INVENTORY COUNTS

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CPAs AND ADVISORS

Reinstated R&D credits

Don't miss this tax saving opportunity

The tax credit for increasing research activities, commonly known as the R&D credit, is back in effect as of January 2013. The research credit begun in 1981 has expired and been reinstated 15 times. It currently is available through the end of this year.

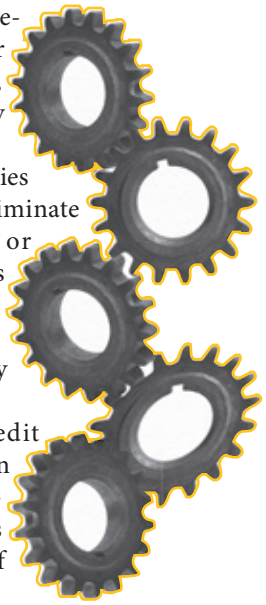
If history is any indication, the credit will be extended into 2014. But to be safe, now is the time for manufacturers to review their eligibility for the tax credit.

The tax law provides two specific tax incentives to taxpayers who undertake research activities – current expensing of research-related costs and a tax credit for research activity.

Since the fruits of research and development efforts often are difficult to predict or are unsuccessful, the tax rules allow a current deduction rather than requiring capitalization and depreciation of those costs. In this case, the tax and accounting rules follow the same approach.

Taxpayers have the choice of two different R&D credit computations: the regular credit or the alternative simplified credit. For the regular credit, an incremental amount of qualified research expenditures is determined with reference to a baseline of prior qualified research expenditures incurred over a fixed period of time. This may be administratively difficult or impossible to document. So, an alternative simplified credit for an incremental amount of qualified research expenditures for a given year may be determined for qualified research expenditures generally incurred on a rolling average in the three prior years.

Amounts defined as R&D costs for tax credit purposes generally include certain costs incurred in the experimental or laboratory sense related to development or improvement of a product. A product includes, for instance, any pilot model, process, formula, invention, technique or software to be used by the taxpayer.



Qualifying costs are those incurred for activities intended to discover information that would eliminate uncertainty concerning the development or improvement of a product. Uncertainty exists when information available to the taxpayer is not sufficient to ascertain the capability or method for developing, improving or appropriately designing the product.

Examples of qualifying costs for the credit include salaries and wages for those engaged in research or experimentation efforts, outside services (contractors) and expenditures or materials and supplies used and consumed in the course of the research or experimentation.

Research does not qualify if substantially all of the activities relate to style, taste, cosmetic or seasonal design factors, sometimes referred to as "taste and texture." Research does not qualify for the credit if conducted after the beginning of commercial production or if related to the adaptation of an existing business component to a particular customer's requirements.

See ***R&D Credits*** *inside*

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Summer 2013

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A financial and management bulletin to manufacturers from:

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Energy boom fuels population growth in Texas, Great Plains

The oil and gas boom in Texas and the Great Plains is bringing the fastest population growth in the country to those areas, according to new numbers released by the U.S. Census.

Midland, Texas, grew at a rate of 4.6 percent between July 2011 and July 2012, the fastest growth of any metropolitan city in the nation. Odessa and Austin-Round Rock were also among the 10 fastest-growing cities. Dallas-Fort Worth and Houston had the highest numeric increases of anywhere in the nation, with more than 125,000 new residents moving to those cities.

Among the fastest-growing micro communities – those with between 10,000 and 50,000 population – Williston, N.D., led the nation, growing 9.3 percent in one year. Another North Dakota city, Dickinson, was third after Junction City, Kan., growing by 6.5 percent.

"There are probably many factors fueling this growth on the prairie, but no doubt the energy boom is playing a role," said Census Bureau senior advisor Thomas Mesenbourg. "For instance, the Permian Basin, located primarily in West Texas, and North Dakota accounted for almost half of the total U.S. growth in firms that mine or extract oil and gas, during a recent one-year period."

The U.S. energy boom has caught many by surprise, seemingly springing up overnight. The driving force is the technological innovation known as fracking – horizontal drilling and hydraulic fracturing – that allows oil and gas to be extracted from geological reservoirs once considered unreachable.

Outside of growth in energy areas, retirement is fueling the population growth in many of the fastest-growing areas. For instance, two retirement areas in Florida were high on the list: Destin/Fort Walton at 3.8 percent growth and The Villages, at 3.4 percent. Clarksville, Tenn., the location of Fort Campbell and the 101st Airbourne Division, is also a favored retirement spot, especially with military families.

New York City continues to be the most populous metropolitan area with 19.8 million residents, followed by metropolitan Los Angeles, which just passed the 13 million mark, and Chicago.

Nine metropolitan areas in the United States have more than 5 million residents, and 52 have at least one million.

Fastest-Growing Metropolitan Areas (+ 50,000 pop.)

1.	*Midland, Texas*	*+4.6 %*
2.	*Clarksville, Tenn./Ky.*	*+3.7*
3.	*Fort Walton/Destin, Fla.*	*+3.6*
4.	*The Villages, Fla.*	*+3.4*
5.	*Odessa, Texas*	*+3.4*
6.	*Jacksonville, N.C.*	*+3.3*
7.	*Austin-Round Rock, Texas*	*+3.0*
8.	*Casper, Wyo.*	*+3.0*
9.	*Columbus, Ga.*	*+2.9*
10.	*Manhattan, Kan.*	*+2.8*

Fastest-Growing Micro Areas (10,000-50,000 pop.)

1.	*Williston, N.D.*	*+9.3 %*
2.	*Junction City, Kan.*	*+7.4*
3.	*Dickinson, N.D.*	*+6.5*
4.	*Andrews, Texas*	*+4.7*
5.	*Vernal, Utah*	*+4.1*
6.	*Heber, Utah*	*+3.8*
7.	*Elk City, Okla.*	*+3.5*
8.	*Elko, Nev.*	*+3.5*
9.	*Pullman, Wash.*	*+3.4*
10.	*Fort Polk South, La.*	*+3.2*

Metro Areas with the Largest Numeric Increases

1. *Dallas-Fort Worth, Texas*
2. *Houston, Texas*
3. *Los Angeles, Calif.*
4. *New York, N.Y.*
5. *Washington, D.C.*
6. *Atlanta, Ga.*
7. *Phoenix, Ariz.*
8. *Miami, Fla.*
9. *San Francisco, Calif.*
10. *Seattle, Wash.*

R&D Credits *cont from front*

A taxpayer may claim a research credit equal to 20 percent of the amount that qualified research expenses for a taxable year exceed its base amount for that year. An alternative simplified research credit with a 14 percent rate may be claimed instead.

A 20 percent credit also is available for corporate cash expenses for basic research conducted by universities on behalf of the taxpayer. Because the credit applies to incremental research above a baseline that generally is not less than half of current-year costs, a rough estimate of a current-year credit would be 10 percent of current-year qualified costs.

To avoid double dipping, deductions taken for research costs are reduced by the research credit determined for the taxable year. Research does not qualify if conducted outside of the United States, Puerto Rico or any U.S. possession.

Availability of a credit should be considered for research undertaken to discover information that is technological in nature and intended to be useful in the development of a new or improved business component. Substantially all activities should constitute elements of a process of experimentation for functional aspects, performance, reliability or quality of a business component.

Fraud at the workplace – The likely suspects

Who commits occupational fraud? There are patterns and telltale signs.

That's according to the Association of Certified Fraud Examiners which analyzed 1,388 cases of reported fraud worldwide for its latest biannual *Report to the Nations.*

Most employees who commit fraud have clean employment histories – 87 percent had never been charged or convicted of a fraud-related offense.

But in 81 percent of cases, the dishonest employee displayed one, sometimes multiple, red flags:

- Living beyond means (35.5 percent)
- Experiencing financial difficulties (27 percent)
- Being unusually close to vendors or customers (19 percent)
- Exhibiting excessive control issues (18 percent)
- Having divorce/family problems (15 percent)
- Demonstrating a wheeler-dealer attitude (15 percent)
- Displaying an irritable, suspicious, defensive attitude (12.5 percent)
- Having addiction problems (8.5 percent)
- Complaining about salary (8 percent)
- Having past employment problems (8 percent)
- Refusing to take vacations (6.5 percent)
- Feeling pressured by management (6.5 percent)
- Having past legal problems (5 percent)
- Complaining about lack of authority (5 percent)
- Feeling excessive pressure to succeed from others (4.5 percent)
- Dealing with unstable life circumstances (4 percent)

In the United States, most employee fraud is committed in one of six departments, the study said:

- Accounting (26 percent)
- Operations (18 percent)
- Executive/upper management (12 percent)
- Sales (11 percent)
- Customer service (7 percent)
- Purchasing (3 percent)

Most people committing fraud at the workplace are non-management employees (42 percent of cases), followed by managers (38 percent) and owner/executives (18 percent).

But the amount stolen is in the reverse order. When top executives commit fraud, they steal a lot more than their counterparts who are lower on the totem pole.

The median loss to the company when a top dog stole was a whopping $573,000. When the perpetrator was a manager, the median loss was $180,000. And when the wrongdoer was a regular employee, median loss was $60,000 – one-third of a manager's and one-tenth of a top executive's.

Fraud committed at higher levels also took longer to detect – typically at least two years – and twice as long as regular employees. That implies dishonest bosses are typically in a better position to override controls or conceal their misconduct. And lower-level employees may be less likely to lodge a complaint against those with more authority.

Losses in the 753 cases in the United States were lower than other countries, particularly in the highest position – a median $373,000 for top executives, $150,000 for managers and $50,000 for employees. Latin America and the Caribbean had highest losses, with $10 million the median amount stolen by top executives. Asia's median was $4 million.

Fraud examiners theorized that the reason for the lower amounts among U.S. executives could be that American (and Canadian) executives tended to be investigated for less costly executive malfeasance than their counterparts.

Two out of three fraud perpetrators worldwide are male, but that percentage varies according to region. In Europe, Asia, Africa and South America, more than three out of four are male. But it is much closer in the United States, with 55 percent of guilty parties being male, and 45 percent female. In Canada, female felons outnumber the men, 52 to 48 percent.

And again, the amount stolen varies greatly, with men stealing more than twice as much as women at every level – an average $200,000 to $91,000.

The majority of employees committing fraud were between the ages of 31 and 50, but the amount stolen tended to rise with age. Perpetrators aged 50-55 must have had retirement on their minds because they stole two-and-a-half times more than any other age group, a median of $600,000.

As far as job tenure, 42 percent of employees committing fraud had worked with the company between one and five years, followed by 27 percent who had worked there six to 10 years, and 25 percent who had logged more than 10 years. The amount stolen also rose considerably with tenure.

The majority (54 percent) of employees committing fraud had college degrees, with the amount of losses rising in direct correlation to educational level: a median $300,000 for post-graduate degrees and $200,000 for bachelor's degrees. Those with high school diplomas or less who committed fraud (25 percent) caused a median loss of $75,000.

The results from the most recent study closely follow patterns from previous years.

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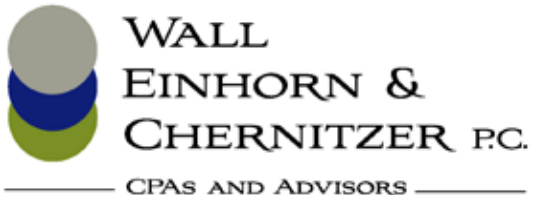
For more information, please visit us online at www.wec-cpa.com.



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More distributors want to expand e-commerce

More than two-thirds of wholesale distributors are upgrading technology this year, with many seeing cloud computing and customer relationship management (CRM) software as a fit for their businesses.

The increased focus on technology in The Outlook for Wholesale Distribution in 2013 survey should level the playing field for many small and mid-sized distributors looking to gain better visibility through e-commerce, according to *Modern Distribution Management,* which conducted the study of its readership in partnership with Netsuite. More than 150 wholesale distributors and manufacturers responded to the survey.

Benefits the wholesale distributors see for cloud computing include reliable backup, flexibility and accessibility. More than 40 percent of respondents saw cloud computing as a possible fit for their businesses, compared to less than 30 percent in previous surveys.

Cloud computing allows companies to access part or all of their servers, networks and software applications via an Internet-based service rather than buying and hosting them themselves.

E-commerce and CRM software were of high interest to 44 percent of respondents in the survey, and 32 percent were interested in mobile for sales. Questioned about their plans for cost cutting this year, two-thirds of distributors said they are looking to improve employee productivity and streamline processes rather than laying off employees.

They said they want to emphasize helping employees to prioritize their work and refocus their energies. Other cost-cutting measures include reducing product costs and overhead, as well as cutting transportation costs.

Laying off staff was the last of 10 possible responses, and was seen as a cost-cutting option by almost none of the respondents.

Plans for building revenue over the next year include growing revenue from existing customers, adding new products or categories and improving e-commerce capabilities. Fewer distributors are looking at expanding internationally or adding new locations or territories. ■

Inventory Counts