Forensic Accounting Focus

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- Property & Casualty Insurance Claims Consulting
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- Litigation Support
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Inside This Issue

Price-Checking Contents the Easy Way

We suspect that many of you have found the internet to be an increasingly valuable information tool. In the area of verifying replacement cost on personal property items, the growth in e-commerce has afforded an array of sources that can be accessed quickly and inexpensively for pricing information. Although it is probably too time consuming for most adjusters to price a large number of items this way (we're not trying to put you contents specialists out of business), it can be a very useful method of quickly "spot-checking" the reasonableness of the pricing used in a contents claim.

Generally, there are two types of sources that may be helpful: price search engines and specialty vendor websites. Price search engines are set up to search a variety of vendor websites for available prices on a specific product. They are most useful for consumer-oriented products. Specialty vendor websites (those that specialize in serving a particular industry or particular category of equipment or supplies) are usually more useful for commercial and industrial equipment and supplies.

Examples of general price search engines include:

Froogle (part of Google at froogle.google.com), PriceScan.com, PriceGrabber.com and PriceComparison.com.

They all work in similar fashion, returning a list of products that fit your search criteria with a price and a link to the vendor's website for each item.

After trying a few, you will develop a feel for specialty vendor web sites that have general utility. We have found a few that are effective in specific areas:

- For computers, computer parts and consumer electronics, try: PriceWatch.com and StreetPrices.com.
- For DVD's, dvdPriceSearch.com covers it all.
- For small, general industrial equipment try: NorthernTool.com, GlobalIndustrail.com and AutoToolExpress.com.
- For restaurant and commercial kitchen supplies and equipment, InstaWares.com has a broad selection, discount pricing and free shipping on larger orders.
- For general retail store supplies and fixtures, try: StoreFixtures-Online.com, or DisplayWarehouse.com.

These are just a few examples. If you have found particularly useful sources for contents pricing, how about sharing them with the rest of our readers?

Send your submissions to amoceri@walnay.com and we will put together a "favorites" list for a future edition.

Understanding an Owner's Draw

Often an owner of a small business operating as a sole proprietorship will seek wage loss benefits based upon "draws" taken from the business. What exactly is a draw and should wage loss benefits be based upon draws?

First, let's try to define the term "draw". A draw is really nothing more than an allocation of cash flow from the business to the owner. The business owner simply takes cash out of the business rather than leaving it in the company bank account or rather than paying company bills. Some owners may take a consistent amount out on a regular basis. To many it seems like a "wage". In some instances, an owner may draw out more money than the income actually earned by the business. There are several ways this could occur, including cash available from recent loans made to the company, excess

cash from not paying business expenses, or profits generated in prior periods that had not yet been taken out of the company. However, a draw does not represent income to the owner. A draw also does not represent taxable income.

For the purpose of determining the loss of income an owner may be experiencing subsequent to an accident, draws should be ignored. The actual income earned by an owner of a business is the income generated by the business itself. Since the income of a business is determined by subtracting all business expenses from the sales or revenues, in order for the income to be affected, either the sales/revenues or expenses must be affected. Typically the expenses that would be affected are labor. Therefore, it is important when discussing a claim with the business owner that the emphasis of the discussion evolves around either lost sales/revenue or extra labor costs, and not the draws an owner may have taken prior to the accident.

New IRS Mileage Rates

Beginning January 1, 2007, the new IRS standard mileage rate is 48.5 cents per business mile driven. The standard mileage rate is an optional method for use by employees and self-employed individuals to deduct the business use of a personal vehicle in lieu of recording and deducting the actual vehicle expenses (records of business mileage must still be kept). Self-employed individuals would deduct the expense on Schedule C. Employees who use their vehicles for business and are not reimbursed by their employer would take it is an itemized deduction (this is subject to a threshold of two percent of adjusted gross income – a hurdle which effectively wipes out the deduction for most individuals in this situation). Even if the optional standard mileage rate is elected, parking fees, tolls and interest expense attributable to business use of the vehicle may still be separately deductible. Unfortunately, if your employer reimburses for business mileage at a rate higher than 48.5 cents per mile, the difference is subject to withholding for income and payroll taxes.

Don't Overlook Tax Planning and Saving Opportunities in Your 401(K) Plan at Work

One of the most widely available tax-planning and retirement savings tools for individuals is the employer-sponsored 401(k) plan. Participating in the plan allows you to shelter some of your compensation from current income taxes and invest it for retirement. You decide how much you want to contribute to the plan each year and how it will be invested. The amount you contribute won't be counted in your taxable income for the year, so it reduces your current tax bill. In addition, most employers provide some amount of matching contribution. This provides an immediate "return on investment." Therefore, if you are not participating in the plan, you are foregoing "free money" that you could otherwise have received. Of course, there are limitations to what you can contribute. Next year, the contribution limits will increase.

The limit on the amount that you can contribute to a traditional 401(k) plan will increase to $15,500 in 2007 from $15,000 in 2006. For a SIMPLE 401(k) plan, the limit increases to $10,500 for 2007 from $10,000 in 2006. The expanded limits create some tax planning opportunities. If you receive a bonus at the end of 2006 and haven't reached your limit for the year, consider using some, or all, of that bonus for 401(k) contributions. This will reduce your tax bill for 2006 and increase your retirement account. If you will be receiving a raise in 2007, consider increasing your 401(k) contribution by the amount of the raise (up to the amount that would place you at the limit). Your take-home pay will remain the same and you will increase your savings rate in such a way that you won't feel the "pinch."

Although the above amounts are the general contribution limits for 401(k) plans, this does not mean that you are automatically entitled to defer that amount. Other limitations may come into play that would limit your elective deferrals to a lesser amount. For example, your employer's plan may provide a lower limit or the plan may need to further limit your elective deferrals in order to meet nondiscrimination requirements.

There is a special provision in the law that may allow older workers to increase their retirement savings rates: a plan may permit participants who will be age 50 or over by the end of the calendar year to make additional contributions, commonly referred to as "catch-up" contributions. An employer is not required to provide for catch-up contributions. However, if your plan does allow catch-up contributions, it must allow them for all eligible participants. If you participate in a traditional 401(k) plan and will be age 50 or older by the end of 2007, your contribution limit increases by $5,000 to a total limit of $20,500 for 2007. For a SIMPLE 401(k), the elective deferral limit increases by $2,500, for a total limit of $13,000 for 2007.

Another quirk in the law can benefit older workers who have more than one employer. If you participate in plans of different employers, you can treat amounts as catch-up contributions regardless of whether the individual plans permit those contributions. However, you must monitor your own deferrals to make sure that they do not exceed the applicable limit (this is because neither employer will know what you are contributing to the other plan – but the IRS will). For example, if Mary, who's over 50, has only one employer and participates in that employer's traditional 401(k) plan, the plan would have to permit catch-up contributions before she could defer the maximum of $20,500 for 2007 (the $15,500 regular limit for 2007 plus the $5,000 catch-up limit). If the plan didn't permit catch-up contributions, the most Mary could defer would be $15,500. However, if Mary participates in two 401(k) plans, each maintained by an unrelated employer, she can defer a total of $20,500 even if neither plan has catch-up provisions. Of course, Mary couldn't defer more than $15,500 in any one plan and she would be responsible for monitoring her own contributions.

One caveat: the rules relating to catch-up contributions are complex and your limits may differ according to provisions in your specific plan. Therefore, you should contact your plan administrator to find out whether your plan allows catch-up contributions and how the catch-up rules apply to you.

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At Walworth & Nayh, P.C., we specialize in Forensic Accounting Services, including Insurance Loss Accounting and Litigation Support.

We regularly provide expert testimony in deposition, trial and alternative dispute resolution venues. Our forensic specialists apply their knowledge of accounting, finance, information technology, and business to the investigation of specific issues related to insurance claims and litigation matters. Opinions are developed by thorough analysis combined with judgment and experience.

Our clients include insurance companies and their adjusters, private companies who have experienced a loss, and attorneys representing both plaintiffs and defendants involved in business disputes.

Unlike traditional accounting firms, we are exclusively devoted to helping clients resolve disputes by providing technical expertise in the relevant accounting and damages issues.

For further information, we invite you to contact one of our partners at the numbers listed above, or by e-mail at amoceri@walnay.com.

Firm News

We would like to welcome our newest employee, Andrea Sugierski. She recently graduated from Walsh College with a masters degree in accounting. Andrea was a Presidential Award Scholarship recipient as an undergraduate at Wayne State University where she received her bachelors degree in Business Administration. During her college years, Andrea was also employed as an Executive Assistant and a Legal Assistant.

We realize the importance of continuing education and frequently provide seminars at client's offices. The advantage of in-house seminars is that they can be tailored to your specific needs. In the past we have presented seminars on Understanding Tax Returns, Business Interruption Losses, Theft Claims and No-Fault Wage and Survivors Losses. If you are interested in having a training seminar at your office, please phone or e-mail Anne Moceri (see contact information above) to make the arrangements.