

# Growing Your Business™

## Feathering the 401(k)

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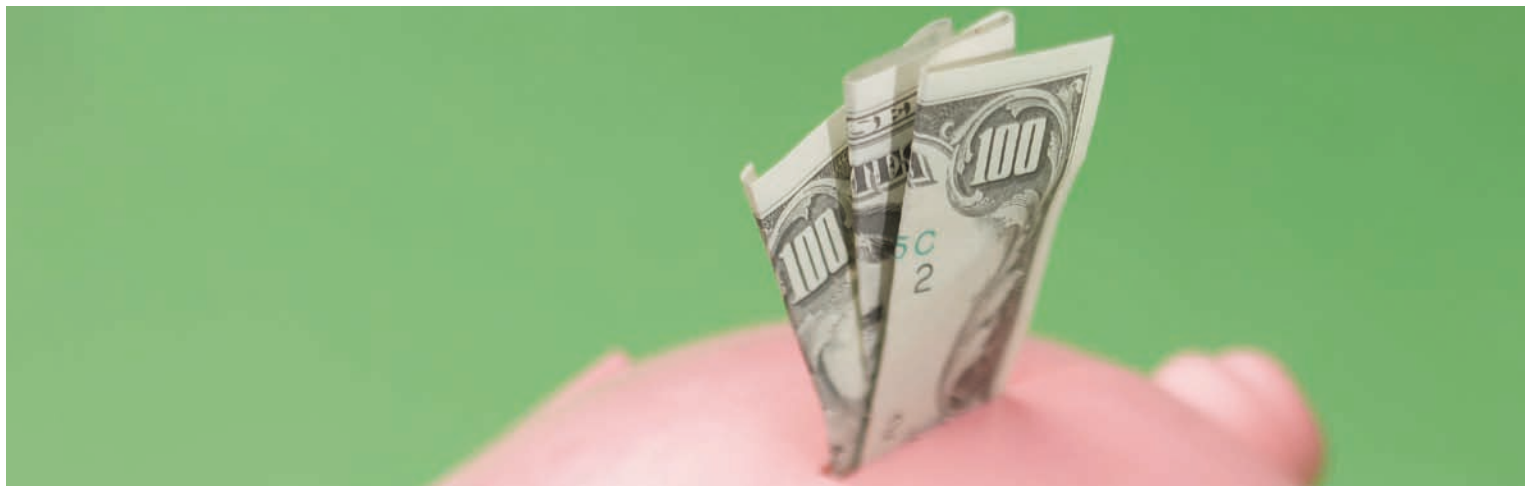
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# Feathering the 401(k): the next phase in corporate retirement planning

Pension reform legislation bolsters corporate support  
for employee retirement savings



The Pension Protection Act of 2006 has the potential to significantly increase participation in 401K retirement plans through automatic enrollment. Under the act, companies with underfunded pensions will have a seven-year period to fully fund their plans.

As more baby boomers without traditional pension plans approach retirement age and as the Social Security system begins to show signs of strain, businesses were recently given greater opportunity to help employees save for retirement. The Pension Protection Act of 2006, effective January 1, 2007, embraces behavioral economic research concepts by enabling businesses to help make savings the path of least resistance and by facilitating more-effective investments. The act affects the way that both employees and businesses conduct retirement planning.

One of the key provisions of the act allows businesses to automatically enroll new employees in optional 401(k) plans rather than simply asking whether the employees would like to participate. "Now employees may be put into a plan by virtue of automatic enrollment, and they'd have to affirmatively opt out of the plan," says Paul Bracaglia, a Private Company Services partner with PricewaterhouseCoopers

in Philadelphia. "History shows that once employees are in a plan, they're likely to stay in it."

Studies indicate that employees need corporate help to begin saving sooner and more effectively. According to the Employee Benefits Research Institute, while 58 percent of workers 55 to 64 years of age elect to participate in a corporate retirement plan, the ratio drops to 20 percent among workers aged 21 to 24. And participants who did elect to save, allocated much of their funds to default plan options that were not necessarily appropriate as retirement investments. "Too often when we look at a plan as a whole, we see entirely too much invested in money market funds," says Bracaglia. "The default option in these plans historically has been cash."

Provisions of the act allow businesses to set suitable default contribution and automatic deferral increase provisions and to provide employees with guidance on changing their investment allocations. The act also calls for a new safe-harbor provision, the specifics of which are still being finalized. At this writing, it looks as if companies will be able to choose target maturity funds—a premixed asset allocation investment vehicle deemed to have the appropriate amount of stocks and bonds in a given year for someone hoping to retire at a projected future date. "The

safe-harbor provision could see to it that more people are investing their savings reasonably well,” says Bracaglia. “Anything you can do to encourage people to save more for their retirement and save it more appropriately is a good thing.”

The act will enforce by certain criteria the fact that companies may no longer continue to underfund their pension plans, and it seeks full funding of defined benefit plans over a seven-year period. “For example, a pension plan with a \$100-million liability that has only \$50 million put aside must catch up and get to \$100 million over seven years,” says Bernie Palmer, a Private Company Services partner with PricewaterhouseCoopers in Atlanta. “Alternatively, the act allows companies to phase out their traditional defined benefit or other pension plans—a point that elicited discussion around a California lawmaker’s concern that some companies would opt to close their 401(k) funds.”

The act also makes permanent the retirement provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which had been due to expire in 2010, and generally made sweeping changes to lower tax rates and simplify plan rules for IRAs, 401(k)s, 403(b)s, and pension plans.

## Navigating the new rules

Under the act, plan administrators have new rules to follow. The rules are intended to protect employees from potential abuses without being too restrictive for businesses. As a result, administrators need to consider how best to meet the new requirements. In particular, they must look at how the company provides investment advice through required computer models and how it monitors investments. “Under the new rules, the person who structures a company’s 401(k) plan may provide investment advice for plan participants only by using a computer model developed and certified by a qualified third party,” says Palmer.

Although the act calls for this provision, it does not specify how the certification should be done. “The act doesn’t specify restrictions or the process under which the model is constructed in order to determine the proper asset allocations,” says Bracaglia.

Additionally, there is no guidance around due diligence procedures for selecting investment options to be included inside the 401(k) plan. Left up to interpretation are such questions as: What criteria is an advisor using to rate one mutual fund company’s options better than another’s? How are such determinations made? What role did such considerations as the fund’s cost, risk, size, and management factor into the recommendations? The

computer model developed for investment advice should provide a diversification benefit for the overall portfolio.

“Markets are complex and ever changing, and it’s difficult to understand all of the influences at a given time and predict how the market is going to perform in the future, but if you look back year to year—and over several years—you can see that markets tend to react in fairly predictable patterns,” says Bracaglia. “You should be able to build longer-term assumptions into the model. To do this, it’s important to understand the relationships

### Why the emphasis on 401(k) plans?

According to CEO respondents in a recent PricewaterhouseCoopers Trendsetter Barometer survey on the range of retirement plans supported by over 300 of the fastest-growing companies in the United States, the 401(k) plan is the retirement plan of choice. “The prevalence of 401(k) plans makes sense because these plans are relatively easy to create and administer,” says Bracaglia. “Some of the provisions of the new pension act are helpful toward this goal, but management faces the challenge of educating participants about investment choices and monitoring the system for effectiveness.”

“The government saw pension plans that were badly underfunded and being dropped by employers and recognized the major part these funds played in the financial security of most of the employees who were part of those plans,” says Palmer. “Many sponsors of defined benefit plans have welcomed efforts to encourage employees to take responsibility for providing for their future savings and to expand their opportunities for doing so.”

Only 6 percent of Trendsetter company CEOs said they include company stock as part of their 401(k) plan. This is a change from just 15 or 20 years ago, when company stock was the investment of choice. Since that time, high-profile company failures have devastated thousands of worker pensions and strained the Pension Benefit Guarantee Corporation (PBGC), a federal corporation created by the Employee Retirement Income Security Act of 1974. PBGC operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusted by PBGC, and recoveries from the companies formerly responsible for the plans. According to the PBGC Web site, the corporation currently protects the pensions of nearly 44 million American workers and retirees in 30,330 private single-employer and multi-employer defined benefit pension plans.

between different types of investments and to understand the risks of those investments. For example, we know that international stocks are more volatile than U.S. stocks historically but also that international stocks provide a higher rate of return and, most important, do not necessarily move in the same direction or at the same time as U.S. stocks.”

Along with offering only few specifics on management of the computer model, the act does not provide plan operators with any guidance on the monitoring of investment options. For example, there’s no guidance concerning how frequently or in what detail periodic reviews should be conducted. Fifty-four percent of over 300 CEOs included in a recent PricewaterhouseCoopers Trendsetter Barometer survey said their company reviews their investment options annually; 5 percent said they do so less frequent than annually. “If you’re waiting a whole year to review your investment options, that’s too long,” says Bracaglia. “Quarterly reviews should be sufficient to stay on top of most developments with the investments in your plan.” And, he adds, “be sure to check comparative data with peer companies to ensure the fees you’re paying are competitive.”

## Future payoff

Looking ahead, employers face the task of attracting, rewarding, and retaining talent from a shrinking pool of workers. To be competitive, companies will need to (1) have automatic 401(k) plan enrollment, (2) offer educational resources and training for making appropriate investment elections, and (3) provide a safe harbor through life-cycle funds. These benefits should not only increase participation in 401(k) plans but also help employees do a better job of saving for retirement. Certainly, improvement in the retirement savings of the employees who have helped build your company is a benefit of which a business owner can be proud.

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For more on Trendsetter Barometer surveys, visit [www.barometersurveys.com](http://www.barometersurveys.com).



# Ready for take-off?

## What corporate aircraft owners and users need to know



If yours is among the businesses that have or use private aircraft—or you’re considering doing so—you need to navigate state and federal tax rules and understand their impact on how you’ll structure aircraft ownership and use.

The benefits of owning a corporate jet are clear: autonomy, convenience, security. Yet the dollars and cents of aircraft ownership may be less so—understanding the true costs and whether you can really expect the investment to pay for itself. Before committing to corporate jet ownership, private companies should consider their aircraft options, evaluate alternate use and ownership structures, and understand how the latest tax rules affect their choices.

### Planning action #1: Choose the appropriate ownership model

The first step toward selecting the most cost-effective and efficient way to fly on company business is to estimate flying frequency, flying distance, and number of employees flying each year. Knowing the distance helps determine the plane size needed. Frequency and number of employees

provide insight into whether the company should acquire an aircraft, purchase a fractional share in an aircraft, or engage a third party to run in-flight operations.

Improved technology has given rise to a new class of aircraft that offers significant savings over traditional aircraft charter and ownership. Very light jets (VLJs) are among the newer options attractive to frequent-regional-business travelers. VLJs can travel about 1,000 miles per flight and seat four to seven passengers. They cost \$1 million to \$3.6 million compared with a light jet, which costs \$4 million to \$8 million. “The goal of VLJ companies is to become more of a taxi in the sky for salespeople who would otherwise drive on regional sales trips requiring an overnight stay,” says Alfred Peguero, a San Francisco-based partner with PricewaterhouseCoopers’ Private Company Services.

To determine the appropriate model, apply the following general rule. If employees fly:

- 251 or more hours per year: Explore full ownership. Candidates tend to be large companies, and larger midsize companies, that often need the flexibility to fly management team members domestically and abroad frequently and with little advance notice.
- 51 to 250 hours per year: Consider fractional ownership, whereby a business takes title to a share of a plane but

pays for another party to run the operations. Companies that need the flexibility for executives to fly out for time-sensitive deals, or sales teams that travel throughout the country, and that would otherwise pay commercial fares, often fall into this category.

- 50 or fewer hours per year: Consider jet cards, prepaid flight cards for a specified number of hours of on-demand charter flight time, or traditional chartering.

## Planning action #2: Understand federal tax implications

Keep in mind when you're evaluating air travel and ownership options for your business that each alternative carries its own tax consequences. The Internal Revenue Service (IRS) determines whether a flight is commercial or noncommercial by the structure used for the aircraft ownership, as well as by the amounts paid for the transportation service. The ownership structure implemented for an aircraft can significantly affect federal and state income taxes, and excise taxes on fuel and transportation charges. "For example, with full or fractional ownership, a company can depreciate the property and deduct the interest expense for financing, whereas purchasing flight time or renting bears no additional expense," says Jason Uetrecht, a director with PricewaterhouseCoopers' Private Company Services in St. Louis.

When you're looking for potential income tax and cash flow savings, be sure to coordinate federal and state tax laws with Federal Aviation Administration (FAA) requirements. Don't fall into the "flight department" company trap. Though many sound business practices involve setting up a separate entity to own an asset, or assets, that businesses can rent or lease, this may not be appropriate for owning corporate aircraft. The FAA takes the view that an entity whose sole purpose is to own a plane that others pay to use as a business should operate under a charter license. A charter license is more restrictive than a general business aviation license, and it requires more-stringent rest periods and drug testing for pilots.

"The worst-case scenario is the FAA's finding that your business is operating illegally as a charter with only a general business license," says Uetrecht. "In addition to the potential voiding of your insurance, there could be significant fines and penalties." A common solution is to have a dry-lease agreement whereby the lessee is in possession and control of the aircraft and contracts out who will fly and operate it. Other alternatives include joint ownership and time-sharing arrangements.

Another important tax consideration: Don't assume that your business will be eligible for all possible tax breaks. More than once Uetrecht has had to explain why an aircraft company's sales proposal was more optimistic than realistic for his client's company. "I've seen proposals indicate that because of possible tax benefits, buying a plane

### Aircraft policy and planning tips

To benefit from tax rules governing corporate aircraft ownership and use—and remain compliant with FAA regulations—businesses would do well to develop a sound corporate aircraft policy that spells out who can use the plane and for what purposes.

Some businesses limit personal use to top executives; others use depreciable business-owned aircraft only for business and either make other arrangements for personal use of charters or purchase prepaid flight cards.

Sound policy and planning should also cover:

- Insurance
- Crew compensation
- Benefits and employment tax issues
- Local personal property taxes
- Issues related to international operations

could pay for itself within a couple of years," Uetrecht says. "This assumes the buyer qualifies for 100 percent of the expenses that can be deducted, accelerated depreciation, and no personal-use limitations—not typically what we see in practical applications with today's business owner."

Newer tax rules have imposed limitations on certain previous tax benefits for corporate aircraft owners and users, so it's important to take this into account when you're evaluating the benefits of owning and using a corporate aircraft. Prior to the American Jobs Creation Act of 2004—which replaces the Extraterritorial Income Tax regime and provides \$137 billion in new corporate tax incentives over 10 years—a company could deduct all of the operating expenses associated with an aircraft it owns. Under the new rules, if the business owner uses the aircraft for personal use, the company may deduct only the portion of costs related to personal use that the owner either reimburses to the company, or includes as a fringe benefit in his income.

## Planning action #3: Determine aircraft use and depreciation

Decide whether the plane will be used exclusively for business or whether it will be used also for personal trips. A business-owned aircraft, either in whole or in fractional part, is depreciated for regular tax purposes by using five-year accelerated depreciation. It is then subject to listed property rules that stipulate that in order to qualify for

accelerated depreciation, it must undergo certain tests to determine if the aircraft is used for business generally more than 50% of the time.

The general rule for valuing personal use of aircraft by an employee, under the fringe benefit rules, is to use fair market value or “charter value” of the flight. However, the IRS provides a more simplified, more tax advantageous valuation method known as the standard industry fare level (SIFL). Using the SIFL value, the fringe benefit typically results in a taxable benefit to the employee, valued at a fraction of the actual total cost of the flight. For example, say your company owned an aircraft that you used 80 percent of the time for business and 20 percent for personal use and that cost about \$1 million per year to operate. Before the 2004 act, you could deduct \$1 million as a business expense, provided that the personal use was properly imputed as a fringe benefit. After the 2004 act, the business can deduct \$800,000 for business—and for entertainment-related use, only the amount imputed as a fringe benefit or actually reimbursed.

It is important to keep appropriate records to enable your business to prepare the reports required to obtain a deduction. Adequate records detail the amount of each separate expenditure: amount of business use, time and place of travel, business purpose, and relationship. For aircraft specifically, records also include miles flown, number and names of passengers, and whether the passengers were employees or guests of employees. “Many companies already generate a flight log of dates, times, and destinations, but to substantiate deductions, businesses need to identify individual travelers and the purpose of each trip,” says Uetrecht.

Should you plan to sell a corporate aircraft, try to either (1) time its disposition with the sale of other business assets that would have ordinary losses or (2) participate in a like-kind exchange. Given the upfront depreciation benefits, proper planning at disposal could help mitigate a potentially significant taxable event.

## Planning action #4: Get a handle on state tax issues

Most states, too, impose a tax on the sale and/or use of aircraft, and in the past few years, state revenue authorities have become increasingly more active in collecting these taxes. “While several states offer various exemptions from sales taxes, catchall state use taxes can be expensive traps without proper planning,” says Peguero. Multiple states may concurrently assert use-tax liability, claiming nexus based on a variety of activities related to the operation of the aircraft.

“We’ve seen some state tax officials go to airports within their borders, research who owns the private planes, determine what the plane is doing there, and cross-check records to see if the owner is paying state taxes,” says

Uetrecht. “It’s important for corporate aircraft owners to be aware that they may incur state tax liability and so should conduct appropriate state and local tax planning.”

## Planning payoff

Considering the growing choices available for corporate air travel, careful planning in light of existing tax rules could help your business become truly ready for takeoff. Not only will you be able to find the right corporate aircraft solution for your business, but you could also save time, money, and trouble to boot.

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# Reasonable doubt

## IRS scrutinizes S corporation shareholder distributions for disguised salary

How S corporations compensate their shareholder-employees is a primary focus area for the IRS—and should be for your organization too. Understanding what constitutes reasonable compensation and a reasonable return on capital is key to understanding the tax implications.

In an effort to reduce the general US Tax Gap, which the government estimates to be \$290 billion per year, the IRS is looking to boost reporting compliance among S corporation shareholder-employees. “The IRS Commissioner is concerned about the difference between what taxpayers should be paying and what the IRS actually collects each year,” notes Greg W. Smith, a tax partner with PricewaterhouseCoopers Private Company Services group in Washington, DC.

The S corporation, a common tax entity for large private companies, is a common audit target. One of the reasons? Unlike a C corporation, where income is taxed once at the corporate level and again at the shareholder level upon distribution, S corporation income is generally only taxed once at the shareholder level and distributions are generally tax-free to the shareholders. S corporation shareholders who are also employees of the corporation are required to draw a reasonable salary—which is subject to payroll taxes (e.g., FICA and Medicare tax). However, because S corporations generally only pay one level of tax, they sometimes may be inclined to pay their shareholder-employees lower wages (subject to payroll taxes) and higher distributions (not subject to payroll taxes).

A 2002 Treasury Inspector General Report analyzed 84 S corporation cases under IRS examination and found that the average annual wage for the S corporation shareholder-employee studied was approximately \$5,300, with an average tax-free distribution of about \$350,000. The IRS believes that a portion of this \$350,000 should be treated as salary (subject to payroll taxes) and that by not treating it as salary these corporations are contributing to the US Tax Gap. “The IRS has been looking at this issue for several years now, and we anticipate that they’ll be scrutinizing S corporation tax returns for this abuse more, particularly in light of the Tax Gap project,” observes Smith.

The IRS concern is that a shareholder-employee’s salary could be disguised as a tax-free distribution to avoid payroll taxes, such as FICA and Medicare. Thus, the IRS wants to ensure that shareholder-employee compensation

is *reasonable*—that is, equivalent to market wages paid to an employee performing the same job.

“However, the analysis can be more difficult in the S corporation setting because an S corporation shareholder expects a *reasonable return* on his or her investment in the S corporation. In addition, the shareholder looks to the S corporation to make distributions to cover his or her individual income tax liability resulting from the income passed through from the S corporation (typically 40 percent of the shareholder’s allocable share of the S corporation income),” says Smith. As a result, S corporations legitimately may make distributions to shareholders that are not subject to payroll taxes.

If an S corporation is deemed to not be paying its shareholder-employees a reasonable salary, the consequences can be significant. The IRS may convert a portion of the tax-free distributions to employee wages, making them subject to payroll taxes. (For an illustration of how this might work, see the box “How reclassification affects tax liability”). Additionally, there could be penalties imposed for this unpaid tax liability.

Given the increased IRS scrutiny, S corporations that are making distributions to their shareholders will want to ensure their shareholder-employees are also drawing a reasonable salary. Oftentimes this issue is raised by a potential acquirer of the stock of an S corporation during its due diligence of the target corporation to assess unreported tax liabilities.

### Reclassifying payments as wages

Several court cases support the notion that the IRS has the authority to reclassify all or part of a payment made to a shareholder as wages if the following pre-requisites exist:

- **Employee status**—The shareholder must be an employee of the S corporation.
- **Payment as compensation**—There must be an actual payment to the shareholder.
- **Reasonable compensation**—A reasonable salary can be established for the shareholder.



## How reclassification affects tax liability

If the IRS determines that an S corporation is inappropriately determining reasonable compensation for its shareholder-employees and reclassifies distributions as wages, the tax impact can be significant.

Consider Joe Brown, an architect and sole owner of an S corporation that employs 50 architects and generates \$10 million of taxable income per year. Joe has drawn an annual salary of only \$200,000 the past three years while taking distributions of \$9 million per year. The Medicare tax is the only exposure here as the FICA tax limit has been exceeded.

### Original Medicare tax calculation

Salary	\$200,000	Distribution to Joe	\$9,000,000
Joe's withholding (1.45%)	\$2,900	Joe's withholding (1.45%)	\$0
S corporation match (1.45%)	\$2,900	S corporation match (1.45%)	\$0
Total Medicare tax paid	\$5,800	Total Medicare tax paid	\$0

The IRS determines that Joe's salary is below market value and that his salary should be \$4 million per year for the past three years. It reclassifies \$3.8 million of the \$9 million distribution to salary each year.

### Revised Medicare tax calculation

Salary	\$4,000,000	Distribution to Joe	\$5,200,000
Joe's withholding (1.45%)	\$58,000	Joe's withholding (1.45%)	\$0
S corporation match (1.45%)	\$58,000	S corporation match (1.45%)	\$0
Total Medicare tax paid	\$116,000	Total Medicare tax paid	\$0

The additional Medicare tax liability for the three-year period is \$330,600.

### Additional Medicare tax liability

Annual difference in Medicare tax paid	\$110,200
Years paid	3
Increased Medicare tax liability	\$330,600

## Determining reasonable compensation

So, just what is reasonable when it comes to the IRS? The following are two ways to determine reasonable compensation for an S corporation shareholder-employee.

In this example, the shareholder-employee owns 100 percent of the company's stock, has \$1 million invested in the company, paid himself a salary of \$100,000, was allocated \$400,000 of taxable ordinary income from the S corporation during the year (after deducting the \$100,000 salary), and took a cash distribution of \$1 million for the year.

- 1. Compare market compensation.** Research what an employee performing the same role in the same geographical location would be paid. For example, if objective resources such as the Bureau of Labor Statistics or an online employment Web site show that a chief information officer in Tulsa, Oklahoma, earns \$350,000 per year, the IRS may compare that data to the company's tax return. The IRS might determine that \$250,000 of the \$1 million distribution is subject to Medicare tax (note: FICA tax is limited to the employee's first \$97,500 of wages in 2007, while there is no cap for Medicare tax).
- 2. Calculate a reasonable return on investment and a reasonable tax distribution amount.** If market compensation data is not available, the IRS might back into a reasonable salary determination first, by considering

the shareholder-employee's capital holdings and then by determining what might be a reasonable return on capital. For example, if the IRS decides that a 15 percent return on the owner's \$1 million capital investment is appropriate, the shareholder-employee would be due a \$150,000 return on capital. Second, if the shareholder-employee was allocated \$400,000 of taxable income from the S corporation, it would make sense that a \$160,000 (40%) tax distribution would be warranted. The IRS may decide that the balance of the \$1 million distribution or \$590,000 (\$1 million distribution less \$150,000 return on capital less \$160,000 tax distribution less \$100,000 salary already taken), should be reclassified as wages subject to the Medicare tax.

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# Managing your finances

## Getting the return you want on your most prized asset—raising financially responsible children



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As a small business owner or entrepreneur, you know how to successfully grow your business and your assets. However, questions such as “How much allowance should I pay my child?” or “Should I buy my child a new car?” may leave you wondering about your success with your most prized asset – your children. Affluence is often a double-edged sword. You want to raise your children comfortably, but you don’t want to overindulge them. Success gives you the ability to buy products and services to help your kids develop, but it makes materialism a potential danger. Your success enables them to be involved in philanthropy, but it can create children with a sense of entitlement which is why financially intelligent parenting is so important in helping you raise successful, responsible children.

In their book, *Silver Spoon Kids: How Financially Successful Parents Raise Responsible Children*, Eileen and Jon Gallo, experts in psychological issues involving money and children, note eight key behaviors financially successful parents exhibit.

**First, parents should encourage a strong work ethic which is a learned behavior.** If you want your children to work hard and take satisfaction from their work, be sure you model this behavior. One of my clients, a CEO of a successful asset management company, taught his children from a young age that they need to work hard and earn their way. They are now financially independent, socially responsible adults who continue to work hard.

**Second, know your “money personality.”** Your money personality is what you think, feel and do relative to money. It’s how you acquire, use, and manage money.

Do you view money as the root of all evil, do you have an insatiable need to make more money, or are you somewhere in the middle? Do you save every penny, spend every penny, or fall somewhere in the middle? Do you micromanage your finances down to the last dime, have bad credit because you regularly pay your bills late, or are you somewhere in between? Whatever your money personality, if your ideas and actions toward money are not consistent with what you'd like to convey to your children, you should change your ways. The better you understand your money relationship and can analyze your money behaviors, the easier it will be to change so that your actions are consistent with your beliefs.

**Third, facilitate financial reflection.** Be alert for teachable moments, those times when kids are listening with an open mind and you can teach them how to think about their choices and the consequences before making a money decision. If you pass someone on the street asking for a handout, how you respond teaches your children a lot. If your child comes home from school and says all the kids are talking about your company and saying you have more money than anybody else, how would you respond? Learning how to reflect before and after making a decision is a great life skill, not just for money matters, but for all matters.

**Fourth, become a philanthropic family.** Teach your children they can make others' lives better, and that they're fortunate in their circumstances. Encouraging compassion and philanthropy will help your children develop empathy and a sense of responsibility to others. Telling your child you give money to the local food bank is fine, but taking your child there to help serve meals reinforces your beliefs.

**Fifth, teach financial literacy.** If children learn to behave responsibly with money when they're young and are instilled with an understanding of how to make decisions about money, they will carry this with them throughout their lives. Teach them how to balance a checkbook, how to invest reasonably, how to save, how much to spend, etc. To assist with this, you can use some of the many tools available today on the internet (try [www.moneysavvygeneration.com](http://www.moneysavvygeneration.com) for those under 12.)

**Sixth, be aware of the values you model.** Children can spot "value hypocrisy" faster than you can imagine. My client, the CEO, has shared that one of the most difficult things is saying "no" to your kids when they ask for the latest gadget, or a new car because "everyone else has one" and they know you can afford it; and saying "no" to yourself when the things you would like to buy or do go against the values you're trying to instill in your children.

Articulating your money values will help you to adequately plan your estate and allow you to best structure your transfer of wealth to your children. Do you have a family mission statement incorporated into your estate plan? Do you know what you'd like your children to do with your

money? Do you know what you're afraid they might do with the money? Does your estate plan incorporate the answers to these and other relevant questions?

**Seventh, moderate extreme money tendencies.** Be aware of any extreme money behaviors, both yours and your children's, and work to curb these tendencies. Whether it's excessive shopping or excessive frugality, moderating these tendencies can keep them from evolving into life-long bad behaviors.

**Lastly, talk about tough topics.** Even if you model good money behaviors, if you don't talk about them with your children, your behaviors won't be as effective. Will you have a good answer the first time your child asks "Are we rich?" or "Why can't I have that hot new toy?" Translating your values into words means you have to be willing to talk candidly with your children about money. Be honest, teach them the responsibility that comes with money, help them understand there are spending limits, acknowledge their feelings, and treat their questions with respect.

Raising financially responsible children isn't easy in today's times of extreme materialism and impermanence, but if you invest in your child's future by living your values through word and deed, chances are your investment will yield higher dividends than you ever imagined.

Note to readers:

Growing Your Business is undergoing a redesign and will return with the November/December issue

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