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Can You Benefit from Recent Tax Changes?

By Mark R. Patrick • CPA

As we approach the changing leaves of fall, we continue to see changes in tax law and regulation...almost daily. So we've started assembling an odds-and-ends list of updates and changes.

From the stimulus package passed earlier in the year, to the more recent housing rescue law, to the Wall Street bailout, Congress and the IRS found ways to "help" us...and if you own a business, you'll find some of the changes actually do. With the election upon us, we're certain Congress isn't done "simplifying" the tax code, so keep an eye out for additional changes later in the year. Here's what we've got so far:

50-Percent Special Depreciation Allowance

Depreciation is the reduction in an asset's value due to usage and outdating and enables a taxpayer to spread the cost of certain property over several years.

With the latest revision to the law, you're entitled to depreciate 50% of most tangible property during the initial year you place the property in service. To qualify for this 50% special depreciation allowance, you

must've placed the property in service in 2008 (anytime after Dec. 31, 2007 but before Jan. 1, 2009).

Section 179 Expensing

In general, you historically have been able to expense the cost of certain property and thus deduct it in the year you place the property in service, instead of depreciating it over several years.

The new Section 179 revisions enable you to expense up to



\$250,000 of property. Prior to the changes, the 2008 expensing would've been \$128,000. The \$250,000 amount is reduced if the cost of all section 179 property exceeds \$800,000.

New Depreciation Limits on Business Vehicles

Under the new depreciation limits on business vehicles, the total deduction your business may take

for a passenger automobile, which isn't a van or truck, first placed in service in 2008 is \$2,960-\$10,960. Additionally, the maximum deduction for a van or truck first placed in service in 2008 is \$3,160-\$11,160.

Kiddie Tax Age Limit Change

The Kiddie Tax age limit increased in 2008 to affect children's investment income through age 18 and full-time students through age 23. This change from the prior rule which affected children through the age of 17 is an unfortunate one. The Kiddie Tax applies only to unearned income held in the child's name, and doesn't apply to employment or other sources of income.

Standard Mileage Rate Increase

The IRS announced an increase in the standard mileage rates for the final six months of 2008. The rate increased to 58.5 cents per mile for business miles driven July through December. Your record-keeping here will be key: your accountant will need mileage records from Jan. 1-June 30 and then July 1-Dec. 31.

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Con-nec-tions

1. The act of connecting, or the state of being connected.
2. That which joins or relates, a bond or link.
3. Group of associates, often considered influential in some way.
4. **Small Business Resource Network.**

See page 8 for
details regarding the
October 24th
Entrepreneur's Law School

Target Marketing Offers Firms of Any Size Growth Opportunities

By Michael Kennedy • Marketing Consultant



We've all heard the term "less is more," but how does this philosophy apply to marketing your products or services?

In these challenging economic times, companies of any size can increase their effectiveness in the marketplace AND their profitability by *narrowing* their customer focus and targeting in on those prospects with whom they have the greatest chance of satisfying.

According to Philip Kotler's book, *A Framework for Marketing Management*, target marketing – as it's called – requires business owners or marketing directors to take three steps:

- Step 1:** Identify and profile distinct groups of (potential) buyers who might require separate products or marketing mixes. This process is known as market segmentation.
- Step 2:** Select one or more market segments to enter, referred to as market targeting.
- Step 3:** Establish and communicate the product's (or service's) key distinctive benefits in the markets, called market positioning.

In this piece we'll discuss Step 1, market segmentation.

According to Kotler, regardless of whether a company provides goods or services, or whether they're trying to reach business buyers or consumers, companies can apply segmentation at one of four levels. These

levels are: *segment marketing, niche marketing, local marketing and individual marketing.*

Segment marketing refers to a large identifiable group within a market, with similar wants, buying power, geographical locations, buying attitudes and buying habits. For our discussion we could call this group those in Florida, between the ages of 30 and 50 earning more than \$300,000 per year.

Niche marketing is a more narrowly defined group. Customers have a distinct set of needs and will pay a premium to the firm that best satisfies their needs. This process would narrow our group to females *only* in this demographic that live in Florida within 300 feet of the water.

Local marketing is defined as specific areas, communities or neighborhoods. *Individual marketing*, the ULTIMATE level of segmentation, identifies "segments of one," or "one-on-one" marketing, where we would further narrow our selection and target our message *specifically* to this individual.

Concentrating on meeting a specific customer's unique needs and requirements when and where they need you is a strategy that proves successful for both consumer-based and business-to-business firms world wide. A targeted, focused approach to marketing can greatly increase both your market share and your bottom line.

Michael W. Kennedy is president of MKA Marketing in Naples. He can be reached at (239) 514-7067 or mken2001@aol.com.



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Staying Afloat Through the Health Insurance Cost Perfect Storm

By Ken Smith, CLU, FLMI • Insurance Consultant

As health insurance premiums continue to climb, individuals and small business owners alike are seeking ways to cope. Meanwhile, health insurance companies face increased challenges in the form of: federal and state mandates, rules and regulations, trial attorneys, compensation issues with their provider networks, market share positioning, and others, all leading to increased costs of doing business, which translates into ever escalating premiums.

Physicians, hospitals and other health care providers are pressured by constant demands for lower reimbursements, which fosters a feeling of resentment toward the health insurance carriers.

All of these issues translate into people being discontented with everyone involved. So will the person with the answers to these problems please stand up?

For now, it is what it is. We didn't get into this predicament overnight, and digging ourselves out will take time. And although government provided, new "Single Payer" health insurance has been advocated by some in Washington, one need only to actually look at Medicare, Medicaid and Social Security and the dire predictions



attached to them for a preview of the consequences of universal government managed health care. When pressed, common sense Americans reject the idea of government rationed and controlled health care, because they understand that "free" health care is far from being free.

In pre-World War II America, health insurance occupied a relatively small niche in the economy. Most doctors and other health care providers charged fees they deemed reasonable, given the patient's treatment needs...and often, that person's perceived

ability to pay. Relatively few patients were covered by employer sponsored health insurance and even fewer owned personal health insurance policies.

Then as we answered the attack on Pearl Harbor, wage and price freezes were imposed on us, leaving employers only limited options to adjust employee compensation. One option was to provide employer-paid health insurance for employees. From that point forward, employees began transferring their health care expense issues to their employers, eventually losing track of what actual health care costs were. In the early 1970's, Health Maintenance Organizations (HMO's) arrived on the scene, further screening its members from knowledge about the actual cost of health care procedures and prescription drugs.

During the post World War II years, the practice of medicine catapulted into the space age. Surgical procedures that once required hospitalizations of a week or more are now routinely performed as out-patient procedures, enabling the patient to return home after only a few hours. Miracle medicines have been discovered, offering cures for once-fatal diseases.

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CERTIFIED APPRAISALS, INSPECTIONS & INVENTORY

NEWS ALERT: Beware Class-Action Suits Targeting Retailers

By Josh Isenberg • Corporate Member

Are you truncating customers' credit/debit and prepaid card account numbers — AND eliminating card expiration dates from electronically generated receipts? If not, you could be liable for substantial monetary damages.

The cost of identity theft continues to take its toll on both consumers and businesses alike. Latest figures show consumers lose about \$5 billion annually — and businesses lose about \$48 billion.

And, it's getting even worse as laws clamp down on business owners in an effort to safeguard consumers. Amendments to the federal Fair Credit Reporting Act mandate merchants who accept credit/debit and prepaid cards:

- Truncate card numbers — printing no more than the last five digits of a consumer's account number on the customer receipt
- Refrain from printing the card expiration date on the customer receipt.

Depending on the terminal or system you use for accepting card payments, you were required to comply with these requirements by December 2005 or December 2006 — although certain manual machines and written receipts were grandfathered. Have you truncated card account numbers and eliminated expiration dates? Do you know if this information is automatically printed on the receipt as part of your terminal or standard software package? Are you unknowingly at risk? Are you a potential target for the many class-action suits that are aggressively being filed?

"Since the law generally became effective in December 2006, several dozen lawsuits have already been filed against merchants in California and Pennsylvania," says Anita Boomstein, an attorney with Hughes Hubbard who specializes in card payments and compliance issues and is representing three national merchants being sued.



Boomstein continues, "What makes this very troubling is that substantial money damages can be imposed on a merchant who fails to follow the requirements. For 'willful' violations where the merchant intentionally or knowingly disregards the law, the penalty can be in the range of \$100 to \$1,000 for

each card receipt issued. This penalty can be assessed even if the consumer suffered no actual damages. For 'negligent' violations, a merchant is liable for the consumer's actual damages. In both cases, the merchant may also be accountable for the attorney's fees and court costs," she says.

In fact, part of the reason class-action suits are abounding is because the statute permits attorneys who initiate suits to be paid all of their attorney's fees and costs. That — combined with the substantial damages that can be awarded in a class-action suit — makes card-accepting merchants attractive targets for litigation.

So, protect yourself. Contact your credit card service provider to ensure you are compliant. It could save your business.

Josh Isenberg is the territory manager for Heartland Payment Systems in Naples. He can be reached at josh.isenberg@e-hps.com or (239) 777-2779.

Entrepreneur's Law School

- *October 24, 8:30 a.m.*
- *UNF University Center*
- *All of the legal experts in one place!*
- *Details: Page 8*

Master the Marketing Basics

By Jeffrey Wilke • Management/Coaching Consultant

Customers are the key element in any successful business and there must be enough of them for your business to prosper. Marketing is the business function that deals directly with customers. In a broad sense, marketing delivers customer satisfaction by meeting their needs while making a profit. The following outlines some of the basic steps in the marketing process as well as the components required for a strong marketing plan:

Start by conducting basic market research. The first step here is to define your objective, for example, who are my customers? Next, collect the necessary data pertaining to your market. To be effective, entrepreneurs should collect geographic, psycho-graphic and demographic information about their customers. Keep in mind market research doesn't have to be time consuming, costly or complicated. Inexpensive and convenient alternatives to effective market research exist, such as the internet, surveys, and existing research.

Use the information gathered from your research to identify your total market then divide the information into smaller, workable segments based on the buyers' characteristics, behaviors or needs. Each segment is a group of consumers who react in similar ways to your marketing efforts. This entire process is referred to as *market segmentation*.

After you've defined your market segments, the next step is deciding which segments to enter. This outcome is accomplished by evaluating each segment and selecting the ones that will likely generate the greatest customer value over time. This process is called *market targeting*. Without a clear



understanding of the targeted market a small business owner can easily fall into the trap of attempting to reach everyone in the market and end up appealing to no one.

Once you've decided which market segments to enter, you should develop your *positioning statement*. Now you formulate how to place your product's image in the customers' mind in relation to the competition. This process consists of a strategic focus on the targeted market and its most important needs. The positioning statement further describes how your product and/or service will meet those needs and how it's better than the competition.

Only after the small business owner fully understands his or her company's targeted market and competition can they design an effective advertising and promotion campaign to reach potential customers.

Marketing consists of a wide range of concepts and tactics, so we've only scratched the surface. Entrepreneurs should simply keep in mind the more you know about your customers the better chance you'll have to effectively reach them — and satisfy their needs while making a profit.

Jeffrey Wilke is the owner & managing member of Easy Step Solutions, LLC. He can be reached at (904) 221-9448 or jdcnwilke@comcast.net.

Is a Mediocre Employee Better Than No Employee?

By Bob McKenzie, SPHR • Human Resources Consultant

Employers are complaining about the quality of people applying for jobs. At this point, the pretty bad candidates look great when compared to the really bad ones. And so comes the dilemma. Is filling a job with a so-so employee better than leaving the job open? Many managers believe that filling a position is better than having nobody at all. Before hiring that so-so employee, look at the possible ramifications.

Training takes longer since managers and experienced employees must take extra time and effort to ensure that the new employee knows the job.

What will your customers think? Think about the impact on your customers when Mr. Middle-of-the-Road answers the telephone with a disinterested voice and takes no initiative to find out what the customer wants or needs.

Mediocrity breeds contempt. High performers don't want to work with slackers. Hiring a run-of-the-mill person will bring down your good employees who will have to carry most of the load for them. Super employees will start to resent management for hiring such a loser.

Losing your competitive advantage. Your people are your competitive advantage. Ms. Mediocre will come in late, expect the employer to understand her

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Staying Afloat Through the Health Insurance Cost Perfect Storm

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The downside, if there is one, is that these medical miracles came with a very high price tag.

So here we are, in the midst of a health care perfect storm. Medical care has become a very expensive proposition. Health insurance companies are caught between federal and state regulations mandating the inclusion of certain benefits in their insurance offerings, while striving to offer affordable plans that must generate enough revenue to pay claims and administrative expenses, while providing enough profit to satisfy their stockholders. Even the so-called non-profit insurance companies must generate enough dollars to cover expenses, plus some contingency dollars, or be forced out of business. Buyers of health insurance, both individuals and businesses, are on the receiving end of the blast from this storm, some opting to roll the dice and discontinue their insurance.

To hold the line on year-to-year premium creep (or premium vault), health insurers have changed their benefit packages to engineer savings which translate into lower premiums. We're now seeing blended health insurance plans with some services being provided in exchange for a lump sum "co-payment," while others require the satisfaction of an annual deductible amount plus a sharing of the claim expense between the insured person and the insurance company (co-insurance). More often now the prescription drug benefit portion of these plans requires that a separate deductible be met before covering non-generic medications. Many health plans now contain per-insured-person lifetime maximum benefit payouts, such as \$3,000,000 or \$5,000,000, at which point the policy is exhausted.

How can individuals and business owners reduce their premium bills, while avoiding the potential, "medical bankruptcy" that a prolonged illness may cause? Former PGA Tour golfer and commentator, Dave Marr, often observed that a golfer finding himself in trouble must first, "take his medicine before he can get well." So step up to the counter, to consider some of these medications:

1. The original idea behind major medical health insurance is that it's to pay the BIG bills, to

provide a firewall between you and financial ruin. So take a hard look at your finances to find a dollar amount you're able to pay to cover your day-to-day medical expenses each year. If you can handle \$13.70 per day, that equals around \$5,000 in a year. The difference in monthly premiums between a health insurance policy with a \$1,000 annual deductible and the same with a \$5,000 annual deductible is around 50%. So increase your deductible and save premium dollars.

2. If you're covered by an HMO, look for an alternative plan providing increased co-payment amounts...meaning you pay more at time of service. That move will reduce your premium outlay. Why pay mega-bucks for an HMO offering \$10 co-pays for visits to your doc, who you may see maybe twice per year, when you can increase your co-pay to \$30, and realize a substantial premium savings.
3. If you have access to a Health Savings Account Plan, by all means take advantage of that option...saves premiums and enables you to pay medical bills with income-tax-free dollars.
4. If you, as a business owner, provide group health insurance to your employees, consider changing to a plan offering services in exchange for deductibles and co-insurance. Put your employees back into the game by helping them rediscover the real costs of medical treatment as they see them illustrated on the explanation of benefits forms provided to them as they file claims. They won't like it, but making that change will help hold down your – and their – premium costs.
5. Another option for business owners is a Health Reimbursement Account group plan. In shorthand, the business agrees to pay front-end medical expenses for each employee up to a certain amount, at which point, the group health insurance plan takes over. Premiums for those plans are relatively lower, while the sponsoring employer is placed in a much better position to budget his or her health benefits expenses.

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Summarizing Recent Tax Updates

CONTINUED FROM PAGE 1

New Home Sale Exclusion Rights

The home sale exclusion provides that homeowners who sell their long-term principal residence don't pay taxes on up to \$500,000 of their gain if they meet certain criteria.

Starting in 2008, the new law requires homeowners to pay taxes on gains made from the sale of a second home (rental or vacation home) to reflect the time the home wasn't actually used as the principal residence. The taxed amount will be based on the portion of time during which the taxpayer owned the home that was used as a vacation house or rented out. For instance, if a taxpayer owned a vacation home for 15 years, but lived in it as a principal residence only for the final three years prior to sale, the maximum available exclusion would be reduced by four-fifths.

Not a tax issue, but almost as appealing...

National/State Minimum Wage Rates Increased

The federal minimum wage rose in July to \$6.55 per hour. But if your employees work in Florida, the state minimum wage is now \$6.79 per hour.

Contact your accountant for help navigating these ever-changing waters. In the meantime, we hope you enjoy some of these beautiful fall days with friends and family. Before you know it, the hecticness of the holidays and the next tax season will be upon us. So stay cool and enjoy!

Mark Patrick, CPA is a partner with Patrick & Robinson, CPAs in Jacksonville. He can be reached at (904) 396-5400 or mark@CPAsite.com.

Staying Afloat in the Insurance Storm

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The common thread here is to take on more of the risk personally to reduce premiums. Abandon the mind-set that continually seeks to have someone else pay your medical bills for you. As you rely on your computer's firewall to avoid a data melt-down, also rely on your health insurance plan's deductible to shield your pocketbook. Pay for the "small stuff" out of pocket, via deductibles and co-insurance, and then rely on your insurance to handle the big bills.

Finally, recent legislation in Florida established two new health insurance related programs: Cover Florida and Florida Health Choices. Neither program was up nor running as of mid-October, 2008, however state and federal intrusion into the private economic sector has a poor record of success. Case in point: Florida's 1993 small group health insurance legislation mandating guaranteed issue to employee groups of 50 or less. That mandate took away the ability of the free market to work, tying the "invisible hand" (see economist Adam Smith) to a tree in Tallahassee. Many established small group health insurers simply withdrew from the state or exited the health insurance business, limiting the employer's choices and watering down competition, among a mountain of other negative results. While zealously chasing votes, too many politicians forget that the Law of Unintended Consequences is always in play.

Ken Smith, CLU, FLMI is the owner of Insurance Planning Services. He can be reached at (904) 273-5704 or via his website, KenSmithInsurance.com.

MEDIOCRE EMPLOYEE VS. NO EMPLOYEE

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problems and not give a lick about the business issues. Ms. Mediocre will also work at a slower pace, thereby bringing productivity down. How much more does the high performer contribute to your bottom line as opposed to Ms. Mediocre? It may be hard to measure, but it's very easy to see.

Great companies are not built with mediocre people. Enough said.

The good companies must become very creative and forward thinking to attract the people they need to produce high quality work. Take the time necessary to find the type of person you need. Involve other employees and communicate the issues you're having with filling job openings. Ask them how they can redistribute the work or for ideas on others ways they can get the work done in a timely manner.

Hiring second rate employees means paying someone to bring your organization down. Let your competitors hire Mr. and Ms. Mediocre.

Bob McKenzie, SPHR, is the owner of McKenzieHR. He can be reached at (904) 861-2903 or bobm@mckenziehr.com.

Legal Advice at a Bargain Price!

Hoping to become informed on legal regulations and compliance issues? Look no further than SBRN's "Entrepreneurs Law School," which will be held Friday, October 24 at 8:30 a.m. (lunch included) at UNF's University Center. Rescheduled from its original June 5 program, the new fall date costs \$149 (which is much cheaper than an hour consultation with ONE lawyer!).

We've assembled all the experts in one place to ensure you maintain your legal status. Keynote speaker Sgt. Jerry Stang of the Jacksonville Sheriff's Office Economic Crimes Unit will discuss a hot topic in today's technologically advanced world: identity theft. Breakout sessions will delve into: raising capital through private equity placement, establishing an effective credit and collections program, e-commerce and internet security issues, lawsuits and small claims court, workers comp insurance, and employment issues.

For the first time, we've brought together a variety of legal experts in one place, at one time, to answer your questions. Please call (904) 620-2476 to reserve your spot today and take advantage of this extremely beneficial program.



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