

Insight

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LISTEN UP—LEARNING FROM EMPLOYEE SUGGESTIONS

When an employee comes to you with a suggestion, what is your usual reaction? If its along the lines of “*That’s never going to work*”, “*That’s not your problem*” or “*We don’t have time to think about that*” – or any equally negative response, then you could be missing out on a great opportunity to pick up on ideas for increasing productivity, cutting costs, or improving working conditions.

Too many managers simply dismiss ideas put up by their employees without giving them proper consideration. Yet employees are the people closest to the action, be it on the production line, in the admin office or on the floor. They see and hear a lot and about, or even invent for getting things done. Better productivity, morale, process profits. It is important to ees to come forward with make them feel that they are ing process.

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As with everything in business you put into an initiative of it. A poorly conceived, defined employee suggestion program can backfire and achieve just the opposite of encouraging ideas – it can turn people off by creating bad feeling and making them more cynical.

There are a number of channels you can create to receive employee suggestions. Some will suit one business more than another, some businesses may find they can use more than one of them. Most basic is the suggestion box. These days a suggestion box needn’t be a physical thing, it can be an email address employees use to email in their suggestions. The brainstorming session is a more formal approach and involves a greater commitment of time and money.

Tips for an effective employee suggestion system

- Set clear goals and guidelines for the suggestion program. If the program is publicized as being about ideas that will achieve cost savings or about achieving a better level of workplace safety then you have immediately screened for what you want to hear about. If the program is totally open to any suggestion then point that out.
- Deal with suggestions quickly. Delay a decision more than a week and people will see the suggestion box as a black hole.
- Acknowledge receipt of valid suggestions. Never reply to obscene or abusive suggestions. Your best response to that sort of negativity is to not indulge the sender with a reply.
- Let the contributor know the result. If their idea got the thumbs down explain in detail why you can’t use it. If the idea is worth implementing, tell the whole team so they can see the process at work.
- Make the decision process transparent and fair – if the suggestion reviewer is the boss alone or just the top managers, rejection may be taken as just another instance of management negativism

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What’s Inside

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- Recognizing Worthless Securities Losses
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Quotes:

“Vote for the man who promises least; he’ll be the least disappointing .”

Bernard Baruch

“Success is getting what you want. Happiness is wanting what you get.”

Dale Carnegie

“A mans country is not a certain area of land, of mountains, rivers and woods, but it is a principle and patriotism is loyalty to that principle.”

George William Curtis

LISTEN UP—LEARNING FROM ... (CONTINUED FROM PAGE 1)

- If the suggestion gets the thumbs up carry through the implementation. Nothing builds trust and credibility faster than keeping a commitment.
- Tie implementation into a reward program but don't reward for suggesting alone, reward only acceptable suggestions. Otherwise you'll spend a lot of money on rewarding 'get a new coffee making machine' type suggestions. The program is about quality suggestions. Your rewards don't have to be of great monetary value. Common rewards include tickets to events, gift vouchers and restaurant meals.

Employee suggestions that have saved their company significant amounts of money run from the 'eureka' moment to the banal –

but they all save money. It was an employee's suggestion to build an elevator on the outside of the El Cortez Hotel in San Diego rather than, as the engineers had suggested, cut a hole through each of the floors internally. That saved engineering fees, cleanup costs and loss of income from having to close for the duration. Smart managers understand the potential of employees to come up with good ideas and encourage them to do so. You can too. But do it properly. People are easily discouraged and the process can become the butt of jokes if not taken seriously by management.

AVOID BUDGET BLOW OUTS

A budget is an important management tool. Being a projection of your income against your expenses you can check it at any time to see how well or how poorly your business is doing. The value of a budget is in direct proportion to the accuracy of the figures you use to create it. Here are some precautions to take to keep your budget figures accurate.

Use realistic projections

Since a budget is based on projections there's always an element of uncertainty involved in estimating inputs. It pays to be conservative regarding things such as sales forecasts. If they turn out to be better than estimated, that's great and provides the opportunity to distribute the extra around to advantage. But if they are worse than expected it means rethinking all your plans to match the budget shortfall. If your business provides a product or service for which the demand varies by season (retail takings over a holiday season, pool maintenance between seasons and so on), then factor that into your budget.

Don't underestimate costs

Gasoline, travel, raw materials, rent – all costs increase over time. A projection of costs at current year value will result in budget blowouts. It's wiser to make a best estimate and then increase it a little. If the actuals do end up coming in under projection you will have provided a little bit of 'fat' in the budget to cover the odd unanticipated contingency. You might even add a 'miscellaneous' line item to the budget to handle those unknowns.

Question every expense

Preparing a budget provides the perfect opportunity to consider what value for money you are getting from the costs you are incurring. Is it time to change the gasoline powered work vehicle to a hybrid? Look at raw material substitutes? Move to a VoIP phone service? Also look for any expense items that could be eliminated. A penny saved is a penny earned!

Factor in cash flow

Incorrectly projecting cash flow will turn the best budget into a fiasco. In virtually every transaction there is a lag time between the finalization of the deal and actual cash collection. This time lag has to be built in when preparing a budget – you may expect to sell goods to a certain value in Month X but that doesn't mean the value of those sales will be in your bank account in Month X. This doesn't present a problem if the budget allows for it. When it's not factored in you can run into serious cash flow problems through spending money you don't yet have.

Allow for your tax liability

Don't forget your likely obligations to the taxation department. Sales income will ultimately be depleted by sales tax, various other state and federal taxes and employee withholdings. Fail to account for these and you run the risk of budgeting for future projects that you aren't going to be able to afford.

Keep the figures current

Budget preparation isn't a once a year operation. Things change – the price of gasoline soars, sales are a lot better than expected. Budget lines need to be revised to reflect these events. The point of budgeting is to be able to compare actuals against projections to see how the business is going. If the actuals aren't actuals you'll be making decisions based on false assumptions.

It's easy to let the budget become just another document gathering dust on the shelf. Plugging in the new figures each month, considering how actuals are tracking against projections and what that means in terms of what you need to do takes a lot of self discipline. But if you don't do it, you've not only wasted the time and effort you put into creating the budget, you open the path to fiscal irresponsibility and wasted opportunities as off-the-cuff purchase decisions send expenses out of control while unexpected income sits in a bank account when it could be put to use to improve operations.



RECOGNIZING WORTHLESS SECURITIES LOSSES

Taxpayers are allowed a capital loss tax deduction when securities (e.g., common stocks) that are held as capital assets become worthless. The issue of worthlessness can occur where, for example, a taxpayer owns an interest in a small, closely held corporation that is experiencing severe financial problems. The IRS says the loss can be taken only when the security becomes wholly worthless; losses for partial worthlessness cannot be claimed. This rule also requires that a taxpayer correctly identify the year a security becomes wholly worthless.

This is important because you can offset capital gains with capital losses, including losses from worthless securities. To the extent there are excess capital losses, up to \$3,000 (\$1,500 for married filing separate returns) can be deducted against your ordinary income. Remaining capital losses can be carried forward indefinitely.


The question of when a security becomes worthless has been the subject of many court cases and IRS rulings. For example, simply because a corporation declares bankruptcy, its shareholders may not be able to claim a loss when it is possible that they will obtain stock in a corporate reorganization. Worthlessness depends on the particular facts of each situation. Generally, a security is considered worthless at the time it first has no liquidation value, and no reasonable hope or expectation exists that the security will become valuable at some future date. A taxpayer may be able to establish worthlessness by showing a fixed and identifiable event demonstrating the worthlessness of the security.

Example: Timing of worthless stock loss. Valerie bought 200 shares of ABC Corp. for \$15 per share in 2003. ABC is a publicly traded company. As of the end of 2007, the stock price had de-

clined to \$1.50 per share, and the company was in Chapter 11 bankruptcy.

Valerie cannot take a worthless stock deduction in 2007 for her anticipated loss on ABC stock because the stock is not wholly worthless-as evidenced by its trading value. To establish a deductible capital loss, Valerie must sell her shares or wait for an event that renders her stock worthless. Even if her ownership interest is significantly diluted in the Chapter 11 reorganization, Valerie will be unable to claim a loss as long as she holds securities that have some value-however nominal. If, however, ABC is liquidated in bankruptcy, Valerie should be able to claim a worthless security loss when it is established that her equity holder class will receive nothing in liquidation.


It is often difficult to determine if and when a security is wholly worthless. However, the IRS recently issued a final regulation pertaining to abandoned securities which may help in making this determination. The new regulation seems to indicate that a worthless security deduction is available when the taxpayer abandons it, even if it has not become wholly worthless. The worthless securities deduction is available to the taxpayer because, as a result of abandonment, the security is wholly and irretrievably worthless. To prevent abuse of this privilege, the IRS requires a taxpayer to permanently relinquish all title to the security and receive no consideration for it.

This is a tough issue to understand and evaluate. Please contact us if you have questions pertaining to securities with minimal or no value. We can help determine the most tax-wise and credible way to proceed in the determination of worthlessness or abandonment of investment securities. 

IRS RELEASES DATA ON BURDEN OF INCOME TAX

By Roger McEowen

The IRS has recently released data showing that the share of the federal income tax borne by taxpayers in the highest income tax brackets has increased under the Bush Administration. The data reveal that the share of total federal income taxes paid by the wealthiest 1 percent of tax filers (those with adjusted gross income over \$388,806) increased to 39.89 percent in 2006 (up from 37.42 percent in 2000). In 2006, the top 5 percent accounted for 60.14 percent of all federal income tax revenue, and 97.01 percent of all federal income revenue was paid by the top

50 percent of income tax filers. Alternatively, in 2006, the tax burden on the bottom half of tax filers (those with adjusted gross income under \$31,987) stood at an all-time low of 2.99 percent. The IRS data also reveals that the share of income generated by the wealthiest 1 percent of taxpayers increased from 14.23 percent to 20.81 percent from 1992-2000. From 2001-2006 the rate of growth of the share of income generated by the wealthiest 1 percent declined substantially, only increasing to 22.06 percent in 2006. *Source: IRS, 2006 Tax Data* 



New Post on John McQuaig's Sabbatical Blog...

John recently posted a blog update about his travels in Europe while teaching entrepreneurship at LCC International University, a Christian university in Klaipeda, Lithuania.

John will be keeping everyone up to date with his "Sabbatical Blog" on our website. To read more about his adventures please go to www.mcqw.com





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