

FALL 2007

Ideas & Trends



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Where angels dare to tread

Question: What do Google, Amazon, The Body Shop, Starbucks and Apple all have in common (aside from being fabulously successful)?

Answer: They all got their starts with the help of angel investors.

The entrepreneurs who started these companies had great ideas that were incubated in homes, dorm rooms, garages or small offices. And they all needed money to grow and prosper. Often they began with loans or investments from friends and family, as well as their own savings, but soon they needed more.

Because startups may have sound, but risky, ideas for growth, they typically fall outside the comfort zone for traditional sources of financing. So they often turn to angel investors.

A divine idea

The term “angel” originated in the theater industry. Angels were the individuals who financed Broadway shows. Today’s angels are relatively wealthy individuals who make private investments in early-stage companies, in return for the promise of a substantial return. Angels often fill a niche between self-financing and the bank loans or venture capital usually available to businesses when they’re further along in their development.

While exact numbers are hard to come by because angel investment activity is private, the Small Business Administration estimates there are at least 250,000 active angels in the United States, investing in some 30,000 small businesses annually. According to the Center for Venture Research at the University of New Hampshire, 70% of the time these investments are made in companies within 50 miles of the angel’s home.

Angels typically will make equity investments and frequently also provide loans or loan guarantees. Their individual investments usually aren’t large: They average about \$40,000 per venture, according to the study. Other estimates are higher, but individual investments rarely exceed a few hundred thousand dollars. So, it’s not uncommon to put together a small group of angels to provide adequate early-stage financing.

Angels go with the stars

Like other high-risk investors, angels typically look for higher-than-average returns on their investments,

knowing that some won’t pan out. To minimize their risk, angels often limit their investments to industries they’re familiar with. As a result, they often don’t want to sit idly by, but instead want to take an active role in advising management. This can be a clear advantage: Sign up an investor and get a consultant for free.

But all parties need to make sure expectations are clear and agreed on before an angel’s investment is accepted, because one person’s idea of assisting and protecting his or her investment may be another person’s idea of unwelcome meddling.

In evaluating potential investments, angels will want to see a sound business plan. Even more important than the business plan, however, is the management team’s expertise. Startup companies have little in the way of a track record, so the strength of the management team is the best predictor of success. Angels also will need a clear exit strategy for eventually cashing out their investment. Moreover, they’ll want to know how their equity interests will be protected in any future financing rounds.

A match made in heaven

If your company needs startup funding, the best way to find angel investors is through networking. Professional advisors such as your CPA and attorney are good places to start. Also ask board members, customers and suppliers for recommendations. If you’re likely to need multiple investors to raise sufficient funds, seek out potential lead investors who have experience putting together groups. ♦



So, what's your plan?

Retirement plan options for the self-employed

Who says retirement plans are just for big businesses? If you're self-employed, a one-person sole proprietorship, an owner-employee or a small business owner, you can set up a retirement plan that saves you taxes and helps build your retirement savings. Let's examine a few of your options.

Simplified Employee Pension (SEP) plans

A SEP allows you to contribute and deduct up to 20% of self-employment income — before reduction by the retirement contribution itself — and 25% of your salary if you're an employee of your own corporation. You can vary the percentage you contribute each year to accommodate fluctuations in how well your business performs, but you can't contribute more than \$45,000 for 2007. (This limit is adjusted annually for inflation.)

SEPs can be set up as late as the extended due date of the income tax return for the entity sponsoring the plan. For a sole proprietorship, it will be your personal income tax deadline, with extension; otherwise, it will be the due date, with extension, of the business income tax return. SEPs are easy to get started — and usually with no charge.

Solo 401(k) plans

With this plan, you can contribute up to 100% of the first \$15,500 of your 2007 compensation or self-employment income (\$20,500 if you'll be 50 or older by Dec. 31). You also can make an "employer" contribution of up to 25% of compensation, or 20% of your self-employment income, if you're a sole proprietor. The most you can contribute in 2007 is \$45,000, or \$50,000 if you're 50 or



Going solo

A solo defined benefit plan allows self-employed individuals to put away \$100,000 or more a year tax-deferred. It's particularly viable for self-employed workers age 50 and older who have a significant steady income (at least \$160,000 annually), who want to save more than they can under other types of retirement plans, and who wish to reduce their taxes as much as possible in the shortest period of time.

But unlike contributions to a 401(k) or a SEP plan, contributions to a defined benefit plan are mandatory — even in lean years. In addition, you'll have to pay a consultant and an actuary to create the plan and calculate annual contributions. These plans require an annual filing and are subject to penalties if either overfunded or significantly underfunded.

older at year end. You can vary your yearly contributions as needed or pay nothing at all. But you must establish your plan by Dec. 31, 2007, if you want to claim a 2007 tax deduction for contributions you make to the plan.

Keogh plans

There are two types of Keogh plans: defined contribution and defined benefit pension. To receive a deduction for the current tax year, you must establish the plan before year end, after which you can defer actual contributions until the extended due date for that year's return.

Annual contributions to Keogh *defined contribution* plans are generally based on a percentage of your self-employment income or compensation and subject to a \$45,000 ceiling for 2007. In addition, you must draft a plan document during the first year and the IRS requires an annual report.

Keogh *defined benefit pension* plans are designed to deliver a targeted annual retirement benefit. You're required to pay a yearly contribution that's calculated by an actuary — an amount based on your income, the target benefit, years until retirement and anticipated investment returns.

Traditional IRAs

Don't forget that you may contribute up to \$4,000 (\$5,000 if 50 or older at the end of the year) to a traditional IRA in 2007. There are phase-out rules, however, so if you or, if applicable, your spouse participates in an employer-sponsored plan, you may be ineligible to take a tax deduction for your otherwise allowable contribution. Furthermore, there's an age limit of 70½ that may preclude you from making a contribution at all.

Roth IRAs

The Roth IRA works well with a SEP, solo 401(k) or Keogh plan because it allows you to achieve even more retirement tax savings. Contributions are not deductible, but earnings are tax free and you eventually can withdraw all your money — including earnings — without owing any taxes.

The Roth is similar to a traditional IRA in that, for 2007, individuals may contribute up to \$4,000 (\$5,000 if you'll

be 50 by the end of the year), less any contributions to a traditional IRA. The contribution limits, however, are subject to a phaseout between adjusted gross income of \$99,000 and \$114,000 for singles and between \$156,000 and \$166,000 for joint filers. The same thresholds apply even if you have a SEP, 401(k) or Keogh plan. So you can contribute the maximum to those plans and then contribute the maximum amount to your Roth IRA. And, unlike with traditional IRAs, there's no age limit imposed on making contributions. As long as you're otherwise eligible, you may contribute regardless of your age.

Reaping the benefits

Speak with your CPA to determine the ins and outs of these and other plans, including any required government reports, setup fees and administrative expenses, and whether you might be required to contribute, if applicable, to employee accounts in addition to your own. With some research and planning, you can find a plan that's right for you. ♦

Tax dollars and good sense

8 year-end strategies to help you reduce income tax liability

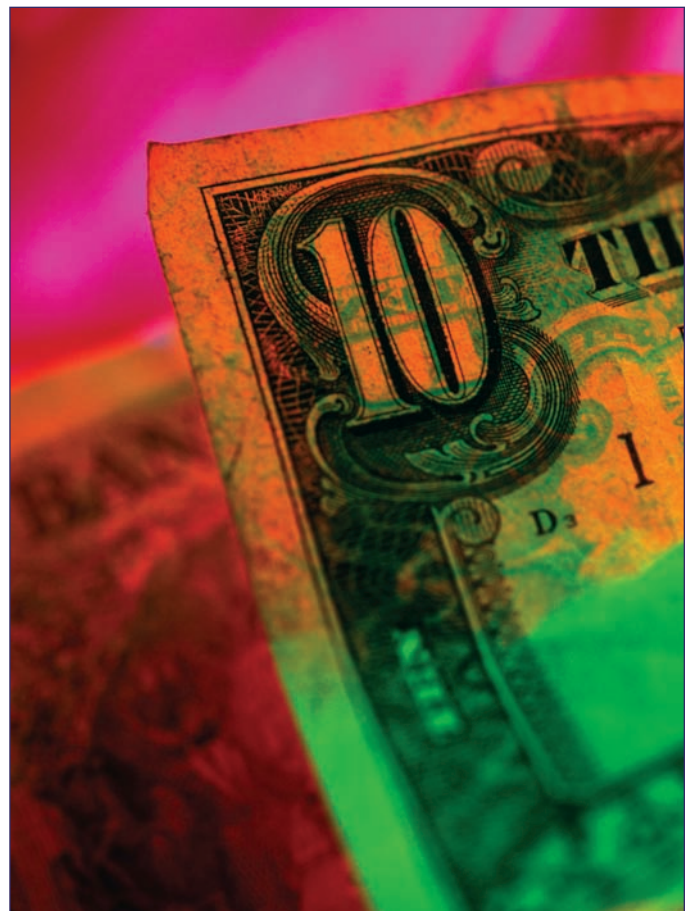
April 15 may be months away but it's never too early to take steps to help reduce your tax bill. Here are eight good-sense strategies to help maximize your deductions and minimize your taxes.

1. Maximize charitable giving

Charitable contributions generally are fully deductible as long as you itemize and you don't surpass certain statutory limits. If you donate property you've held more than one year, you may be able to take a charitable deduction equal to its current fair market value. Plus, you'll avoid paying tax on the long-term capital gain you'd incur if you sold the property.

2. Take home-related deductions

You can deduct interest if you use a mortgage to finance the purchase of your home. You can even deduct interest on a second home to the extent that your combined home mortgage debt doesn't exceed \$1 million. Interest on the first \$100,000 of a home equity loan is deductible, so consider using your home equity to pay off credit card debt, auto loans or other debt where the interest isn't deductible.



3. Claim available tax credits

You may be able to claim the \$1,000 Child Tax credit for each child under age 17. And you may be eligible for the Child and Dependent Care credit, which is worth at least 20% of qualifying expenses, subject to a cap. If you adopt, you may be able to take the maximum Adoption credit of \$11,390 in 2007 or the employer adoption assistance program income exclusion, also \$11,390 per eligible child.

If you have children in college, you may be able to claim a Hope credit for the first two years of postsecondary education. The maximum credit is \$1,650 for 2007. Similarly, you may be eligible for the Lifetime Learning credit of up to \$2,000 per taxpayer for an unlimited number of years of postsecondary, graduate and certain other education expenses.

These credits do have restrictions, and many phase out if your income is above certain levels.

4. Offset gains against losses

To deduct losses on stocks that have depreciated, liquidate those stocks so the trades are resolved by year end. If you end up with a net loss, you can claim up to \$3,000 this year and carry forward any excess to future years.



7. If you're self-employed, make major purchases now

Go ahead and buy all of the business equipment and supplies you haven't yet purchased. A new tax law, signed by the president in May 2007, increases the Section 179 expense deduction from \$100,000 to \$125,000 effective for years after 2006. The expense deduction begins to phase out if more than \$500,000 of eligible property is placed in service during the year.

8. Max out employer-sponsored retirement plans

To the extent the contributions are pretax, they reduce your taxable income. The 2007 limit for employee contributions to 401(k), 403(b), 457 and SARSEP plans is the lesser of 100% of compensation or \$15,500. Similarly, under a SIMPLE, you may elect to contribute up to \$10,500 of your salary pretax, and your employer is required to make contributions as well. If you're 50 or older, you can make additional "catch-up" contributions.

No time like the present

Take advantage of these and other practical tax-saving strategies now to help lessen your tax bill later. Tax laws can be complex, so be sure to review your overall tax strategy with your CPA. ♦

“*If your AMT liability exceeds your regular tax liability, you must pay the AMT.*”

5. Watch out for the alternative minimum tax (AMT)

The AMT is an alternative tax computation that, among other things, disallows personal exemptions and some deductions. If your AMT liability exceeds your regular tax liability, you must pay the AMT. If it's likely you'll be subject to the AMT, time income and deductions as much as possible to either avoid the tax or protect your deductions.

6. Defer income/accelerate deductions

In potentially high-income years, consider deferring some income until after Jan. 1. If you expect a large bonus this year, for example, ask your employer to hold off mailing it until next year. Accelerating deductions also can save you taxes in a high-income year. Be sure to consider the AMT consequences of your planning, however.

How to negotiate and win

Today you have access to myriad data at your fingertips, but important transactions are still conducted much as they were thousands of years ago — through face-to-face negotiations. Whether you're closing a big sale, hiring an employee or buying a house, you need good negotiating skills to get the price and terms you want.

Prepare well

To be a good negotiator you need to prepare. Set your goals for the transaction based on research on the reasonable range for price and other terms. Learn as much as possible about the other party in regard to other deals they've been involved in, what their needs are and other elements that could influence the transaction.

Remember: Be sure to have alternatives so you aren't forced to make a deal with unsatisfactory terms.

Let the other party go first

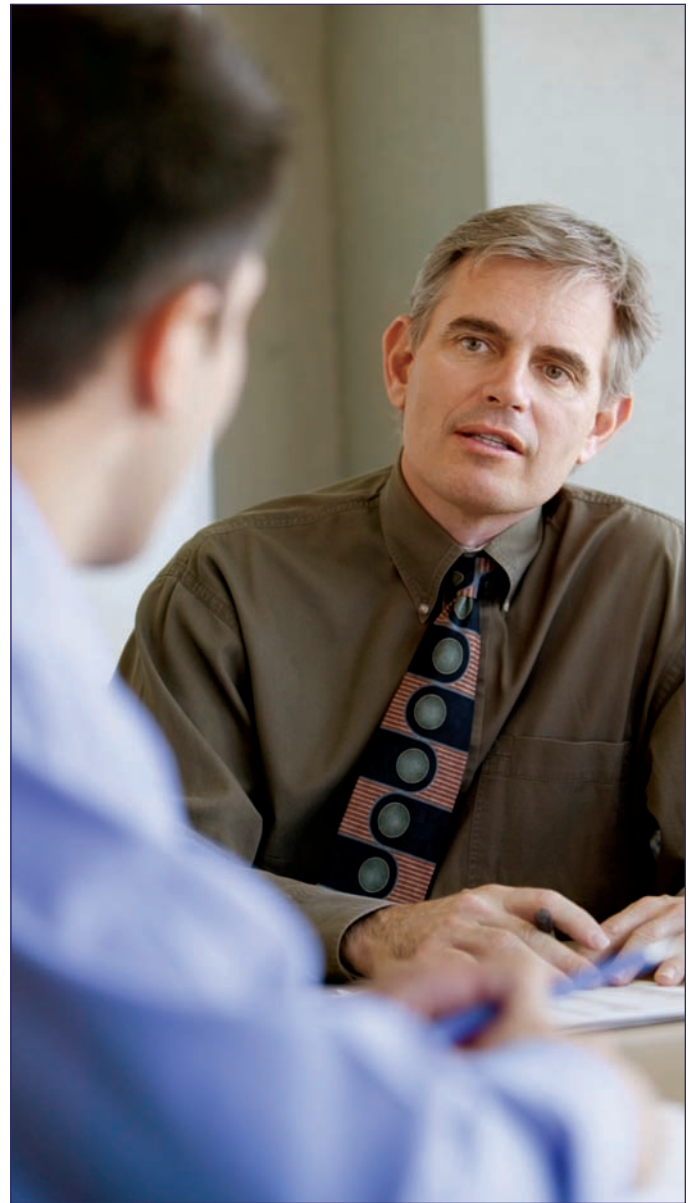
If possible, have the other party show its hand first. It's always better to react to an offer than to make one, because it allows you to ascertain the expectations of the other party.

“*Ask probing questions to determine if the other party is seeking a quick transaction. For instance, he or she may have a quota to meet in the next few days.*”

For example, say you're negotiating a contract for personal services such as a consulting arrangement. If the consultant goes first, he or she may ask for less than what you'd be willing to pay, and you could end up with a great deal. Or, if the consultant asks for an outrageous amount, you can avoid wasting time on negotiations that likely will go nowhere.

Be a good listener

If you listen carefully, the other party may tell you exactly what it needs out of the negotiation. Even if he or she doesn't spill the beans, you'll still have a better idea of how to meet the other party's needs. Moreover, ask probing questions to determine if the other party is



seeking a quick transaction. For instance, he or she may have a quota to meet in the next few days.

Aim high but make some concessions

If you can't avoid going first, don't worry if your initial offer seems unreasonable (as long as it's not outrageously so). It's just a starting point, but it will calibrate your opponent's expectations. It also will give you plenty of room to make concessions and still come out with a favorable deal.

Don't feel like you need to make large concessions to match the other party's moves or to conclude the deal, however. People who only slowly improve their offers usually come out ahead.

Find a win-win

This is the most important aspect of any negotiation. Both parties need to feel like they've gained something positive from the transaction or else the "loser" may not hold up his or her end of the deal or may refuse to do business with you in the future. For instance, if a contractor feels like he was taken advantage of in the negotiating process, he may be tempted to cut corners or charge a significant amount for every change order, no matter how small the task.

Nothing says the parties have to be equal winners, but both must feel the outcome was reasonably fair.

Negotiate with skill and preserve the relationship

Good negotiators are well prepared and focused, and learn from their experience. By knowing how to negotiate well, you're more likely to get what you want without alienating the other party. ♦

Thwart identity theft: Destroy unneeded documents

Whether at work or home, many people tend to be hoarders, keeping too many sensitive documents around longer than necessary. When those documents are finally tossed, confidential information may be carelessly exposed or stolen. Developing a policy outlining the types of documents that should be destroyed — and when — may be one of the smartest moves you'll ever make.

Business document destruction policies

When you think about all the proprietary information that floats around the workplace, it's easy to understand why having a good document destruction policy is essential. If your company uses any type of consumer reports, such as information from credit companies, make sure your policy complies with the data safeguards contained in the Fair and Accurate Credit Transactions Act of 2003. Train your employees on how to identify and destroy information that should be safeguarded and hold them accountable for following your policy.

To make destruction easy and thus encourage compliance, install containers for documents to be shredded or given to a document destruction service. Also, periodically go through old files and dispose of bank, tax, employment, payroll and other records that are past retention requirements. Physically destroy CDs, DVDs and even thumb drives that contain sensitive information. When disposing of a computer or removing selected sensitive files from a system, use a software application that writes over all data on the machine's hard drive, making it impossible to recover.

Document destruction policies for the home

Destroy documents that contain sensitive financial information, credit or bank account numbers, and medical information. And educate family members on why these documents shouldn't be thrown in the trash.

Cut down on the amount of sensitive material by opting to get monthly investment or bank statements online and then print out and file only the relevant pages. Finally, call 1-888-5-OPTOUT or visit www.optoutprescreen.com to stop unsolicited credit card offers.



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