

**BUSINESS OWNERS:*****Can You Afford Not to Refinance Now?***

*By Ronald L. Bleich, CPA, LLM, CFP™ and Ruben Cardona, CPA  
Shareholders*

During the last two years, we have seen the Federal Reserve Bank reduce the borrowing rate 13 times to the lowest rate in 58 years. As a result, today's prime rate is 4% and the interest rates on savings and money market accounts have fallen to less than 1%. This situation presents businesses with an opportunity and a challenge. The opportunity is how to capitalize on the low cost of borrowing; the challenge is investing excess funds for maximum returns.

**The Opportunity – Refinancing is not just for homeowners**

For businesses this may be a good time to consider the conversion of a floating rate loan, or a line of credit, into a term loan at today's favorable fixed rate.

Another opportunity for businesses is afforded by the new tax laws. The 2003 amendments to the tax code expand and modify bonus depreciation provisions permitting an additional first-year depreciation of 50% for qualified equipment. Combined with the low cost of borrowing, this provision makes now a good time for businesses to make major equipment purchases.

So it appears now is the time to convert floating rate obligations to fixed rate, and gear up with new equipment, mostly at the government's expense.

**The Challenge – Where to invest now?**

On the investment side, the challenges are great. Experts estimate that over \$4 trillion is now invested in money market funds with yields of less than 1%, which after taxes and inflation, generates a disappointing real rate of return of zero or negative. And our investment advisors have expressed concerns about the economy: "...spending our way to economic prosperity seems a rather risky proposition." If unemployment increases, consumer spending will likely decrease. Likewise, if the federal deficit widens, government spending will be curtailed.

However, the overall picture is not pessimistic. The financial advisors at Pinnacle Associates, Ltd. are hopeful that these concerns will not materialize and that the economy is in the early stages of a robust, long-term recovery. It is their opinion that equity investments offer "the most compelling risk-return

## ALSO IN THIS ISSUE:

- Should You Lease Or Buy?
- Do You Need An Audit?
- Is Your Workplace Prepared?

*Continued from page 1*

potential over the next three to five years.” This belief stems from favorable tax policy which has reduced the tax on dividends and capital gains to 15%. The trick for investors will be to determine which equities will pay dividends in the short-term and which will grow in the long-term.

For more information on today’s borrowing opportunities and investment challenges, call one of our local offices today and speak to a WS+B business advisor.

## **SHOULD YOU LEASE OR BUY ??**

*By Rosanne Fernandez, Tax Associate*

When it comes to leasing versus purchasing, wouldn’t you like to have a simple answer? Unfortunately, there is no right or wrong. It is what is best for you and your business. Each situation is different and requires analysis of the facts and circumstances.

### **Monetary:**

How is your cash flow? On the surface, leasing is more attractive because of the lower monthly payments. Payments to lease a car are almost always lower than payments to buy the same vehicle, because leases charge only for the portion used (capital cost minus residual). Lease payments should be lower than purchase payments proportional to the lease residual value, which is the fixed future value of the car at the end of the lease. Therefore, lower lease payments do not necessarily mean a good deal.

### **Nonmonetary:**

Beauty or Equity? While leasing generally saves money and gives consumers an opportunity to drive nicer, newer cars than they otherwise could afford, buying minimizes risk and retains equity. Consider mileage and length of time. If you drive many miles, leases may impose a mileage surcharge. If you expect to keep the car for seven or eight years, purchasing may be the way to go.

### **Tax:**

Deductible or depreciate? Monthly payments on leased vehicles are deductible; however, an inclusion amount must be added back to income. On the other hand, purchased vehicles depreciate (with luxury limitations) based on the date the vehicle was placed in service. An additional first year depreciation can be taken of \$7,650 for vehicles used predominantly for business and acquired after September 10, 2001 and before September 11, 2004, which are placed into service before January 1, 2005. Thus, timing is of the essence. IRS tables are consistently changing and calculations need to be reviewed in a timely manner. Considering an SUV? Larger deductions are available for heavy luxury business cars, which are those weighing more than 6,000 pounds. Heavy vehicles are not subject to the luxury vehicle depreciation limitation and may use MACRS depreciation tables as well as section 179 and bonus depreciation.

Many tax and nontax factors should be evaluated in order to make an informed decision when considering a lease or buy option. For further assistance, please contact a member of WS+B’s Tax Department with any questions.

## **DO YOU REALLY NEED AN AUDIT?**

By William A. Cadmus, CPA, PSA, Shareholder

Ever wonder about the benefits of an audit and how they might apply to your company? The following brief summary should help shed some light on what an audit is and what you can expect to gain from the process.

### **1. What is an audit?**

Defined as “a formal examination of an organization’s or individual’s accounts or financial situation,” an audit is performed by an independent certified public accountant who examines your company’s financial statements and related disclosures by conferring with outside parties, completing physical inspections and observing and testing selected transactions by examining supporting documents.

Presently, an auditor conducts the audit according to AICPA standards (occasionally supplemented by other standards for specialized engagements). These standards require adequate training and ability, independence and professional care.

### **2. Why do you need an audit?**

During the course of your business’ lifecycle you might need additional funds, possibly for an expansion project or to provide working capital while receivables are collected. As a result, you may need to apply for bank credit or solicit new investors. Or, you may have received a government grant or are considering retirement and want to sell your business. In these situations, your company’s financial statements may need to be examined by an outside, independent CPA in the form of an audit. It is the independent nature of this examination, the standards under which the audit is conducted and the resulting audit report, which indicate to third parties that the financial statements they are reviewing, within certain tolerable levels, represent your company’s financial position and operating results and provide all informational disclosures.

### **3. What can your company expect to gain from the audit process?**

An additional benefit resulting from the auditors’ observations and testing results is the management report. This report is generated when possible improvements to your business’ internal controls or accounting policies are determined or other enhancements to the business, such as improving cash flow or providing earnings on surplus cash, may be indicated.

For more information about how your company might benefit from an audit, contact a WS+B professional at your local office.

*The Journal* is published by WithumSmith+Brown, Certified Public Accountants and Consultants, for clients and friends of the firm. The information contained in this publication is for informational purposes and should not be acted upon without professional advice. Please contact any one of our offices with your inquiries.  
Editor: Yvonne Trella  
WS+B Marketing Department

**Visit our new Web site at [www.withum.com](http://www.withum.com)**

**FLEMINGTON, NJ**  
Tel: 908.782.1118  
Fax: 908.782.6699  
[wsbfl@withum.com](mailto:wsbfl@withum.com)

**LIVINGSTON, NJ**  
Tel: 973.994.1616  
Fax: 973.994.3620  
[wsblv@withum.com](mailto:wsblv@withum.com)

**NEW BRUNSWICK, NJ**  
Tel: 732.828.1614  
Fax: 732.828.5156  
[wsbnb@withum.com](mailto:wsbnb@withum.com)

**NEWTOWN, PA**  
Tel: 215.504.5454  
Fax: 215.504.5311  
[wsbne@withum.com](mailto:wsbne@withum.com)

**PRINCETON, NJ**  
Tel: 609.520.1188  
Fax: 609.520.9882  
[wsbpr@withum.com](mailto:wsbpr@withum.com)

**RED BANK, NJ**  
Tel: 732.842.3113  
Fax: 732.741.7292  
[wsbrb@withum.com](mailto:wsbrb@withum.com)

**TOMS RIVER, NJ**  
Tel: 732.341.8728  
Fax: 732.341.8787  
[wsbtr@withum.com](mailto:wsbtr@withum.com)

**TAX DEPARTMENT**  
Tel: 609.520.1188  
Fax: 609.520.9882  
[wsbpr@withum.com](mailto:wsbpr@withum.com)



WithumSmith+Brown  
A Professional Corporation  
Certified Public Accountants and Consultants

Parkway 109 Office Center  
328 Newman Springs Road  
Red Bank, NJ 07701 USA

Return Service Requested

Where Success Begins<sup>SM</sup>

## **ARE YOU PREPARED FOR A DISASTER?**

Is your company safe from a major disruption or disaster? Even with the tragedy of September 11 two years ago, many companies remain vulnerable to threats in the workplace that can harm, disrupt or put an end to their business. And, terrorism is not the only risk we are facing these days. Are you prepared to handle employee violence, blackouts, fires, computer viruses...?

Please join us at a special conference to address these concerns and learn how to manage risk with respect to various workplace emergencies. Presented by NJBIZ, the program is sponsored by WithumSmith+Brown and the law firm of Morgan Lewis & Bockius, LLP. James C. Bourke, CPA.CITP, a WS+B shareholder and director of firm technology and IT consulting services, will show you step-by-step how to create a disaster recovery plan. Other topics include securing your work environment, the practical/legal issues in minimizing workplace disruptions, what employers can do from a legal perspective (background checks, polygraphs, etc.) to protect their business, and more.

### **MINIMIZE YOUR RISK – BE PREPARED!...**

Join us Tuesday, November 11, 2003 8:00 a.m. – 11:00 a.m.

Location: New Brunswick/Edison area - TBD

Mention WS+B for special rate \$15 (regular \$30) if you register by October 20  
For more information or to register, contact [isaliani@njbiz.com](mailto:isaliani@njbiz.com) or call 732.246.5734  
[www.njbiz.com](http://www.njbiz.com)

**REGISTER  
TODAY –  
AND SAVE!**