



From the desk of the CEO Dear Clients and Friends:

At the beginning of the year, did you resolve to be more proactive in the areas of your business that need attention? Yet, have the day-to-day challenges and pressures of serving your clients, managing operations and addressing employee issues already made that New Year's commitment a distant memory?

How can your company meet its long-term goals and how can you devote time to process improvement or strategic planning when the day-to-day issues are so urgent? It is not too late to avoid simply "getting through" another year . . . you can still start this year with a new look and a new perspective.

- What are your goals for the year?
- Where does your business want to go?
- What do you need to change?
- What hinders your growth?

Different areas of your business may need attention, from risk management and tax strategies, to technology improvements and succession planning. Do you need an advisor to look at your business from a different perspective? Yeo & Yeo's business consultants can provide you with assistance in all of the areas listed above to help you meet your goals.

Let us help you identify the areas of your business that can be improved for a more profitable new year.

Sincerely,

John M. Kunitzer
President and CEO



SUBSCRIPTION UPDATE

Complete this form and fax to Jeanne Murphy, Marketing Director, at Yeo & Yeo, P.C. CPAs & Business Consultants at (989) 793-0186. E-mail your subscription update to jeamur@yeoandyeo.com. **Please update your subscription list as follows:**

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We are here to serve you

Accounting and Auditing

- Accounting System Review
- Accounts Receivable and Customer Billing
- Assurance Services
- Basic Accounting Services
- Certifying Statements of Fact
- Chart of Account Design
- Debt Restructuring
- Federal and State Grant Compliance
- Financial Statement Preparation—Audits, Reviews and Compilations
- Fixed Asset/Depreciation Schedules
- Internal Control Design and Review
- Job Costing
- Payroll Services, including Check Writing

Benefit Planning

- Cafeteria and Flex Benefit Plans
- Employee Manual Preparation
- Employee Benefit Plans Administration and Consulting
- Executive Compensation and Benefit Programs
- Life Insurance Analysis
- Pension/Profit Sharing/401(k) Plan Consulting and Administration

Business Consulting

- Assistance in Purchasing, Selling, Reorganizing or Liquidating a Business
- Budgets, Forecasts and Projections
- Business Financing, Restructuring and Reorganization
- Business Plans
- Business Startups (Incorporations, LLCs, Partnerships, Sole Proprietors)
- Cash and Working Capital Management
- Feasibility Studies
- Industry Comparisons
- Inventory and Production Controls
- Management Review
- Manufacturing Studies and Job Costing
- Market Research and Competitor Analysis
- Operations Analysis
- Personnel Planning, Recruiting and Training
- Strategic Planning

Computer & Software Consulting

- Computer Consulting and Support
- Computer Purchase, Installation, Networking
- Computer Training
- Software Consulting and Research
- Spreadsheet Applications
- System Design, Controls and Needs Analysis

Financial & Estate Planning

- Financial and Investment Services
- Personal Financial Planning
- Wills & Trusts
- Gift Planning
- Estate Funding & Liquidity
- Private Asset Management
- Charitable Giving
- Retirement Planning

Health Care Services

- Auditing of Billing Practices
- Coding and Billing Training
- Practice Management Issues
- ASP Service
- Comprehensive Billing Services
- Compliance Plans

Tax Services

- Entity and Year-end Changes
- Internal Revenue Service, City and State Examinations and Notices
- Multistate Taxation
- Quarterly, Year-end Payroll and Sales Tax Preparation
- Sale of Residence Tax Planning
- Sales and Exchanges of Business Property
- Shareholder Distributions and Transfers
- Tax Planning (Business and Personal)
- Year-end Tax Preparation—Individual, Business, Fiduciary, Estate

Valuation & Litigation

- Bankruptcy
- Fraud Investigation
- Business Valuations
- Lease vs. Buy Analysis
- Litigation Support, Mediation, Alternative Dispute Resolution
- Mergers & Acquisitions
- Succession Planning / Buy-Sell Agreements

Industries Served

- Auto Dealers
- Construction
- Education
- Government
- Health Care
- Manufacturing
- Not-for-profit

Yeo & Yeo, P.C.

CPAs & Business Consultants



When businesses need to outsource *Outsourcing within your community*

by Melissa Seeger, CPA

Outsourcing sometimes congers up negative feelings since it is assumed that business is taking the work out of the country and thus losing the job opportunities within the community. Outsourcing can be a very positive endeavor for a company when the owner has the resources within the community to effectively handle the need. The owner has easy access to the provider and at the same time keeps the work within the community.

A common problem for business owners is the expense of managing the finances while trying to focus on growing the business. A business often cannot afford to hire a full-time bookkeeper whose only responsibility is to manage the finances. Therefore, many businesses employ bookkeepers who do it all: bookkeeping, receptionist, operations manager and materials director, to name a few. The bookkeeper is also expected to provide financial reports and functions without having the exper-

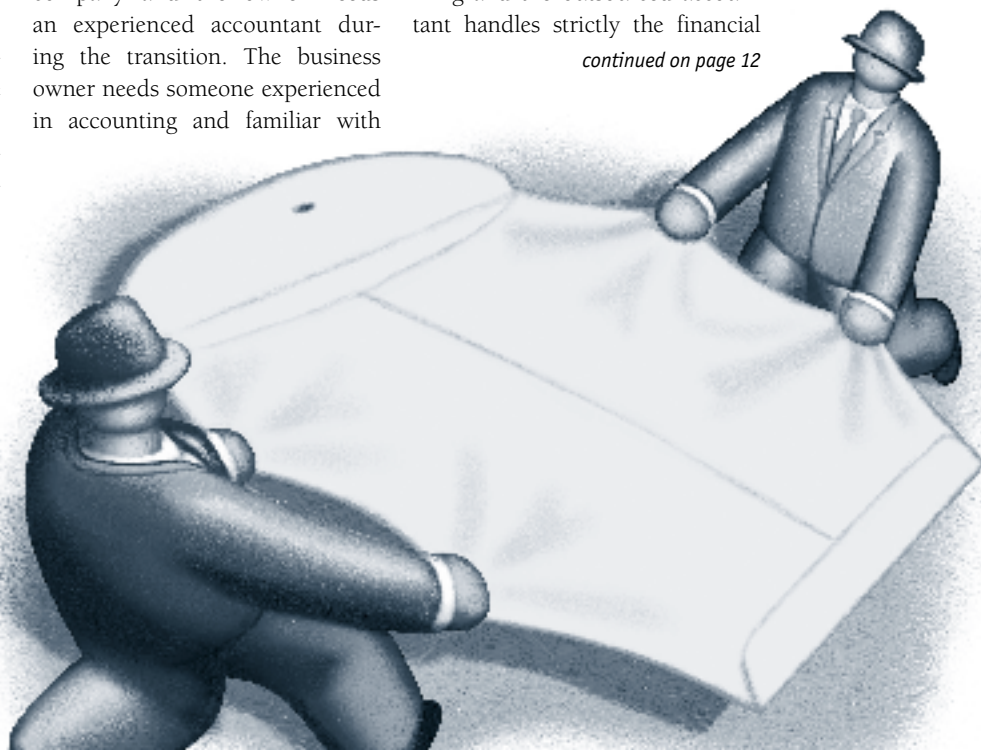
tise demanded with the position. Studies also show that there are more opportunities for fraud when one person handles all the accounting functions, from receiving funds and depositing the money, to reconciling the bank statement and paying the bills. Businesses do not want to pay for a full-time, experienced bookkeeper who is expected to perform duties assigned to someone who would be paid less. The dilemma for a business owner is to manage employee costs and at the same time find experienced employees to handle the functions necessary to grow their business. Outsourcing may solve these problems.

At other times, a bookkeeper or financial officer will leave the company and the owner needs an experienced accountant during the transition. The business owner needs someone experienced in accounting and familiar with

the business operations. In this instance, a business owner would be wise to turn to the accounting firm that services them for temporary assistance. This solution provides the owner with someone who is already familiar with the business and the business's finances. Outsourcing the position to your accountant during this transition can save the company time and money. Many accounting firms do not offer outsourcing for this purpose. Several of our clients have turned to Yeo & Yeo, P.C. for outsourcing assistance.

It may be cost effective to outsource if an administrative assistant or secretary can perform duties such as answering phones, opening mail, making daily deposits and filing and the outsourced accountant handles strictly the financial

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The manufacturing deduction — new opportunities for production activities

by Jane M. Johnson, CPA

Beginning with the 2005 tax year, your company may be in line for a new deduction available to a wide variety of manufacturing operations. The deduction was created by the American Jobs Creation Act of 2004. It created a tax deduction not only for manufacturing, but also for other production activities in the United States. Now the IRS has issued interim guidance providing several safe harbors for small businesses.

Background

In 2005, a qualified domestic producer could deduct 3 percent of the lesser of its taxable income from production activities or its taxable income (modified adjusted gross income [AGI] for individual taxpayers) without regard to the deduction.

For 2005 and 2006, the deduction equals 3 percent of the lesser of:

- (a) taxable income derived from a qualified production activity; or
- (b) taxable income, for the taxable year.

However, the deduction for a taxable year is limited to 50 percent of the W-2 wages paid by the taxpayer during the calendar year. As the deduction is phased in, the 3 percent rate will increase.

Year	Deduction percentage
2005	3 percent
2007	6 percent
2010	9 percent

The creation of this new manufacturing and other production activities deduction is expected to save substantial tax dollars for many taxpayers for production performed in the United States.

Therefore, if your company is taxed at the top corporate rate, the deduction will eventually translate into a tax cut of roughly 3 percent.

However, the annual deduction is limited to 50 percent of the W-2 wages paid during the tax year. Your company can use one of three methods for computing the W-2 wages.

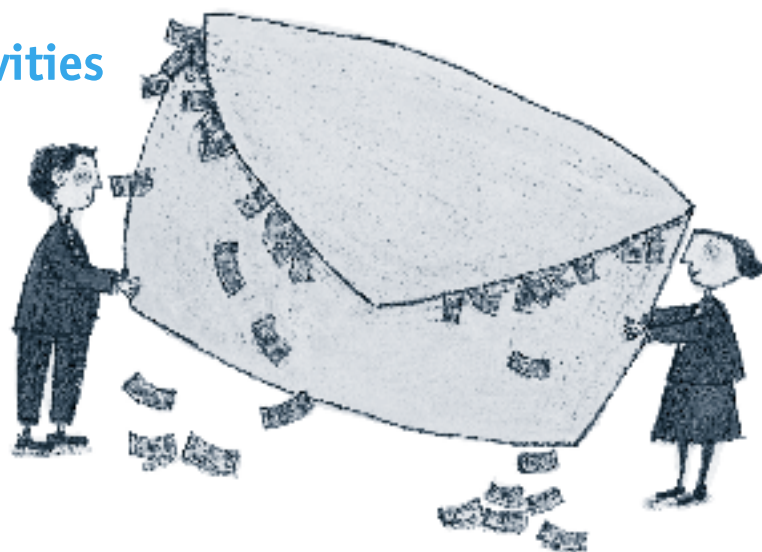
Note that income from qualified production activities must be reduced by allocable costs and deductions. The IRS has developed several methods for allocating costs and deductions, other than cost of goods sold, to production activities. The new notice features a simplified formula for certain small businesses (i.e., average annual receipts of \$25 million or less). Under the simplified method, deductions may be ratably apportioned based on relative gross receipts.

Who qualifies?

Qualified production activities initially have been very liberally defined and include many areas not traditionally referred to as manufacturing. The activities eligible for the deduction include not only the manufacture of personal property such as clothing, goods and food, but:

- construction
- architectural services
- licensing of computer equipment
- software development
- film and music production
- production of electricity, natural gas or water

The IRS has announced it will provide additional guidance for these activities, particularly construction activities, in forthcoming regulations.



Other IRS requirements

To qualify for the deduction, production activities must be performed in whole, or in significant part, in the United States. As a general rule, this requirement is met if the activity is substantial in nature. The determination of whether the activity is substantial depends on the particular facts and circumstances. The IRS says it will weigh factors such as the relative value added by the activity, the nature of the property and the nature of the activity performed by the taxpayer in the United States.

To ease administrative hassles for small businesses, the IRS has established this safe-harbor rule: As long as your labor and overhead costs for the manufacture, production, growth and extraction of the property equal at least 20 percent of the total cost for the property, it will be treated as being manufactured in significant part. e



ABOUT THE AUTHOR

Jane M. Johnson, CPA, is a principal at Yeo & Yeo, P.C.'s Flint office. She leads the firm's Manufacturing Services team. Yeo & Yeo's tax advisors welcome any questions you have about this tax-saving opportunity. Please call your local office today.

2005 Energy Act quick tax facts — incentives at a glance

The chart summarizes key incentives added by the Energy Tax Incentives Act of 2005. These incentives are intended to improve energy production, transportation and efficiency.

INDIVIDUAL ENERGY INCENTIVES		
New credit for:	In effect:	Maximum amount:
Energy efficient home improvements (code Sec. 25C)	2006 and 2007	\$500 lifetime
Residential solar water heaters, photovoltaic and fuel cell property (Code Sec. 25D)	2006 and 2007	\$2,000 heater, \$2,000 photovoltaic, fuel cell (unlimited)
BUSINESS ENERGY INCENTIVES		
New credit for:	In effect:	Maximum amount:
Construction of new energy efficient homes (Code Sec. 45L)	2006 and 2007	\$2,000 per dwelling unit
Manufacture of energy efficient appliances (Code Sec. 45M)	2006 and 2007	\$75 million
New credit for:	In effect:	Maximum amount:
Energy efficient commercial buildings (Code Sec. 179D)	2006 and 2007	\$1.80 per sq. ft., less any prior year deduction
ALTERNATIVE FUEL VEHICLE CREDIT		
New credit for:	In effect:	Maximum amount:
Hybrid vehicle (Code Sec. 30B)	2006-2010	\$3,400
Advanced lean-burn vehicle (Code Sec. 30B)	2006-2010	\$3,400
Alternative fuel vehicle (Code Sec. 30B)	2006-2010	\$4,000
Fuel cell vehicle (Code Sec. 30B)	2006-2014	\$12,000

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Energy production and investment incentives

New credits are also available for: new nuclear power facility producing electricity; small agri-biodiesel producer; renewable diesel; investment in alternative fuel refueling property; fuel cell power plants; and stationary micro turbine power plants.

Contact your Yeo & Yeo office for more information about credits, depreciation, expensing, amortization, deductions and tax rate reductions relating to the 2005 Energy Act.



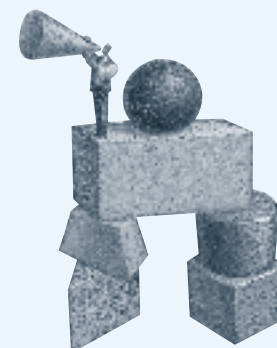
Happenings

Yeo & Yeo people on the move

The following firm employees were recently promoted:

Rebecca Millsap, CPA, Flint office - Senior Manager
 Melissa Seeger, CPA, Saginaw office - Senior Manager
 Angela Burnette, CPA, Marlette office - Manager
 Jana Chotivkova, CPA, Midland office - Manager
 Matthew Rzepka, CPA, CFP, Kalamazoo office - Manager
 Cynthia Coleman, CPA, Ann Arbor office - Senior Accountant

Sharon McCartney, CPA, Saginaw office - Senior Accountant
 Cynthia Scott, CPA, Saginaw office - Senior Accountant



Dan Schluckbier receives Microsoft Master Instructor certification for Office 2003

Yeo & Yeo Computer Consulting training specialist, Dan Schluckbier, has successfully completed all required tests to become a Microsoft Office 2003 Specialist Master Instructor. Microsoft Office Specialist certification at the Master Instructor level is the highest level of mastery over these leading desktop programs that one can achieve.

Corporate Computer Training Program

Yeo & Yeo Computer Consulting offers a full line of training classes to help you get the most from your software – from QuickBooks and Crystal Reports, to Internet, Windows and Microsoft Office programs. Do you require ongoing training or have several employees to train? Yeo & Yeo's Corporate Computer Training Program special daily rate can reduce your training costs. And, all of our hands-on training classes include one year of after-class support. For more information about our Corporate Computer Training Program, call Dan Schluckbier at (800) 607-1446.

Helpful tools on Yeo & Yeo's Web site

Visit www.yeolandyeo.com for tools that can help you every day:

Financial calculators online — easily calculate loan payments, leasing vs. buying, renting a home vs. buying, college savings, retirement savings, IRA values and more.

Business record retention schedule — see how long to keep more than 100 types of business documentation.

Tax guide online — read current tax information about deductions, investments, education, business, retirement, estate.

Tax calendar — check current due dates for common forms and payments.



Yeo & Yeo office locations

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Fax (989) 463-8560

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Fax (734) 996-3777

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Fax (810) 732-6118

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Fax (989) 635-3226

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Fax (989) 631-4288

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Saginaw, MI 48602
(989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Yeo & Yeo honors employees



Yeo & Yeo, P.C. recently honored **Richard F. Wentzell, CPA**, for 35 years of service. Mr. Wentzell leads the firm's Construction Services team and is a principal in the Kalamazoo office. His areas of expertise are tax planning and consulting for small businesses, executive compensation and fringe benefits planning, and business valuations. He is involved in community organizations including Associated Builders and Contractors, the Greater Kalamazoo Home Builders Association, the Southwest Michigan Home Builders Association and the Kalamazoo Builders Exchange.



Yeo & Yeo, P.C. recently honored **Linda S. Williams** for 30 years of service. Ms. Williams serves as an administrative assistant in the Alma office. She is a recipient of the firm's prestigious Thomas J. Thompson Achievement Award. Her community involvement includes: Gratiot Area Chamber of Commerce, Big Brothers Big Sisters of Gratiot and Montcalm Counties, Gratiot County Community Foundation, Optimist Club of Gratiot County, Alma Women's Club and the United Way of Gratiot County.



J.D. Boydston, CPA, senior manager at the Ann Arbor office, was recently honored with the most prestigious award bestowed by the firm's President and CEO, John Kunitzer. The Thomas J. Thompson Achievement Award recognizes one individual within the firm each year who exemplifies Thompson's positive attitude and notable service to the community and to the firm.

When businesses need to outsource

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accounting and reporting—areas that the assistant does not have the necessary background to perform. If the accounting function can be performed in two days or less per week, then it may be cost effective.

Whether the need is with day-to-day accounting work or as a temporary help, the business owner gains:

- Access to the expertise of a CPA and confidence that the financial record keeping is done correctly
- Help in time of crisis
- Lower costs for completion of the accounting work
- Free time to concentrate on the organization's primary service or product, and less time spent on accounting

- Peace of mind that the finances are in order at all times
- Reduced risk of fraud because of the separation of duties

Outsourcing your accounting work on a day-to-day basis minimizes turnover cost and risk . . . you will not need to train replacements to take over the work.

Outsourcing the accounting work during the hiring process gives the owner the confidence that the finances will be in order when the new officer is hired.

ABOUT THE AUTHOR



Melissa Seeger, CPA, is a senior manager in the Business Consulting Group in Yeo & Yeo, P.C.'s Saginaw office. She specializes in small business consulting, management and tax issues, in addition to small business accounting software training and consulting. Seeger is a Certified QuickBooks® ProAdvisor. She is a member of the American Institute of CPAs, the Michigan Association of CPAs, and the Home Builders Association of Saginaw Women's Council.