



Mehdi Rezazad
Founder and Principal
Centilion Inc.

FinancialCzar had planned the current edition as a special issue on taxes in time for the tax filing season. However, the economic situation trumped all subjects for most people all over the world. Conversations with clients and friends demonstrated a deep bewilderment on the state of the economy, and how to handle it. Questions centered on how bad, how deep, how soon, and other angst ridden ponderings. A good many wonder how much of this is just business as usual, blown out of proportion by the media.

It is not the end of the world. Really. The Czar believes that many businesses will experience a noticeable reduction in profits, but there will be no apocalypse. Virtually everyone has been through one or more crises in their business, career, or lifetime. This, too, will pass. The key is to cope with it with strength and resourcefulness, and with courage and inventiveness. Valuable lessons will be learned and a new foundation will be set for future successes.

To deliver on the promise of tax saving strategies, and at the same time not neglect the sudden crisis, FinancialCzar set out to cover in this issue both subjects, for business owners and individuals alike. The focus is on how to use tax tools and other resources to raise some cash, and keep it from leaving your bank account in the first place, and maintain peace of mind. Additional suggestions are included to help better equip everyone in dealing with the challenges ahead.

Acknowledgement

I would like to acknowledge all the kind words, generous support and helpful feedback received from friends all over the world after publishing the inaugural issue. For the precious help I have received in launching FinancialCzar in its current format, my sincere gratitude and special thanks go to so many. We will strive to make an outstanding contribution to the success of friends and clients and provide peace of mind.

Mehdi Rezazad

THE ART OF FINANCIAL JUJITSU

Jujitsu is the art and sport of using deflection to defeat an opponent. The practice relies on flexible adaptation to stop or redirect violent force aimed at self. The recent economic upheavals have been referred to by many names. All learned individuals agree that we have a major problem on our hands. The talking heads anchoring the cable news routinely call it a tsunami. Whether you choose to accept such categorization from these purveyors of hype, a call to action is in order. The principles of jujitsu can be adopted to deflect the blow and regain balance and control. Major shifts in economic conditions require some realignment on both business and personal fronts. Additionally, the apparent riches of recent years may have helped lull too many business owners and consumers into certain complacency. If you are in that category, it is time to clean house.

It's Your Business

Yesterday's prosperity required a model that helped bring in impressive results and high profits. Today's conditions mandate a different model in order to survive and buy time until the economic cycle completes its course. Here is a sample of strategies to help your business get through the rough times:

Whip up Your Market Savvy. For starters, start viewing the current conditions as an opportunity to re-slice the economic pie. In a tough environment, some players will fold their tent and call it quits, either by will or by force. As the weak perish, the savvy are poised to claim the abandoned positions. Try to beat the others to capturing some of the freed up market share.

IN THIS ISSUE:

FINANCIAL JUJITSU | TAX SAVING IDEAS | YOUR 2008 TAX RETURN



Centilion
Peace of Mind

Strategic Initiatives | Business Advisory | Accountancy | Tax

Redeploy Your Business Model. A business model typically reflects the conditions of the times when it was prepared or last updated. It includes assumptions that may have been valid and operative at the time, but are no longer suitable due to the dramatic shifts in the business climate. A ten thousand foot view of your business plan may help evaluate the current status and the macro actions needed. This analysis is sure to help focus on the components of the business model that are in greater need of change.

Reconsider Your Marketing Plan. Your marketing plan may have been solid and effective during ordinary times, but most likely will need a review now that business climate may be more competitive. Some examples of actions that may be required:

- Redefine the desirable customer base and re-assess the ranking system.
- Review break-even point and steps needed to lower it.
- Re-evaluate pricing, and sales incentives offered to both the sales force and customers.
- Refocus your ad campaign and business development.

Review Your Organization Plan. For many smaller businesses, payroll and occupancy are among the largest expenses. A staff person costs the business more than the salary and benefits, as they demand a share of the infrastructure and resources. A large section of the workforce now consists of an emerging society generation adept at using resources and experienced in multi-tasking. The old model for compensation systems, work environment and hierarchies no longer apply and can be tweaked to deliver the biggest bang for the buck.

Revisit Your Tax Plan. Another large expense category for many businesses is taxes. This is an area that lends itself to creative ideas and techniques. The tax savings can be plowed back into the business and help generate more revenue and profits. You may wish to consider your choice of entity, spin-offs, accounting methods, employment norms, and role definitions, as few of the examples of tax saving strategies.

Think Inventively. Apply your knowledge and business experience to ideas and concepts that can help retain resources, increase sales or keep it from declining, make the processes more efficient, and lead to cost reductions. Explore and tinker, and seek knowledge and guidance.

Restructure Debt. Take a creative look at your loan contracts to consolidate or rework the provisions to defer payment, reduce interest, and make it otherwise less overwhelming. Lenders may agree to restructure a loan as long as the new terms are not riskier than those under the current contract. It is important to maintain contact with your lender. If default is expected, you may want to inform the lender as soon as possible and attempt to work out a new plan.

On the Personal Level

Perhaps the single most important element in managing the challenging economic times is being in control. Similar to other crises in life, a financial meltdown can create confusion and take away initiative. If you have the feeling of having fallen off the horse and being dragged along, the first thing to do is to get back in the saddle. This will require some clear thinking and a few actions, big and small.

The ability to make some quick changes, regardless of size and scope, helps generate empowerment and self confidence. You may start with fairly small changes and move your way up. Since change often meets resistance, communication and goal sharing will help pave the way.

Here is a sample of steps that may help give you gain an edge in tackling the tough times:

- **Be Alert to The Fact That Conditions Did not Evolve Gradually.** What happened was a shock and a sudden change from prosperous times. This warrants a review of the spending habits and expense profiles put in place in recent years when the going was good. Review all contracts and plans, including phones, cable, Internet, maintenance on home, equipment, grounds and yard, bank accounts, credit cards, brokerage accounts with high management fee, and expensive subscriptions and memberships. Make changes where you encounter waste and complacency.
- **Review Insurance Contracts on Cars, Property, Liability, Life, Disability and Umbrella Policy.** You will find that some fairly minor restructuring can lead to considerable cost savings. So can experience rating, bundling, and academic performance of insured children of driving age. Discuss with the insurance company your desire to save on costs and ask for recommendation.
- **Review Life Habits With An Eye to Eliminating Waste and Economizing.** UPS recently cut a huge portion of its fuel costs by remapping some of its routes so that its drivers would encounter less left turns where the trucks would idle and burn fuel. Discount warehouse stores such as Costco and Sam's Club offer much more than diapers and groceries.
- **Recognize Before- and After-Tax Expenses, the Latter Being More Costly.** To the extent possible, using before-tax dollars to pay for expenses is highly preferred. In any event, greater wisdom must be exercised on the expenses paid with after-tax money.
- **If You Lose Your Job, Consider Forming A Business.** A great many successful entrepreneurs cut their teeth into business after losing their job. In parallel to looking for another job, you could use your skills to land some assignments, even though they may be short term and small. Forming a business is quick and easy and, depending on your field, it may require very little or no capital. Alternatively, you could get involved in running an existing business.

Centilion will help develop outstanding models and loss mitigation strategies. You will benefit from emerging opportunities, stay on top, and enjoy peace of mind.

- **Re-Educate Yourself.** Nothing retools you for new opportunities better than updating your knowledge and expertise, expanding your skill set, and learning new tricks. If opportunity does knock only once, not only do you want to answer it but you would want to be in your best shape. Education improves self esteem and enhances sense of control, a great antidote to confusion and malaise.
- **Increase Your Social Contacts.** This can only lead to more opportunities, chase away the blues, and help expand your network. Coping with any setback is more challenging if undertaken in isolation. Maintaining closer contact with your social circle will prove rewarding.
- **Consider Giving of Yourself to Worthy Causes.** If you have some time on your hand, you might as well let others benefit from your abilities, skills and time. Besides, witnessing other people's misfortune is a humbling experience and watching them cope can only strengthen your inspiration.

As a community service, Centilion is available to counsel those experiencing extreme financial hardship.

TAX SAVING IDEAS

Your Own Government Rescue Plan

US Government has been throwing lifelines to key business sectors and institutions. Ordinary taxpayers may not benefit directly from these efforts, but you do have access to some pretty potent programs embedded in the tax code. These provisions are designed to extend a helping hand to businesses and individuals experiencing hardships. There are also elements in the tax laws that, combined with clever timing, can be utilized to provide relief. A sample are covered here.

Recoup Taxes Paid Previously. If you own a business and had a loss during 2008, you can carry that loss back and apply it against the profits of 2006. Any leftover loss can then be applied against the 2007 profits. The result in either case is a refund of the federal and state taxes paid for those years. Any unused losses can be carried forward for the next 20 years until fully absorbed by future profits.

Use Future Losses to Avoid Paying Existing Taxes. If your business has been profitable in current year, but you expect a loss next year, you may avoid paying taxes on this year's profits. This relief is conditional and will be canceled if the losses expected next year do not materialize. Not all businesses may qualify to use this powerful relief.

Activate Your PAL to Save on Taxes. If you own rental real estate chances are your loss in prior years was considered a passive activity loss (PAL.) For taxpayers with income above a certain level, PAL is not deductible. It is reported and carried into the future, and deducted when the property is sold. If you wish to sell the rental property that produced the PAL, the cumulative loss will be released and offset your income. There are other types of passive activity, other than real estate, that also produce PAL and offer similar tax benefits.

Generate Tax-Deferred Asset. Losses experienced as a result of sale of stocks and bonds are deductible only against capital gains. Any excess is deductible up to \$3,000 per year in current and future years. You may be forced to liquidate all or part of your portfolio, either because you expect the investment to become worthless, for emergency cash needs, or other reasons. The sale will lock in the capital loss and produce a tax-deferred asset that will offset your future capital gains. Note that, while it may not be advisable to sell a portfolio just to generate a tax loss, this option is available and, if desired, the stock can be bought back subject to the rules of "Wash sale."

Convert Low Value IRA to Roth. Contributions to regular IRAs are tax deductible and withdrawals are taxable income. These rules do not apply to Roth IRAs. Converting a regular IRA into Roth, while desirable, triggers taxable income and is possible only if certain tests are met, lower income being chief among them. If both your income and IRA portfolio have taken a hit due to the economic meltdown, this may be a good time to consider converting your regular IRA to Roth.

Centilion will review your financial profile and advise on tax saving options and the best strategies. If you are qualified for tax relief, Centilion will help place your refund application on a fast track with the IRS.



YOUR 2008 TAX RETURN

Here are a few suggestions to make the process of tax return preparation and filing smooth, organized and productive:

Use the Organizer. In January, Centilion emails the e-Organizer.

To gather your tax data and communicate it to us, use the e-Organizer, including the Questionnaire and the Notes section. All these tools are designed to make tax process more efficient and benefit our clients.

Be thorough. In completing the e-Organizer, review prior year's tax files, current year's tax documents, and jog your memory. Collect all forms, especially 1098s for interest expenses, 1099s for investment income, and K-1s for business and real estate investments. Centilion's e-Organizer substantially simplifies the data gathering process. It provides an option for direct download of W-2s, 1098s and 1099s from web sites of employers, banks, investment companies, etc.

Be timely. Email back to us the e-Organizer, and scan and email, mail, or drop off all tax documents at your earliest convenience. Don't hold up the tax return for a missing item, such as the K-1 from an investment.

Communicate. We can only help you based on what we know about your tax profile and details. The more you tell us the better we will serve your interests.

Opt for fast refunds. Direct Deposit, the IRS service to deposit your refund directly into your account, is the way to go. It is much faster and less error prone. You can also use this service to pay the tax balance and estimated taxes. The data needed to use this service is your bank's name, account number and routing number. This data is available from your checkbook. Have your refund go into either a checking or savings account. The IRS recommends against using an investment accounts for the purpose of Direct Deposit

Maintain a sensible approach. You should go for all the benefits and tax deductions available to you. You may take reasonable risks and keep in mind that, under certain circumstances, you will be given the benefit of the doubt. Do not, however, take unreasonable risks, act reckless, or feel the pressure to use your tax position to prove your prowess or score a social point. Similarly, do not fall for foolish claims by typically irresponsible people who brag about cheating the government and never getting caught.

Accelerate Information Flow. The sooner we have your tax information the better. If you are among our high net worth clients, clients with active investment accounts and clients pressed for time and have granted Centilion account access to online reports please make our access continues if you have changed investment advisors.

Help us represent you best. Centilion's multi-layered quality assurance system consists of many procedures and steps, some of which include the full review of documents and data entered into e-Organizer, input verification, search for tax saving opportunities, search for potentially unreasonable tax positions and excessive tax deduction*, and review of client's exposure to potential audits and unfavorable outcomes*. We also maintain complete, prompt and unlimited multi-media communication with our clients via phone, email, fax and in person. These steps are designed to ensure not only timely and accurate completion of the tax returns but also that our clients benefit the most from tax provisions and loopholes.

**Centilion has a proud 30 year history of tax service.
Centilion has helped clients enjoy the benefits available under the law, minimize tax liability and work to diminish possibility of tax audits.**

* This is not a comprehensive search and one that should not be relied upon by client as an exclusive method to catch errors, omissions or risky positions.

For additional information regarding any subjects in this newsletter email forward@centilion.com or visit www.centilion.com.

© Centilion Inc. Published in McLean, Virginia, USA and distributed worldwide. Centilion is a professional services firm providing consultancy to businesses and individuals in various states and countries worldwide.

This newsletter offers ideas and opinions in matters of general interest and may not be suitable to individual cases without special consideration. Readers are advised to seek professional opinion prior to acting on these recommendations to ensure they are timely and appropriate. If you do not wish to receive future newsletters please send an email to forward@centilion.com and enter Remove in the subject line.

IRS CIRCULAR 230 NOTICE: Any tax advice included in this written or electronic communication (and any attachments) was not intended or written to be used, and cannot be used, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

**Strategic Initiatives
Business Advisory
Accountancy
Tax**

centilion.com



Centilion