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August 2002

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A Note from Paul

I hope that the end of summer and the start of school finds everyone in good health and spirits. I have penned several articles which I hope will enlighten you on finance and tax topics pertinent to your situations. I have several newsletters lined up for the next few months. One will focus on education and another on home taxes. Don't forget I am offering 20% off of your next tax return or service for every new client that you refer me. I am enclosing five business cards for you to hand out. As always, if you have questions, please feel free to call me.

Choosing the type of legal entity for your new business

The decision to start your own business comes with many other important decisions. One of the first tasks you will encounter is choosing the legal form of your new business. There are quite a few choices of legal entities, each with their own advantages and disadvantages that must be taken into consideration along with your own personal tax situation.

Sole proprietorships. By far the simplest and least expensive business form to set up, a sole proprietorship can be maintained with few

formalities. However, this type of entity offers no personal liability protection and doesn't allow you to take advantage of many of the tax benefits that are available to corporate employees. Income and expenses from the business are reported on Schedule C of the owner's individual income tax return. Net income is subject to both social security and income taxes.

Partnerships. Similar to a sole proprietorship, a partnership is owned and operated by more than

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Powers of Attorney

by Shannon S. Ragsdale, Attorney at Law

My wife Shannon is an attorney focused on Estate Planning and Business Transactions. If you need legal work, please call her at 918-274-3698 for a free initial consultation. Powers of Attorney is the second installment in a series of articles on estate planning issues that will be in this newsletter.

Powers of Attorney - and there are a variety - delegate legal au-

thority to another person, sometimes called an agent or an attorney-in-fact, to act on your behalf. By including specific language into a document, the power of attorney can remain in effect if the person granting the authority becomes incapacitated. That is a durable power of attorney.

A durable power of attorney is an inexpensive alternative is a court-

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Choosing the right business entity is important. Please call if you have questions.

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one person. A partnership can resolve the personal liability issue to a certain extent by operating as a limited partnership, but partners whose liability is limited cannot be involved in actively managing the business. In addition, the passive activity loss rules may apply and can reduce the amount of loss deductible from these partnerships. Partners receive a Schedule K-1 with their share of the partnership's income or loss, which is then reported on the partner's individual income tax return.

S corporations. This type of legal entity is somewhat of a hybrid between a partnership and a C corporation. Owners of an S corporation have the same liability protection that is available from a C corporation but business income and expenses are passed through to the owner's (as with a partnership). Like partners and sole proprietors, however, more-than-2% S corporation shareholders are ineligible for tax-favored fringe benefits. Another disadvantage of S corporations is the limitations on the number and kind of permissible shareholders, which can limit an S corporation's growth potential and access to capital. As with a partnership, shareholders receive a Schedule K-1 with their share of the S corporation's income or loss, which is then reported on the shareholder's individual income tax return.

C corporations. Although they do not have the shareholder restrictions that apply to S corporations, the biggest disadvantage of a C corporation is double taxation. Double taxation

means that the profits are subject to income tax at the corporate level, and are also taxed to the shareholders when distributed as dividends. This negative tax effect can be minimized, however, by investing the profits back into the business to support the company's growth. An advantage to this form of operation is that shareholder-employees are entitled to tax-advantaged corporate-type fringe benefits, such as medical coverage, disability insurance, and group-term life.

Limited liability company. A relatively new form of legal entity, a limited liability company can be set up to be taxed as a partnership, avoiding the corporate income tax, while limiting the personal liability of the managing members to their investment in the company. A LLC is not subject to tax at the corporate level. However, some states may impose a fee. Like a partnership, the business income and expenses flow through to the owners for inclusion on their individual returns.

Limited liability partnership. An LLP is similar to an LLC, except that an LLP does not offer all of the liability limitations that are available in an LLC structure. Generally, partners are liable for their own actions; however, individual partners are not completely liable for the actions of other partners.

There are more detailed differences and reasons for your choice of an entity, however, these discussions are beyond the scope of this article. Please contact me for more information.

Disclosure: The information provided in this newsletter is of a general nature and isn't intended to address the circumstances of any particular individual, business or other entity. Please consult your CPA or Attorney if you have questions or concerns.

Stock Market Commentary...

Since early June, nearly all stocks have declined. The public is selling because, "We want out!" The people who own stocks are selling the stocks, regardless of price. The people who own mutual funds are selling the mutual funds. When the public sells their mutual funds, the fund's manager must raise cash – anywhere he can. So all stocks are getting sold, regardless of price, the good along with the bad.

I have suspected that such an emotional selloff was possible, but did not think that it was probable.

Meanwhile, corporate earnings are coming thru in good fashion. As of July 19, 42% of the S&P 500 stocks have reported their earnings. Fifty-eight percent of them have beaten Wall Street's estimates, 28% have met Wall Street's estimates and just 14% have missed Wall Street's estimates.

I don't know how long or how far the public will continue to sell its holdings regardless of price. I do know that there are good companies at good-to-

great prices, who are generating enough free cash (cash not required for operations or debt service) to be in charge of their own destiny. Many of these have used and will continue to

Now would be a good time to add to your investments as the market is at a three year low.

use some of this cash to buy their own stock. But, like any smart buyer at an auction, they will attempt to buy cheaply, and not to drive the price up.

For those stocks that meet your earnings and cash flow expectations, you should at a minimum hold and maybe think about buying more shares.

Over the years, I've learned and observed that when the public is selling for emotional reasons, we want to be buyers, as that is what the big money players like Warren Buffett and David Dreman are best at.

Shannon Ragsdale, Attorney at Law is offering a Basic Will Packet which includes a Simple Will, Power of Attorney and Advance Directive for Healthcare for only \$299 per couple or \$149 for one. Call today 274-3698.

Powers of Attorney, Continued

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appointed guardianship or conservatorship, which is necessary for a person who becomes incapacitated without preplanning.

A durable power of attorney allows the person, rather than the court, to choose the caretaker of his or her person and property as he or she designates. In a durable power of attorney, a person can give his agent a range of power, from very limited action-specific power to a comprehensive laundry list of powers.

Oklahoma law requires that the power be stated in specific terms such as "to gain access to my safe deposit box" - rather than general terms - such as "to

do every act that I may legally perform in my place." *An agent is prohibited from making decisions regarding signing an Advance Directive for Health Care, also known as a living will.*

A durable power of attorney for health care is also a recommended planning tool utilized to delegate health care decisions to a chosen person in the event of your disability or illness. It's especially important to Oklahoma residents because Oklahoma has not adopted a family consent statute, which allows a prioritized list of individuals to make medical decisions on behalf of an incapacitated person without appointment of a guardian or a court order.

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*Solid Financial Advice for the
21st Century*

What Is a "Main Home" for Purposes of the Gain Exclusion?

You can exclude the profit on the sale of your "main home" — up to \$250,000, or up to \$500,000 if married filing jointly and if certain other tests are met. This tax benefit generally cannot be used more than once during a two-year period.

What is a "main home" for this purpose? Usually, the home you live in most of the time is your main home. It can be a houseboat, a mobile home, a cooperative apartment, or a condominium.

To exclude your gain, you must generally have owned and used the property

as your main home for at least two years during the five-year period ending on the date of sale.

NOTE: If you sell the land on which your main home is located, but not the house itself, you cannot exclude any gain from the sale of the land.

If you have more than one home, only the sale of your main home qualifies for excluding the gain. If you have two homes and live in both of them, your main home is the one you live in most of the time.