

Inventory Counts

New lighting mandate can save you money

The familiar banks of flickering fluorescent tubes lighting many warehouses and manufacturing plants will soon be switched off permanently.

Fortunately, newer, better and innovative alternatives are available, and building owners are finding to their delight that savings far exceed what they had expected.

The Energy Policy Act of 2005 called for the gradual elimination of what are called T-12 fluorescent bulbs and the ballast systems that power them. The ballasts are no longer manufactured, and the bulbs will be discontinued in 2012.

The T-12s have been standard equipment since the 1930s. Because their most similar replacement bulb, a T-8, is 1/2 inch smaller in diameter, most old fixtures will not work.

T-12s are also being replaced by T-5s and high-bay induction lights, with each new generation becoming more efficient. Although T-12 parts will be available until inventories are depleted, sooner or later companies will need to make the change.

Warehouse owner Don Reisman of Atlanta, Ga., switched over when retrofitting for a manufacturing tenant in his 32,000 square foot building.

"We wanted to save money as well as upgrade," Reisman said. "What we had was inadequate and ancient."

His electrician suggested using induction lights manufactured by Georgia company Intelligent Energy Optimizers. The company's Optieo fluorescent lights use magnetic induction to fire. This spark-less system means that the lamp's gas is not consumed and can last as long as 100,000 hours. That's



about 10 years of full-time use, approximately five times longer than other lighting systems available.

To further hone cost savings, the electrician installed a lighting energy control system that turns off lights automatically when no one is in the vicinity for a certain period of time.

In addition, the new lights are brighter yet "more comfortable" to work under, Reisman said. He couldn't give an exact estimate on how much the company had saved in lighting costs because the company added high-use electric kilns right after the lighting installation. But he's sold on the benefits of the new lights and plans to retrofit another building soon.

Hezi Stein, owner of Masada Bakery, a 30-year-old Atlanta company that bakes and distributes bagels and artisan breads throughout the Southeast, can speak specifically about cost savings. He also used Optieo lights to replace T-12 fixtures in his facility

*See **New lighting** on back*

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A financial and management bulletin to manufacturers from:



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IRS issues private ruling on donated food

Many food producers, wholesalers, retailers and restaurants seek out opportunities to donate excess or unsold food inventory to charity.

If you could give inventory to charity and claim a deduction at fair market value, there would be a double benefit: non-recognition of the gross profit element and a full tax deduction. To prevent this double benefit, the tax deduction for inventory is usually limited to its cost.

An exception to the inventory rule applies to C corporations that make gifts of food products for the benefit of the ill, the needy or infants. This type of gift entitles the C corporation to a deduction for the lesser of:

- Twice the cost basis of the property; or
- The basis plus one half of the appreciation.

This exception was created to encourage corporations to give to relief organizations. It also may permit gifts of inventory by corporations to many educational institutions.

In general, a C corporation's charitable contribution deductions for a year may not exceed 10 percent of the corporation's taxable income. To be eligible for the enhanced deduction, the contributed property generally must be inventory and contributed to a charitable organization (except for private nonoperating foundations).

The donee must:

- Use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy or infants;
- Not transfer the property in exchange for money, other property or services; and
- Provide a written statement that the use of the property will be consistent with such requirements.

In a Chief Counsel Memorandum dated Aug. 15, 2011, the IRS concluded that a corporation that failed to file the required Form 8283, *Noncash Charitable Contributions*, was not entitled to an enhanced charitable contribution deduction for a contribution of food inventory.

Further, because the corporation did not take into account wholesale prices, trade discounts or the impact of "best-if-sold-by" dating in its valuation, the IRS concluded that it failed to properly value the contributed inventory.

To determine the amount of the enhanced deduction, you must determine both the fair market value and the basis of the contributed property. The fair market value is the price the company would have received if it had sold the contributed property:

- In the usual market in which it customarily sells
- At the time and place of the contribution
- In the quantity contributed

To determine the price the company would have received, trade discounts must be taken into account. If a discount is always allowed irrespective of time of payment, it is considered

to be a trade discount, regardless of the conditions that must be met for the discount to apply.

The memorandum addresses a situation in which a company manufactured food products that it sold to wholesalers. The company routinely allowed certain discounts, or vendor allowances, to its customers.

The company contributed inventory to food banks and other organizations that deliver food to the ill, needy, and infants and provided sufficient acknowledgment documentation of the donated goods to verify they were qualified contributions.

The company determined the fair market value for the donated inventory by using the cost of the product plus a markup. It did not take vendor allowances into account. It also made no adjustment to reflect the fact that all of the donated products were contributed when the "best if sold by" that the company places on its food products was approaching.

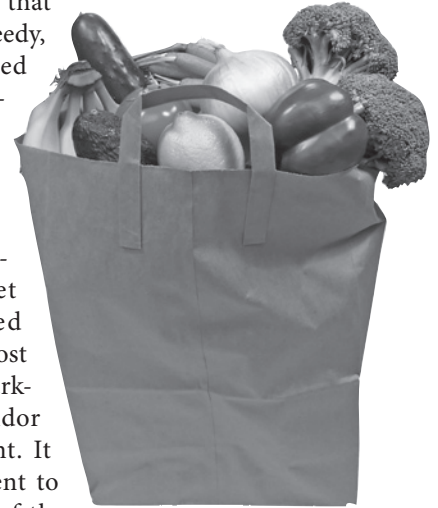
The company labeled each product with a "best if sold by" that subjectively reflected the date the product could be perceived to fall below the company's standards for quality. The "best by" date did not relate to the expiration of the usefulness or safety of the product. In fact, many products could be safely used for years beyond the "best by" date. No federal or state law or industry standard required the "best by" date for the food products.

In the memorandum, the IRS concluded that the company was not entitled to the deduction because it failed to attach the required Forms 8283, signed by the donees, to its tax return.

Even if the forms had been attached, the IRS concluded that the company was not entitled to the enhanced deduction because it failed to properly establish the fair market value of the inventory at the time of the contribution.

First, the IRS noted that the company did not use the wholesale prices it would have actually received. Instead, it used gross sales prices without any reduction for vendor allowances.

In addition, the IRS concluded that, since the inventory was approaching its "best by" date, it is unlikely the company could have sold the inventory at full wholesale price and in sufficient quantities to constitute meaningful sales. Because the company failed to substantiate that such sales could, or did, occur, it had to value the contributed inventory not at the usual selling price, but at a lower amount reflecting the approach of the "best by" date. – *Michael Redemske, CPA*



Six strategies for reducing labor costs, boosting productivity

Do you ever feel like there must be a better way? That some of the things your company is doing are not as efficient as they could be?

In today's economy, when many companies are facing decreased demand for their products and services, it is critical to reduce costs and increase productivity wherever possible. And you probably know that labor is one of your largest – if not *the* largest – controllable costs.

Here are six strategies for reducing the cost and maximizing the productivity of your labor force.

1. Combine vacation and sick leave in one paid-time-off bucket

By combining paid vacation and a reduced amount of sick leave, you can reduce your costs associated with absenteeism.

For example, if you provide two weeks annual paid vacation and two weeks sick leave, instead provide three weeks paid time off. No questions asked about how people are using it.

This also enables you to offer employees a more attractive paid vacation benefit, and saves you the headache of trying to determine whether someone is really sick or just “taking a mental health day.”

Sure, employees who never use sick leave will now be getting an extra week off, but at least you are rewarding your more productive employees. And you will make it up in employees taking fewer sick days because they don't want to use up their vacation time.

2. Automate your time and payroll system to pay employees accurately

Your current timekeeping and payroll system could be costing you money if it does not automate the calculation of complex pay rules. There is a lot of room for human error when calculating such factors as overtime, premium time, government regulations, company policies and collective bargaining agreements.

For example, if an employee's shift “straddles” a regular day and a holiday, such that the employee should receive four hours of regular pay and four hours of overtime, will the manager always catch that? Or will the manager, without thinking, pay it all at the same rate, which means either overpaying or underpaying the employee?

3. Eliminate 'buddy punching'

Buddy punching is the practice in which one employee punches the clock for another to hide the latter's tardiness or absence. This practice has been found to inflate payroll by 2.2 percent on average. If you have 1,000 employees with an average salary of \$40,000, this comes to \$880,000.

The best way to eliminate this practice is biometric verification, in which time-punch terminals match fingerprint signatures with coded badges. This system should pay for itself the first year.

4. Use overtime strategically

Overtime should not be used for managers' convenience or as a perk for employees. It should be used only when it provides greater returns than it costs.

Overtime can be a cost effective tool to make your work force more flexible. For example, overtime can be used to increase capacity temporarily without adding to headcount. But it can also mask problems such as production delays that are caused by supplier problems, aging equipment or employee-induced bottlenecks.

An automated time and payroll system, as mentioned above, can be configured to track how overtime is being used.

5. Put answers to employees' administrative questions online for self-service

Managers, supervisors and HR staff typically spend a large chunk of their time responding to repetitive questions from employees. These include questions about paychecks, vacation usage, 401(k) plans, healthcare coverage and various company policies.

This kind of information could be provided on your intranet at little cost, freeing management for more productive work.

6. Use continuous improvement programs to increase productivity and reduce waste

Continuous improvement programs such as Six Sigma can do a lot more than they are typically used for. Use them to optimize your production processes by more precisely measuring the time employees spend on direct and indirect activities. They also can be used to identify supply chain inefficiencies, insufficient training and a host of other sources of waste.

In the short run, you may not be able to do much about lower demand for your company's products or services, but you *can* make a dent in your labor costs and productivity with some innovative changes such as those described here. – Jeff Van Pelt, Ed.D., SPHR



New lighting *continued from front*

and has now reduced lighting costs by “35-40 percent,” he said. The project was immediately cash flow positive – meaning the savings were greater than the loan payment for the project – and payback is estimated to be three years.

Unlike other improvements, new lighting installations don’t require energy audits. Often the lighting company will do an assessment of needs, price quote, energy savings and payback period calculations. Inputs used in the payback calculation include number of lights, hours of operation, maintenance costs, rates and projected increases, heat output, life of bulbs and energy use decrease. Cost of the project is adjusted down by rebates and incentives and up by cost of financing.

Payback period is calculated by dividing the cost of the investment (adjusted capital investment) by the annual electricity cost savings. Return on investment is often also calculated for a period of years.

To learn about rebates and incentives in your state, check the Database of State Incentives for Renewables and Efficiency. On the dsireusa.org website, state and/or utility

rebates for commercial energy efficiency can be found for most states. For example, in Alabama, a business can receive \$3 to \$34 for each T-12 fixture replaced. Financing sources for the rest of the project are also widely available.

Also in Alabama, businesses can tap a revolving loan fund with a minimum loan amount of \$50,000. With a 2 percent interest rate and a term up to 10 years, this loan program would work well for lighting projects without greatly impacting the payback period or return on investment.

Lighting accounts for 40 percent of an average commercial building’s electricity bill, according to the U.S. Department of Energy. It estimates the average lighting project to have a payback period of 2.2 years and a return on investment of 45 percent. Once the project has paid for itself, savings will extend indefinitely into the future, positively impacting the bottom line.

With the array of new, highly efficient lighting fixtures available, as well as rebates and low cost funding sources, it may be time to replace those outdated fixtures! –
Elizabeth Penney

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The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.

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