of the tax for the return period to which the records relate or the date the tax is paid. These records should include the following information:



- employer identification number (EIN)
- amounts and dates of all wage, annuity, and pension payments
- amounts of tips reported
- the fair market value of in-kind wages paid
- names, addresses, Social Security numbers, and occupations of employees and recipients
- employee copies of W-2 forms that were returned as undeliverable
- dates of employment
- periods for which employees and recipients were paid while absent due to sickness or injury, and the amount and weekly rate of payments made to them by the employer or third-party payers
- copies of employees’ and recipients’ income-tax withholding allowance certificates (W-4, W-4P, W-4S, and W-4V forms)
- dates and amounts of tax deposits
- copies of returns filed
- documentation for allocated tips
- documentation for fringe benefits provided, including appropriate substantiation

Penalties for noncompliance can be harsh. A willful failure to keep required records is a misdemeanor punishable by a fine of up to \$25,000 (\$100,000 for corporations) and/or imprisonment for up to one year.

In addition to employment tax records, employers sponsoring employee benefit plans also need to keep good plan records. The documents setting forth a benefit plan’s terms should be kept permanently, including documents for retirement plans that have been merged into the employer’s retirement plan. Records sufficient to document information reported on Form 5500 (or that would have been reported on Form 5500 but for a filing exemption) must be maintained for at least six years after the Form 5500 is (or would have been) filed. For retirement plans, records sufficient to determine retirement benefits due or which may become due must be retained as long as such documents are relevant to a determination of benefit entitlement for a participant or beneficiary. For cafeteria plans, dependent care assistance plans and adoption assistance plans, records showing that the plan meets the requirements of the relevant section of the Internal Revenue Code must be kept for five years. Other plan records may be required to be maintained for various periods, depending on the nature of the record.

Review your current recordkeeping policies and processes to make sure they comply with the law and determine what, if any, changes you should make. ■

Reducing the Risk of Fraud in a Recessionary Economy

The headlines are filled with stories of long-established businesses failing and employees being laid off, leading to an atmosphere of panic and despair. As revenues decrease, many businesses are looking for ways to cut costs so they can ride out the storm. These measures often include decreasing employee benefits, laying off employees, or reducing salaries. Many employees are feeling financial pressures at home as well as on the job. Their personal costs are going up and they may be worried about their spouse's job. These conditions lead to unhappy employees and low morale. Unfortunately, they also lead to a significantly higher risk of fraud for many businesses.

Businesses are at risk for both external and internal fraud. External fraud can strike in the form of theft by customers, such as shoplifting and bad checks. Credit card theft and check fraud are additional threats to businesses. With software purchased from a local office supply store, anyone can print your business checks. All the fraud perpetrator needs is a copy of your check with the bank name, account number, and routing number.

Internal fraud is employee theft or embezzlement. Most employees are honest, but under the right set of circumstances, some may steal from their employer. For employee fraud to occur, three factors must be present: need, rationalization, and opportunity. In poor economic times, the need is money to buy food, heat the house, pay doctor bills, and keep up with other living expenses. Rationalization becomes easier when the employee is stressed about keeping his/her job or is resentful about a reduction in hours or pay. As an employer, you can do little to control need or rationalization, but you can significantly impact opportunity. A business with effective internal control procedures is less likely to experience employee fraud, because such controls—consistently followed—reduce opportunity. An employee may have the need and be able to rationalize taking money, but without a good opportunity, theft is less likely to occur.

As economic conditions decline and the workforce is



reduced, employers may find it difficult to enforce existing internal controls. One employee may be performing the duties of two employees in the same department. Financial reports may not be prepared promptly, and theft may go undetected for several months before there is any indication something is wrong. During these times, the risk of fraud is at an all-time high for many businesses. Not only is the employee's need higher and the ability to rationalize greater, but opportunities may be substantially increased.

This is the time for businesses to perform a risk assessment. Internal controls should be reviewed to see if the procedures are still realistic and adequate. A reduction in the work force may require new procedures and reassignment of personnel. There are many ways a business can design and implement effective internal controls. In these economic conditions more than ever, businesses need to minimize their fraud risk.

The current economic environment could be the best time for your organization to evaluate and reduce its vulnerability to fraud. ■

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What Is Your Internal Control IQ?

1. In a two-person office comprised of a bookkeeper and owner/manager, the following represents the best segregation of duties:

- a. The bookkeeper writes and mails checks.
- b. The bookkeeper receives cash and other payments, completes the deposit slips, and takes deposits to the bank.
- c. The bookkeeper records accounts receivable invoices and records customer payments.
- d. The bookkeeper approves payroll, and the owner/manager signs employee contracts.

2. Check-related fraud can best be prevented by implementing the following internal controls:

- a. Dual signature on checks.
- b. Having the bank statement mailed directly to the owner's residence.
- c. Segregation of duties related to maintenance, entry and approval.
- d. Both b and c
- e. Both a and c

3. The following are effective preventive controls related to financial statement information (select all that apply):

- a. Financial information is reported on a comparative basis.

- b. Journal entries are reviewed and approved by management.
- c. Financial statements are prepared on an annual basis.
- d. Inconsistencies or unusual data are not researched in a timely manner.

4. What is the best control related to information technology? (select all that apply)

- a. Only the owner or upper management has administrative control over the computer system and software.
- b. There is no policy on the sharing of password information between staff members.
- c. Passwords are required to be changed periodically.
- d. There is no lockout procedure incorporated in the software after a period of inactivity.

5. True or False: The smaller your organization, the less susceptible it is to fraudulent activity.

No organization is immune to the risk of fraudulent activity, especially in turbulent economic times. It is important to assess your risk of fraud and develop a strategy for implementing the appropriate internal controls. ■

Answers: 1. d; 2. d; 3. a and b; 4. a and c; 5. False