

DON'T LET IDENTITY THEFT CATCH YOU OFF GUARD

You may not realize it has happened until you try to buy a new car or refinance your home — and are denied. By then, identity thieves may have maxed out your credit cards, opened new accounts in your name and destroyed your credit rating.

Identity theft is on the rise, thanks largely to the increasing prevalence of online transactions. If you aren't taking precautionary steps, you could become one of the nine million Americans who the Federal Trade Commission (FTC) estimates fall victim every year.

PREVENTION FIRST

You can't always control access to your financial records. Thieves have hacked major bank, credit card and government databases and stolen millions of consumer files. But a little effort can reduce your risk.



It's important to shred financial documents and physically safeguard your Social Security card, driver's license and credit cards. However, your greatest risk is likely to come from the Internet, so be especially careful when paying bills, making purchases or even answering e-mail. In particular:

- Choose difficult passwords made up of a combination of letters, numbers and special characters, and change them periodically.
- Only give out credit card information on sites with secure servers.
- Don't respond to e-mails purporting to be from the IRS or that ask you to "confirm" an account number or other sensitive information.
- Keep virus and spam protection software up to date and download new operating system security upgrades as soon as they become available.

Of course, the Web also provides opportunities to *protect* your identity. Regularly checking online banking and credit card statements for unauthorized charges enables you to address a small problem before it becomes a big one.

RECOVERY EFFORTS

If, despite taking precautions, your identity is stolen, don't panic. Immediately contact your bank, credit card companies and investment service providers to close compromised accounts.

Continued on page 4



ESSENTIAL
Financial Management, LLC

Certified Public Accountants

6777 Wadsworth Blvd • Arvada, CO 80003 • 303-469-0012 • efmcpa.com

IS THE PRICE RIGHT?

What to charge for products and services

One of a business owner's biggest challenges is deciding how to price products and services. Should price simply be a multiple of the actual cost of making the product? Is undercutting competitors and trying to profit from higher sales volumes the best strategy?

Yes and no. While you can't afford to ignore production costs or your competition, pricing is a complex process that requires an understanding of psychology as well as accounting.

NOT STRICTLY OBJECTIVE

The most common pricing method, cost-plus pricing, considers the cost of materials, labor and overhead (which includes such items as rent, utilities, insurance, depreciation and advertising) and takes that number to determine a net profit margin. Your target margin should provide you with a fair rate of return *and* good value for your customer. Depending on the industry, this could be anything from 2% to 20% (though single-digit margins are more typical).

Effective branding and marketing can help customers understand why your product or service is worth the price you're asking.

Your competitors' prices provide another benchmark. But don't automatically assume that, if you charge less than competitors, customers will choose your products. When it comes to pricing, perception of value is critical.

CUSTOMER RELATIONS

Indeed, actual production costs and target profit margins mean nothing if customers perceive your company's machine parts as cheaply made or your clothing as unstylish. Even if you charge less per hour than the personal fitness trainer a few blocks over, people might happily pay a premium for his services if they believe he gets better results. Effective branding and marketing can help customers understand why your product or service is worth the price you're asking.



But you also need to listen to what your customers tell you, because the definition of “value” varies according to industry, product niche — even ZIP code. Those who shop at a discount furniture store, for example, may value low prices over cutting-edge design. Meanwhile, customers of a wholesale organic produce supplier may be willing to pay a higher-than-market rate if they're guaranteed the freshest vegetables.

Finally, consider location and convenience. Customers may be willing to pay \$5 for a soft drink at a movie theater or ballpark, but would balk at that price in the supermarket.

REVIEW AND REVISE

It may take some tinkering, but eventually you should arrive at prices that meet your target profit margin and reflect the market's perceived value. Don't get too comfortable. What works on paper may flop with actual customers.

If you're constantly offering sales and promotions to move units, your prices are probably too high. If your primary competitor recently increased prices by 10%, it may be safe to do the same and still retain customers. Pricing is a constant work in progress. To win the game, you need to keep your eye on the ball at all times. ■

THE COST OF MISCLASSIFYING EMPLOYEES AS INDEPENDENT CONTRACTORS

When the economy went south in 2008, Maggie, the owner of a carpet cleaning business, was forced to lay off staff. Now that business is improving, she needs more help but doesn't want the overhead — or commitment — associated with hiring employees. So Maggie decided to use independent contractors.

They work similar hours and perform many of the same tasks as Maggie's employees. But the contractors have signed agreements stating they'll work for a certain fee and pay their own FICA, unemployment and workers' compensation taxes. What works for Maggie and her new workers should work for the IRS, right? Wrong.

SEVERE CONSEQUENCES

In general, the IRS prefers employees. It's easier and cheaper to collect taxes from a single employer than multiple independent contractors, so the agency actively looks for employees misclassified as contractors by their employers.

The consequences of misclassifying workers can be severe. You may owe back payroll taxes that you should have paid and the employee's payroll and income taxes that you should have withheld, as well as penalties and interest. And the IRS could hold you and other "responsible persons," such as managers, personally liable for uncollected taxes. Finally, your state may impose its own penalties.

DETERMINING FACTORS

Unfortunately, there's no simple formula for determining whether a worker qualifies as an independent contractor. The IRS considers a number of factors. However, you may be working with a contractor if you have the right to control the result of the work, but not the means and methods of accomplishing it. If you *can* control how the work is accomplished, you'll probably need to classify the worker as an employee.

Workers may also be considered employees if they:

- Work on-site in an assigned space or office,
- Work a set number of hours per day or week,
- Are directly supervised by company managers, or
- Use company-owned transportation, equipment and supplies.

For example, Maggie schedules appointments for her contractors and expects them to perform their jobs according to her instructions, using her vehicles and supplies. The IRS likely would consider these workers employees, not contractors.

INDEPENDENCE IS KEY

As the economy improves and your business picks up, you may decide to hire new workers. If you aren't sure how to classify them, talk to a tax expert. ■

UMBRELLA POLICIES PROVIDE SHELTER FROM LEGAL STORMS

Even when you have homeowners and auto insurance, they may not prove adequate if you're found responsible for injuries resulting from an accident. That's where a personal liability — also known as an umbrella — policy comes in. This type of coverage provides between \$1 million and \$5 million in liability protection above your primary liability policy, helping to protect your assets from lawsuits.

While primary policies cover bodily injury and property damage, umbrella policies also cover personal injury claims, which can be costly. In addition, they might cover an injured party's medical and rehabilitative care and lost wages as well as your legal defense fees.

Umbrella policies generally make sense for people with substantial assets who are at greater risk of being sued. This could mean anything from having multiple properties, to a backyard swimming pool to an aggressive dog — or even teenage children. Fortunately, umbrella coverage is relatively inexpensive, particularly when you consider the potentially catastrophic cost of a single accident.





ESSENTIAL Financial Management, LLC

Certified Public Accountants

6777 Wadsworth Blvd
Arvada, CO 80003

Continued from page 1

Next, call the three major credit rating bureaus: Transunion: 800-680-7289; Equifax: 888-766-0008; and Experian: 888-397-3742. Credit bureaus will note the theft in your file, which will help you rehabilitate your credit rating. These bureaus can also “freeze” your account, preventing anyone from initiating new credit in your name.

Then report the theft to your local police department. This provides you with supporting documentation of the crime and entitles you to certain legal rights with creditors. And although you’re not required to do so, consider filing a complaint with the FTC (877-438-4338) to help federal authorities track fraudulent activity and trends.

FIGHTING BACK

It takes time to dispute false charges, open new accounts and remove negative items from your credit record — how long depends on the nature and extent

of the theft. But it’s important to respond immediately to creditors’ claims and any new evidence that criminals are still stealing from you. ■

DO YOU NEED CREDIT PROTECTION?

Identity theft has given rise to a credit protection industry, including credit card fraud insurance. Most credit card holders, however, don’t need such coverage, since federal law limits liability to \$50 per card — even before you report the card as stolen.

A credit monitoring service, on the other hand, might be worth considering. Such services track credit activity and creditor inquiries made on your credit report and may also monitor public records and websites for signs that someone is using your identity.