

CFMA Opening Online Document Resource Center, May 2009



CFMA is opening an online document resource center in the members only section of www.cfma.com. We will be providing business documents, templates, forms and checklists for the use of our members.

To get the resource center started, we need your expertise. Send us any document that your company uses, that you think would benefit other manufacturers. A couple examples could be design royalty agreements, nondisclosure forms, freight return/damage checklist, or sales agreements.

Be sure to remove any mention of your company and its constituents – these will be anonymous forms.

Send the documents as word docs or pdfs attached in an email to Andrea Messina at membership@cfma.com. Please contact Andrea with any additional questions at 714-632-6800. We look forward to providing this valuable service to our members.

Stop Losing Your Profits to Factoring Companies

By Jeff Ferretta, Advanced Retirement Planning, Inc.

Our current economic environment certainly has wreaked havoc on the retirement dreams of many business owners. As a business owner, roughly 42¢ out of every dollar you earn is handed over to the government in the form of taxes. This is more than the average American spends on food, clothing, and housing combined. Due to taxes, overhead, and a lack of liquidity in the marketplace, your earnings almost certainly have declined in recent months. In such an economic climate, the idea of putting money away in a retirement plan may be unfathomable, particularly as many already have watched the volatile current market wash their retirement dreams away.

Most businesses used to go to the banks for financial help, but for many that well has dried up. In turn, the factoring companies have increased their credit requirements and the requirements for personal guarantees, which has made it harder to infuse the necessary liquidity to sustain a healthy bottom line.

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CFMA's Member Programs

- Members-only online document resource center
- 50% Savings on Furnishings.com
- Savings on worker's comp, liability, and group health insurance
- Free R&D Tax Credit Analysis
- Low rates on credit card processing
- Free seminars and sexual harassment training
- Labor Compensation Survey
- LifeLock Identity Protection - only \$77/year
- Purchase office supplies through Corporate Express and save 15-35%
- CFMA committees champion for legislation that is favorable for manufacturers





Industry & Association News Highlights

President Obama Proposes Making the R&D (R&E) Tax Credit Permanent

In an effort to spur innovation and stimulate an increase of jobs in the US, President Obama has included the cost of making the R&D (R&E) Tax Credit permanent in his budget proposal for Fiscal Year 2010.

Currently the credit needs to be approved and extended yearly. In fact, in late October 2008, the R&D Tax Credit was approved retroactively for 2008 and extended through 2009 as part of the Emergency Economic Stabilization Act of 2008.

Background about the R&D Tax Credit

The Research and Development (R&D) tax credit was created by Congress as part of the Economic Recovery Tax Act of 1981 to encourage American industry to invest in research and development activities. The purpose of the credit was to stimulate R&D activities among businesses through tax incentives. However, due to the stringent requirements that existed under the provisions of the Credit, a vast majority of the small to mid-size companies were unable to reap the substantial benefits of the R&D credit.

Changes Enable SMBs to Benefit from R&D Tax Credit

Realizing that a majority of innovation in the U.S. was in fact transpiring from these small to mid-size firms, Congress in 2001 liberalized the statutory requirements to enable small and mid-size companies (SMBs) across the country to take advantage of the R&D benefits.

Specifically, the new regulations provided that companies were no longer required to maintain precise timesheets documenting every hour an employee spent conducting qualified R&D activities.

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SFC Announces Jeff Hiller as New President

The Sustainable Furnishings Council announced the promotion of Jeff Hiller as the new President of the leading green organization in home furnishings.

The SFC was founded by Gerry Cooklin in October 2006 as a non-profit coalition of suppliers, manufacturers, retailers and designers. It was the first of its kind in the industry, and gained the early support of prominent board members including one of the two co-founders of the U.S. Green Building Council, ranking staff of the World Wildlife Fund and Rainforest Alliance, and prominent organizations from all points in the supply chain including Four Hands, Room & Board, and World Market Center. The SFC has since grown to become the #1 organization in green home furnishings.

Going forward, the SFC has very aggressive plans for growth, member benefits, industry partnerships, and educational platforms, and has called on Jeff Hiller to lead the charge as the new President based on his extensive background in the industry, his marketing expertise and his past contributions in growing the organization, where he was one of the founding Board members and for the past two years has served as Chair of the Marketing & Education committee.

Hiller began his career at Leo Burnett in Chicago, one of the largest individual advertising agencies in the U.S. where he became the youngest VP/Account Director in the company's history. He left to become owner/operator of The Arrangement, a furniture retailer that he grew into a thriving chain before selling to take on a "dream job" stint as Marketing/Creative Director for the NBA's Houston Rockets franchise.

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Furthermore, the research no longer had to result in a product that was new to the industry; instead, the resulting product or process simply had to be new to the company that developed it.

These changes substantially increased the number of companies taking the credit. Additionally, for those companies that had not taken the credit, they can go back 3 open tax years and receive a refund from the IRS.

Example Companies & Their Net R&D Tax Credit:

1) Tool & Die Shop

- a. Average 4 year payroll of \$3.5 Million
- b. Net Credit Benefit for 2004 thru 2007 tax years: \$200,000

2) Foam Products Manufacturer

- a. Average 4 Year Payroll of \$19.5 Million
- b. Net Credit Benefit for 2004 thru 2007 tax years: \$1,200,000

3) Custom Plastics Products Manufacturer

- a. Average 4 Year Payroll of \$11.5 Million
- b. Net Credit Benefit for 2004 thru 2007 tax years: \$700,000

The R&D Tax Credit can be substantial for small and mid-size companies especially if you consider what revenue might be required to generate an equivalent profit.

How Can Your Company Benefit

For those companies that have not taken the credit, this is an opportunity to get a cash refund from the IRS for overpaying taxes the 3 previous years. It does not matter if you are going to be profitable this year or not, you can still take advantage of the incentive if you were profitable and paying taxes in the 3 previous years.

And if you are profitable this year, you take a dollar for dollar reduction in your current year tax liability.

Summary

Congress has passed their FY 2010 Budget Resolution which maintains the line item for a permanent R&D tax credit in the budget.

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**MEMBER PROFILE
Pockets Alvarez
Newport Cottages**

Years in Business: 8

Number of Employees: 25

CFMA's Best Benefit: Networking

Area of Specialty: High end baby and juvenile furniture.

Company History: Newport Cottages began eight years ago and has focused on providing independent retailers and specialty stores with a quality line of baby and kids furniture. We currently distribute throughout the U.S. and have a few dealers abroad such as Canada, Saudi Arabia, and the U.K.

Interesting Company Fact: We are one of the very few manufacturers that still makes baby cribs here in the United States.

Hobbies & Volunteer Work: Mountain biking, golf, volunteering at church.

Great Quote: "Life is a Journey, not a destination", unknown.

Favorite Restaurant: Yard House

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Now the business has only \$50,000 of taxable income on sales of \$1,000,000.

Example:

Annual Sales	\$1,000,000
Net Profit (15%)	\$150,000
Income Tax@ 34%	\$51,000
Discount on Accounts Rec.	\$50,000
Taxes Saved (\$50,000 @34%)	\$17,000

That's a 33% reduction in taxes with all the money going into a TAX EXEMPT RETIREMENT PLAN!

How does this benefit your company?

The tax effect of this approach is that you pay taxes on a smaller amount of profit (e.g., in the example above, the company only pays taxes on its profits of (\$150,000 Profit - \$50,000 Discount), or \$100,000 rather than \$150,000. Moreover, the Retirement Plan pays NO taxes on its profits of \$50,000 from the accounts receivable discount.

This approach allows you as a business owners to:

- convert your business profits into Retirement Plan investment income/profits
- reduce your taxes considerably
- super charge your retirement account (this does not affect your ability to make contributions).

It also provides protection from creditors. Your accounts receivable are now encumbered by UCC filings and your creditor exempt retirement plan (in most cases) has priority over predatory creditors.

This inventive approach could be the lifesaver that will help your company weather these rocky times, but it is an intricate process that requires expertise that few have at this time. Advanced Retirement Planning Inc. can help you implement this specialized self-factoring method. For further information on how to apply this approach to your situation, give us a call. We will be happy to send you an interactive informational CD to help you educate yourself and your CPA on this innovative program. Contact Jeff Ferretta at 866-913-7174 or email jpferretta@aol.com.

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This is the first hurdle of several hurdles in the legislative procedure to pass a permanent R&D tax credit. Now that the money is set aside for a permanent R&D, a bill authorizing the credit must now be passed and this must be done by fiscal year end September 30. This incentive will help increase employment in the short and long term with high paying American jobs and help companies that have not taken the credit receive a well needed cash refund from the IRS to invest in improving or expanding their business during these tough economic times.

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