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A tax, business, and financial planning newsletter for our clients and friends

Productivity Solution: 60-Hour Workweek Using 40-Hour Shifts

Here's an innovative way for business owners to increase productivity. By properly structuring 40-hour work shifts, companies can schedule a 60-hour workweek without the need for a second shift, and without the expense of overtime wages.

When incoming business strains production capacity, it's a natural impulse for many employers to add a second shift. Second shifts, however, present several problems. The most common problem is that it is often difficult to find qualified personnel for a second shift. To further complicate matters, a second shift means that line management positions must be duplicated - a real challenge in most industries. In addition, employee efficiency is

reduced by environmental influences such as inadequate lighting.

As an alternative to the inefficiency of second shifts, progressive companies are looking at an innovative use of a 60-hour workweek.

Establishing The New Workweek

At first glance, it might seem surprising when the 60-hour workweek is scheduled, all employees continue to work only 40-hours a week. However, a key element in the schedule is that employees work four 10-hour days a week instead of five 8-hour days.

Three groups of employees - "A", "B", and "C" - work on a schedule that repeats itself every two weeks. Here's how the ABC two-week schedule looks.

	Mon. Groups	Tues. Groups	Wed. Groups	Thurs. Groups	Fri. Groups	Sat. Groups
First Week	A + C	A + C	A + B	A + B	B + C	B + C
Second Week	B + C	B + C	A + B	A + B	A + C	A + C

CONTINUED ON PAGE 4

CLIENT'S tax & financial UPDATE

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Productivity Solution:
60-Hour Workweek
Using 40-Hour Shifts

Tax Points

How To Use
Productivity Ratios
To Judge Company
Performance

Tips For Better
Negotiating

How To Turn A Taxable
Loss Into A Tax Refund

Two Ways To Deduct
Car Expenses

taxPOINTS

Loophole: Donate property to charity that has appreciated in value, but retain the income through a charitable remainder trust. The property is transferred to the trust. You retain the right to keep the income from the property for your lifetime. **Benefits:** The charity obtains the property at your death and you get a deduction at the time you transfer the property to the trust for the present value of the interest the charity will get in the future.

Look into annuities that offer tax deferral. Both fixed and variable-rate annuities provide tax deferral resembling qualified plans. **Added benefit:** There are no contribution limits with fixed and variable-rate annuities.

Overlooked medical deductions. Medical expenses that exceed 10% of your adjusted gross income are deductible. Commonly overlooked expenses are... 1) travel undertaken for medical reasons, and 2) home improvements and additions to the extent that the cost exceeds any increase in the value of the affected property.

Contribute to your company's qualified plans. With 401(k) plans you can contribute up to a maximum of \$18,000. **Added benefit:** If you own your own business establish a Simplified Employee Pension Plan (SEP). Contributions are tax deductible and you may contribute 25% of your considered compensation, up to a maximum of \$54,000.

How To Use Productivity Ratios To Judge Company Performance

Keeping track of ratios is a simple and useful way to determine whether a company's costs are in line with its productivity. Here are some important ratios to watch.

- **Number of employees to sales volume.** Sales dollars per employee should be tracked on a regular basis. If sales per employee decrease, you may be losing market share, or your production methods may need improvement.
- **Profit margins to sales by product.** This ratio can help to identify weak product lines and determine where price increases or product changes are necessary.
- **Net sales to current assets.** By tracking this ratio, you can test various strategies to maximize sales dollars relative to current assets.
- **Direct cost of materials to sales.** Changes in this ratio will alert you to look for cost increases in areas such as raw materials. When these areas are identified you can take steps to correct them.

Tips For Better Negotiating

1. **Negotiate on your opponent's premises.** This will eliminate the interruptions and distractions at your own office. It also lets you evade a tough question since you can claim that the information you need is at your office. In addition, you can ask to speak with your opponent's superior if you reach a stalemate.
2. **Listen while you talk.** It will tip you off about what negotiating points you should follow up on. A sigh, a grunt, or a murmur of disagreement can often provide valuable information you can put to good use as the negotiations proceed.
3. **Don't be tricked into a last minute concession.** When you think your negotiations are completed, watch out for unexpected tactics. They're usually preceded with statement such as "by the way, it's only a detail but..." or "this means we get this-and-so, too." If it's obvious that the other party is looking for more than you've both agreed to, calmly say that you'll look into it and the chances are that the other side will drop the matter.

How To Turn A Taxable Loss Into A Tax Refund

Even a business with a steady record of profitable operations can have an occasional bad year. But if you own a company that suddenly shows a net operating loss, you may be able to turn that loss into a cash refund of taxes you paid in past years.

Sam White is a good example. Sam owns White Wind Boats, Inc., a well-established and successful maker of luxury power boats. For thirty years, Sam has carefully navigated a course that brought a steady stream of profits to White Wind Boats.

Sam's business philosophy was simple; produce the best power boat in the industry and people will buy it. The strategy worked and White Wind Boats became the standard of quality to serious sport fishermen and weekend boatmen alike. Bolstered by a good economy, Sam's business cruised along to record growth until 2016 when, without warning, the tide turned.

Sales had never been better, but like all power boat makers, White Wind Boats purchased its marine engines from an engine manufacturer. When Sam's engine supplier suddenly pulled up anchor, White Wind Boats found itself in very rough waters.

Sam immediately found a new source for his marine engines, but it would be months before the supplier could deliver. In the meantime, unfilled orders for White Wind Boats continued to pile up. Sam kept his production line running and it wasn't long before he was looking at a sizeable number of completed boats – completed, of course, except for the engines.

Finally, only days after White Wind Boats' year end, the engines arrived, but not before dozens of disappointed buyers had cancelled their orders.

It will be a costly year for White Wind Boats and when the results are in, the company will show a taxable loss of \$110,000 for the year ending December 31, 2016 – the first year in the company's history that it will not show a profit. Obviously, the company will pay no income taxes, and Sam will settle for the hope of smoother waters in the years to come.

A BETTER SOLUTION

Sam White will feel a lot better about the sudden storm that hit his business if he uses the tax laws as productively as he builds his boats.

Taxpayers who experience a taxable loss have two options: One option is to first carryback the loss two years and then to carry it forward for twenty years. The other option is to forego the carryback option and carry the loss forward twenty years.

For Sam White, carrying back his 2016 taxable loss over the two prior tax years will produce dramatic results, because in addition to paying no income taxes for 2016, White Wind Boats, Inc., will receive a cash refund for a portion of the taxes it paid dating back to its 2014 tax year.

Here's what a two-year carryback of White Wind Boats 2016 taxable loss of \$110,000 will mean to Sam White, assuming the taxable income is as reported here.

It's apparent from below that a two-year carryback of Sam's 2016 taxable loss will mean a total tax refund of \$18,500, a major contribution to charting a future course of success for White Wind Boats.

The proper treatment of a taxable loss can have a substantial impact on your taxes, and you should consult with your accountant to determine how carryback and carryforward tax laws can best be applied to your individual situation.

TWO-YEAR CARRYBACK	Tax Year Ending 12/31/14	Tax Year Ending 12/31/15
Taxable income as previously filed	\$ 70,000	\$ 50,000
Less allowable carryback of 2016 taxable loss	70,000	40,000
Adjusted taxable income after carryback	0	10,000
Taxes previously paid	12,500	7,500
Less adjusted taxes after 2016 loss carryback	0	1,500
Tax refund due White Wind Boats, Inc.	\$ 12,500	\$ 6,000



CONTINUED FROM PAGE 1

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Notice that Group C, which consists of workers who have the least employment seniority, is always paired with either Group A or Group B, each of which consists of more experienced employees. This makes special line managers for Group C unnecessary, since the Group A and Group B managers perform that function. In addition, the experienced Group A and Group B managers supervise and train the Group C workers.

Employee Reaction

There are several good reasons why employees like the "ABC" work schedule:

- The 4-day workweek gives employees more time to spend with their families or to enjoy leisure time activities.
- Every two weeks, Group A and Group B employees alternately get

five consecutive days off. Over a one-year period, this adds up to 26 "mini vacations".

- Because employees work four days instead of five, their commuting expenses are reduced by 20%.

Company Rewards

Employers have much to gain from a 60-hour workweek:

- Absenteeism is reduced, since employees can take care of personal business and make medical or dental appointments for the weekdays when they are not scheduled to work.
- The schedule allows the company to better utilize its existing facilities and equipment, with less downtime than at the beginning and end of a double shift, less time lost to "breaks", and a reduction in start up and shutdown time.

- Because employees like the ABC workweek, employee morale and efficiency are improved. In fact, one company has reported that the 60-hour workweek is so efficient that production is almost equal to its previous two-shift, 80-hour workweek.

Better Customer Service

One of the added benefits of the 60-hour workweek is that a 10-hour workday provides better customer service. Customers in the same time zone can reach the company during expanded hours, while communication with customers in other time zones are greatly improved.

Where it's been put into practice, the 60-hour workweek has been successful, with increased productivity and efficiency for employers, more days off and lower commuting costs for employees, and improved customer service through better communication.

Two Ways To Deduct Car Expenses

If you use your car for business purposes and your employer does not reimburse you, there are two ways you can deduct your car expenses. Use the method that's best for your individual situation.

The actual cost method. To use this method, you must keep detailed records of all business-related car expenses. These include gas, oil, maintenance, car washing, insurance, repairs, interest on your

car loan, supplies, tires, automobile club dues, depreciation, and taxes.

The mileage method. To take deductions, you must keep a record of the number of business related miles you travel, your point of departure and your destination, and an explanation of the business purpose of your auto travel. You are allowed to deduct a specific amount per mile.

You can also deduct miscellaneous expenses such as parking charges and tolls, but you must be able to substantiate them.

