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Growing Your Business™

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The rise of the agile business*

*connectedthinking

PricewaterhouseCoopers

How far
can we reach
when we’re
turning on
a dime?

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As businesses seek to be increasingly agile to meet the demands of today's dynamic business environment, they are adopting an approach called agility orientation. Under this approach, businesses are defining—even reinventing—themselves as collections of capabilities critical to growth, independent of specific products or lines of business. After identifying core and non-core services, businesses can better choose to outsource or break down software applications into services. The agility-oriented organization can move quickly, efficiently and cost-effectively to implement changes that deliver value to the business and achieve superior marketplace performance.

Getting a handle on your business processes is the key

To become agile enough to respond quickly to changing business, regulatory, and investor requirements and opportunities, more organizations are adopting a services-based approach we call *agility orientation*. Under this approach, businesses are defining—even reinventing—themselves as collections of capabilities critical to growth, independent of specific products or lines of business. In the process, they are lowering cost structures, raising efficiencies and often gaining competitive advantage. Essentially, they are answering the question: “How far can we reach when we’re turning on a dime?”

While many companies are focused primarily on internal processes, the same goal of agility can yield significant benefits for extended business processes. The first step toward agility orientation is identifying the end-to-end processes that define how your business creates value for internal and external customers. Many of these processes will comprise multiple functions or business activities within traditional departments. Once you have identified the processes, you then must determine which of the functions are common to multiple processes and could be shared. Next you must define standard inputs and outputs at the linkages between individual functions.

Another crucial aspect of agility orientation is the alignment of process ownership and process management. This is often done by creating process “owners” who are responsible for key customers or customer segments, and have the power to change the end-to-end process to meet their customers’ needs. The re-alignment of authority transforms departments into process-oriented competency centers, with far more focus on delivering value to the end-to-end process and end customers. With this approach, companies begin to think of their business functions as business services.

Technology’s role in agility

Of course, orchestrating an end-to-end process through constant attention to service arrangement and re-arrangement is only possible with the appropriate IT infrastructure in place. This infrastructure, generally referred to as a service-oriented architecture, is increasingly the focus of CIOs as they seek to deliver value for their organizations.

In some cases, the more commoditized layers of IT themselves are among the services that a business chooses to outsource to others for whom it is the main focus. “We see less and less core IT dependencies in companies as external service providers perform these services better,” observes

Justin McPherson, a director with PricewaterhouseCoopers' Advisory Services group. "Outsourcing IT services has the potential to offer a new level of economic power to some midsize companies."

Agile businesses that free themselves from inflexible infrastructure and the costs and distractions of optimizing legacy systems can change direction more rapidly. This was the case for one US business that moved quickly to capture market share by acquiring 15 companies to create an organization that manufactures components for security-related products. Rather than struggle with unifying the legacy systems, the $200 million company opted to maintain a very small overhead by outsourcing as many functions as possible, including its entire IT department.

Learning the agile company's lingo

Although industry terms have yet to become standardized, definitions of the following terms have begun to emerge:

Agile enterprise
An enterprise that has identified its core, value-creating end-to-end processes and the relationships among them, established standards for how the individual components of the end-to-end processes link together, and has implemented them enterprise wide in both human and technology implementations, sharing common processes where possible, evolving processes as needed, and ensuring that unique processes are kept to a minimum.

Business agility blueprint
A plan to meet a company's goals under specific scenarios.

Enterprise architecture
The structure and characteristics of an organization's systems, processes and services.

Service
A concrete representation of a process as with a standard for how it is accessed and a standard for what the service provides; this can be a computer algorithm, a set of business activities, or something provided by a vendor on an outsourced basis.

Service-oriented architecture
The map of technology and business services, the flowchart of their interactions and dependencies, and the infrastructure that executes them reliably and consistently. Although typically thought of as an IT function to design the delivery technology for services, the architecture actually maps out the business processes and operations, identifying the technological and non-technological execution mechanisms. An example of a non-technological execution mechanism would be the approval chain and parameters for approving a sales contract.

Service-oriented business architecture
The service design and delivery architecture used by the business—the business process architecture. This is usually not made an explicit part of a service-orientation effort. It is often derived for specific business functions during the development architecture effort when trying to determine what services IT should deliver, but leads to an incomplete or ad hoc view of business processes within IT.

Service-oriented development or IT
The service design and delivery architecture used by IT. Service-oriented development architecture is not limited to homegrown application development. The term also includes the use of commercial and legacy applications through a services interface or wrapper to extract specific functionality for use by other applications and services.

"Streamlining operations and outsourcing non-core services—services that are not necessarily producing competitive advantage—such as IT, is a tremendous opportunity to be more competitive against larger peers," says Glen Hobbs, a director with PricewaterhouseCoopers' Advisory Services group. Hobbs cites the competitive advantage that a new airline with a streamlined operation could have over the major airlines struggling with overhead. He notes that the same dynamics could be seen in the telecom sector where new cell phone technology with more efficient cost structures is deployed in developing countries, effectively leapfrogging operators in developed countries who are saddled with large amounts of inflexible legacy infrastructure.

Exploring agility orientation

Outsourcing is one tool among many available to those who seek a competitive advantage through agility orientation, and is never a complete solution on its own. A business interested in exploring an agility-oriented approach should take the following steps to weigh the benefits of adoption and determine where to focus:

- Examine and define the company's business strategy, goals, and objectives for growth. This provides an important perspective for setting priorities.
- Collaborate on a *business agility blueprint* informed by evaluating a variety of real-world scenarios. A shared, holistic perspective of the larger organization and its goals helps companies avoid a rigid approach for each process and provides a highly transparent, common guide for testing their actions.
- Analyze all business processes to clearly identify core and non-core services that it performs internally and offers to the marketplace.
  - *Core* business processes, or services, create unique value and either do, or have the potential to, differentiate the business from competitors.
  - *Non-core* business processes, such as payroll or accounts payable, enable the business to function but do not add additional value, such as competitive advantage.
- Identify opportunities for outsourcing non-core services.
- Perform due diligence on the core business processes with an eye toward innovation and optimizing the processes to deliver goods and services at a lower cost.
- Understand the flow of information within and outside of the organization and how to bring about efficiencies in that process. Even in midsize companies there is still some semantic clean up required to standardize and combine data elements that appear on various spreadsheets. For example, *customer* might mean a prospect to the marketing department and a paying customer to sales.
- Identify distinct business tasks that are common to several functions, either for internal or external customers. The organization may be able to standardize the information to create an application that can be shared for multiple scenarios. For example, one service to find customer purchases could be shared by multiple applications such as customer support, marketing and billing.
- Develop services with dynamic applications to improve and automate manual tasks, to realize a consistent view of customers and partner relations, and to orchestrate business processes that comply with internal mandates and external regulations.

Tips for achieving the vision

As with any company effort to affect significant changes within a business it is important to have the leadership team share the vision for agility orientation and work to instill commitment to an organizational design that will facilitate an agility orientation approach. Priorities should include the following:

Review the current management structure. Is it more reflective of a hierarchical command-and-control approach than a flatter, collaborative model? Emphasizing end-to-end process management through agility orientation requires alternate lines of authority that cut across traditional hierarchies.

Consider the potential impact of staff turnover. Having just one champion in a department rather than a shared vision risks wasting time and money should the person leave mid-process without anyone else remaining committed to the same approach.

Gain agreement upfront to collaborate or allow establishing shared business services for various departments. For example, when creating an order-to-cash process shared by two departments with different product lines, it might favor one department's process over another's and someone must be the tiebreaker about what will be done to move the processes forward.

Watch for a political protectionist instinct against standardizing information in various departments.

Strive for use of consistent terms and technical standards for your industry, with both suppliers and customers.

Set up a funding model so that the business shares the cost of developing shared services rather than having individual departments affected bear the costs. "The first one to the dance shouldn't have to pay the band," says Justin McPherson, a director with PricewaterhouseCoopers' Advisory Services group.

Streamlining business services enables enterprises to redeploy and retrain employees, or reduce the number necessary to perform certain individual tasks. It should support business strategy by providing an organization-wide view, which fosters additional innovation.

Agility orientation helps businesses implement changes quickly, whether they are looking to seize opportunities in the growing global market, serving existing clients that are expanding overseas, or tapping into a skill base remotely to gain competitive advantage.

Take small steps with big impact

How do you solve the conflict of needing to move ahead quickly while taking a step back to streamline and implement an agility-oriented approach? Consider taking incremental steps with the business strategy in mind, as follows:

- Choose a specific focus to make changes that offer quick value, for example by department or key processes across departments, such as the finance function from purchase to pay.
- Look at the process from end to end, noting specifically what employees do and the data that flows through. This area is often fragmented, with multiple spreadsheets and different people involved with similar activities.
- Watch for opportunities to streamline, considering the data that exists within that process.
- Standardize the terms used by the various systems to ensure that information makes sense when it is combined and reported.
- Be aware of global information privacy rules and concerns before rolling up data into a central location. Countries, such as Brazil, forbid personal information from being transferred or stored outside the country.

Gaining a consensus on a commitment to agility orientation, which processes to streamline, how to standardize the data, and how to fund agility orientation are the keys to successfully creating the agile organization. Some see it as taking a step back before you can take off and fly.

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While outsourcing of functions such as IT, customer support, or payroll processing enables efficiencies and allows companies to focus on their core business, it also requires thoughtful strategy and planning to manage and protect sensitive data. Without the appropriate policies and procedures to secure employee and customer data, companies could be exposed to sales loss, reputation damage, liability, and litigation. To mitigate these risks, companies must assess how and where their data resides and is used—both inside and outside of the company's walls.

Whether across town or across the sea, businesses of all sizes are outsourcing business functions or processes to gain cost savings and efficiencies. Proper planning requires the assessment and mitigation of the associated risks.

A limited practice only five years ago, it is becoming routine for private companies to gain efficiencies by outsourcing functions such as payroll processing, customer support, or IT services. Unfortunately, it is less common for companies (private ones included) to follow a sound approach to protecting their critical data, both inside and outside of their companies. And, as more companies outsource business functions and processes worldwide, often in unfamiliar territory, they need to guard against exposure of intellectual property and sensitive, regulated data that could put them at risk for fines, sanctions, and damage to their reputation.

For example, one US healthcare company outsourced sensitive customer information to a contractor in Pakistan without sufficiently weighing risk management and control issues. The contractor threatened to release the information to the public unless paid a significant sum. Though the situation ended without the business submitting to extortion, its management learned some key lessons about its outsourcing strategy: *understand the rules and risks associated with the data transfer and ensure that proper controls can be put in place before deciding whether or not to outsource.* In most cases, data is transferred electronically, so there are multiple ways to encrypt the transport, and identify, monitor, and block information leaking from the organization.

Risk exposure is determined by the type of business process you outsource, to whom you are sending your data, how trustworthy they are, and what controls they have in place. Other factors are the specific circumstances related to the country in which they reside, for example, political stability or cultural differences in recognizing and respecting intellectual property rights. It is also imperative to evaluate the same criteria for anyone to whom the outsourcer might subcontract or outsource, or to specify contractually that such arrangements would not be permitted without written consent.

“From a security perspective, the outsourcing vendor is an extension of your company, and you need to know what they are doing, how they are doing it, and that it meets and exceeds all necessary standards—company, client, and government,” observes Kristen Oakman, a PricewaterhouseCoopers Technology group manager.

When a business manages and protects its data effectively, it mitigates the risk of liability and litigation due to breach of data handling laws, and the loss of reputation and customers from a publicized breach or threat, whether or not an actual theft has occurred.

Does extending your supply chain expand your risk?

Outsourcing isn't the only way you can expose your company's data to risk. It is important to consider risks and put controls in place when partnering in other ways, such as sharing technical data on a portal with others in your industry. Though manufacturing or extending your supply chain might appear less risky, it is important that contracts and agreements protect any intellectual property involved, such as special knowledge on how the product is manufactured.

"Your contract should include specific language about who has the rights to technology and restrict any use of it by the person you're partnering with or outsourcing to," says Hutchins. "If you've got to provide proprietary information to an outsourcing operation, protect your ideas with patents whenever possible."

If your business is considering partnering with entities in another country, it is important to understand if the culture takes a different view of intellectual property protections and regulations, and to make decisions with that in mind.

The bottom line: understand who will have access to your data, and how to ensure that only authorized parties can view it, make use of it, or share it.

Assessing your company's current data handling

There are multiple reasons a business owner or CEO needs to be sure his or her company protects all of its data, particularly the data it outsources, whenever it is "in motion or at rest,"—that is whether it is being transmitted, processed, or stored—according to Gerard Verweij, PricewaterhouseCoopers Advisory partner. Taking the time to ensure you assess the risk involved with existing data handling before you enter in to outsourcing arrangements is essential. Primary areas of focus include:

Data transport rules and regulations. Though most are privacy-related rules and regulations, there are also export rules that govern where data may be sent. Outside the US, many countries restrict the movement of employee information outside of their borders, which can affect where electronic information is stored. Businesses that outsource or engage in offshore activity must understand what they are going to send and where they are going to send it, because they need to know what rules and regulations apply. This will help determine what controls and policies they must put in place. For example, one US company was fined $100 million over the sale of data related to sensitive information about US military equipment. The company sent data to China, Singapore, and the United Kingdom and did not hold back or mask key components of the data to protect it sufficiently, and another party sold the information.

Safeguards for data that represents intellectual property. Companies need to consider how to protect such data from unauthorized disclosure or use. For example, if you want to set up a manufacturing site to build aircraft in China, a country historically not known for recognizing the concept of intellectual property rights, you would need to examine to whom you are sending your manufacturing specifications and how you are going to protect the specifications to prevent a competitor from using your technology.

Protection of data that could be used for financial gain. This consideration applies to data that might be sold, disclosed altered or duplicated for the purposes of financial gain. For example, an investment management bank that wants to outsource processing work for accounting and fund administration would need to ensure that no one could intercept transactions and alter the data to seek financial gain.

Before you outsource

Implementing a plan to outsource should begin by involving a broad spectrum of decision makers, such as managers from IT, finance, and legal departments, in addition to those directly responsible for a particular area or function, such as manufacturing or customer relations. A private company owner, CEO, or CFO should be concerned about data protection from two key perspectives: what would happen if a security breach occurred; and, what could it cost the business?

One of the biggest pitfalls that Dan Hutchins, PricewaterhouseCoopers Private Company Services partner, has observed is a lack of sufficient due diligence before entering into an important outsourcing agreement. It is essential to be sure that the outsourcing vendor has the right training and is aware of sound data protection principals. It is not enough for an outsourcer to assure you it has stringent controls in place to protect your data; you are responsible for verifying the controls exist and are functioning properly. The most efficient way to get comfortable with the controls and processes at an outsourcer is to obtain an SAS 70 report on internal controls from a public accounting firm. You might also consider the following actions:

- Visit the outsourcing location, interview employees about the processes they perform, and examine the level of security.
- Conduct a background check on employees and how they do their work, for example whether employees work remotely, how they access the company network, and from which country they access the network.

Creating the outsourcing plan

Once you have decided to work with an outsourcer, your outsourcing plan must include a well-thought-out data protection strategy with effective policies and processes. Companies creating such a strategy must properly assess how and where company data resides, how it is used, and how it can be protected throughout its entire lifecycle, from gathering, storing, and using it to eventually disposing of it, or retrieving it from a third party. "Don't assume that when you send data to a third party that they will take good care of it," says Verweij. "Data records management companies might receive back-up tapes that contain highly sensitive information, such as credit card data, but they might not know that the tape needs to be protected in a certain way."

Controls and considerations will vary depending on the nature of the data. It is not only important to know what data you will share and who should have it, but also how they should receive it. For example, certain laws and regulations surrounding some data require intense authentication and security measures, such as encrypting data to meet a certain standard, which few outsourcers may have the provisions to do themselves.

Questions to ask about your data outsourcing processes

Have you outlined a corporate risk policy?

Have you prepared an outsourcing plan for each vendor that includes a data protection strategy?

Do you understand the rules and risks associated with different types of data and its transfer?

Have you ensured that proper controls are in place before you decide whether or not to outsource?

Do you know how trustworthy your outsourcers are? What controls do they have in place? Are they verified? What are the circumstances in their country? What is their policy with their subcontractors and does it meet your standards? What is your policy with your outsourcers' subcontractors?

What manual security efforts can be automated?

Do you have a data breach plan?

Businesses should keep a set of rules internally for moving data, for example transposing certain numbers or sending outsourcers only part of the data and having the rest remain within your company. Some businesses set up software with business rules that prevent sensitive data from flowing out of the company without the proper authorizations. Or they might use software to track and report on sensitive, but non-critical, information sent out of the company, so that someone in an oversight role can manage the process.

Besides understanding all of the US laws and regulations surrounding data protection, a business needs to know the outsourcing country's laws or regulations. For example, many European Union countries have multiple stringent privacy laws that must be understood when determining how to send personally identifiable information across borders.

It is important to negotiate and specifically state in the contract or service agreement certain requirements that you expect the outsourcing vendor to meet, for example, whether the outsourcer is allowed to subcontract the data processing and, if so, what due diligence they need to perform before selecting a third party, or how they must manage the subcontractor selection process going forward. It is also important for the vendor to be aware of, and compliant with, the laws or regulations that come into play with the exchange of the type of data being sent. Be sure your contract gives you the right to audit the vendor at the security level, either by physical visits and background checks, or by evaluating IT security. It is also important to include an exit clause in the contract if the vendor does not meet your standards.

Another security measure is to have a member of the outsourcing project management team report to a compliance or governance committee. Finally, it is also a sound practice to be prepared in the event a data breach does occur at the outsourcing vendor, including ensuring you have the right insurance coverage.

Make outsourcing work for you

Planning to protect your company's data from the top down in your organization is the best way to ensure you have not overlooked any key details, such as the need to share information while retaining a portion of it within your company. Once you understand the rules, regulations, and risks around transporting your data, whether between local offices or across various geographies, you are well on your way to knowing what controls to put in place to protect it throughout its lifecycle.

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It’s that time of year again—time to review your tax position and decide what you can do between now and year end to reduce your 2007 tax liability. While tax reform seems to be a popular issue, there really has not been a major overhaul of the tax code in several years. However, legislation was enacted during the past year which will have an impact on 2007 individual tax returns, and which you will want to keep in mind as you contemplate year-end planning.

A year-end tax planning checklist

Year-end tax planning basics

Aside from legislative changes, not much has changed since last year with regard to year-end tax planning strategies for individuals. Common techniques still include deferring taxable income where possible, accelerating tax deductions into 2007, realigning portfolios to produce tax-favored classes of income (e.g. dividends and capital gains), and transferring income producing assets to taxpayers such as children who may be in a lower tax bracket.

Income-deferring strategies

- Maximize tax-deferred savings. It is generally a good idea to use alternatives where you can use pre-tax dollars, and where earnings are not taxed until a later time. Examples include:
  - Contributing to your company retirement plan or 401(k). This reduces your W-2 earnings and puts more pre-tax dollars to work for you.
  - Create a self-employed retirement vehicle for self-employment income such as sole proprietorships, director's fees or consulting income. One popular vehicle is the SEP IRA. Contributions to the plan are tax deductible within certain limits, it is relatively easy to establish, and there are no annual compliance burdens.
  - Invest in tax-deferred annuities or variable insurance products. These vehicles enable you to save after-tax dollars, but the earnings are not taxed until later or may never be subject to tax.
- Match capital gains and losses. Using capital gains or losses within your accounts to offset each other so you don't have to pay tax on realized gains in the current year is an easy way to reduce current-year taxes. A quick review of your investment portfolio can show if there are unrealized losses that could be realized before year end.
- Delay receipt of anticipated bonuses or incentive compensation coming to you, to defer taxation until a future year. New legislation has substantially restricted a person's ability to defer bonuses, but this strategy is still viable with advanced planning. The downside is that these rules restrict your ability to go back and change your mind once deferral elections are made.

The Tax Relief Act

In December 2006, the President signed a tax relief package ("Tax Relief Act") that retroactively renewed the research tax credit and other business and individual tax incentives that expired at the end of 2005. On the individual side, the legislation extended the deduction for state and local sales taxes through 2007. This deduction is taken in lieu of deducting state and local income taxes and generally is beneficial to those taxpayers living in low (or no) state income tax jurisdictions, such as Texas and Florida. Taxpayers may use actual sales taxes paid, or compute their deduction using IRS tables. If you use the tables, remember to add sales taxes from major purchase (e.g. cars, boats) to this amount.

The Tax Relief Act also extended the above-the-line deduction up to $4,000 for qualified tuition and related expenses through 2007. This deduction is beneficial for those with children in college and whose AGI does not exceed $80,000 (160,000 for joint filers). Also added was a provision which allows individuals an itemized deduction for qualified mortgage insurance premiums (commonly called "PMI") paid or accrued on a qualified residence. This provision is only applicable for amounts paid during 2007 and only for mortgage insurance contracts issued after December 31, 2006.

AMT credit

For individuals with older AMT credit carryovers, a new provision may help lower taxes over the next few years. Starting in 2007, some taxpayers may be eligible for a refundable credit equal to a portion of these unused AMT credits. The credit may reduce an individual's tax liability, but it is only available for years in which the taxpayer is not in AMT. For the 2007 tax year, long-term unused minimum tax credit would relate to AMT amounts paid in the 2003 tax year or earlier and would be reduced by amounts that have been recovered by AMT carryforward credits claimed. The credit is also reduced by the applicable percentage for phase-out of the personal exemption.

The Alternative Minimum Tax ("AMT") continues to be a political hot button, and Congress has yet to offer relief to individuals at the time this article went to press. Currently, the exemption amounts are $45,000 for joint or surviving spouse filers, $33,750 for single filers, and $22,500 for married individuals filing separately. The Congressional Budget Office estimates that approximately 22 million individuals will be subject to AMT in 2007 if the current system remains in place. It is likely that Congress will offer some relief for 2007, but it's uncertain as to what it will be. Given the political climate, it is likely that we may see another one-year patch to the current system, such as an increase in the AMT exemption, pushing any major reform of the AMT to a new Congress.

Therefore, individuals should review their AMT position before embarking on year-end planning actions. It may be more prudent to defer certain deductions (such as state and local taxes, investment expenses, etc.) to 2008 if paying these expenses before year end would result in AMT.

"Kiddie" tax provisions expansion

In May of 2007, the President signed an emergency supplemental appropriations bill which included a 10 year, $4.8 billion tax relief package to aid small businesses. While most of the tax cuts are focused on small businesses, the bill did expand the "kiddie" tax provisions to children who are full time students over the age of 18 but under the age 24 and whose earned income does not exceed one-half the amount of their support. This provision is applicable for the 2008 tax year.

Husband and wife joint ventures

For those businesses that are run by spouses, new tax legislation provides that, starting in 2007, a qualified joint venture whose only members are a husband and wife filing a joint return will not be treated as a partnership for Federal tax purposes. All items of income, gain, loss, deduction and credit can be divided between the spouses based on their respective interests in the venture and report them as a sole proprietor on the appropriate tax form (such as Schedule C).

Itemized deductions and personal exemptions for upper-income individuals

Legislation passed in prior years will also continue to have an impact on current year tax returns. For example, the Economic Growth and Tax Relief Act of 2001 contained provisions to reduce the phase out of itemized deductions and personal exemptions for upper-income individuals. For 2007, instead of a 3% phase-out on itemized deductions for affected taxpayers, the phase-out is reduced to 2%. Likewise, the phase-out of personal exemptions will also be reduced by ⅓. This guarantees that all taxpayers will receive at least a $1,133 deduction for each personal exemption claimed, regardless of their income level.

Transfer of IRA funds to public charities

For charitable minded individuals over the age of 70½, 2007 is also the last year to take advantage of a provision in the Pension Protection Act of 2006. Individuals may transfer up to $100,000 of IRA funds directly to a public charity without incurring an income tax. Individuals making use of this provision exclude both the IRA distribution and the corresponding charitable deduction from their 2007 returns.

Accelerating deductions and expenses

Individuals have a great deal of control over when they pay and receive the tax benefit for itemized deductions, for example:

- Make charitable contributions before year end. If you were planning to make a donation right after the New Year, consider accelerating the payment before December 31 in order to take advantage of the time value of money for the current year deduction. Also, if you have highly-appreciated publicly-traded stock, consider a donation of the stock to charity instead of making cash contributions. You would receive a deduction equal to the fair market value of the stock on the date of transfer without triggering additional capital gains tax if you have held the securities for at least a year.
- Pre-pay in December the balance you project you will owe when you file your state income tax in April, or any real estate taxes due in January or February. It may be more beneficial to take the deduction in the current year.

As discussed in the sidebar (The year in review), pre-paying state taxes, charitable contributions and other itemized deductions may not be beneficial if you are subject to Alternative Minimum Tax (AMT). Individuals should consult their tax advisors and run projections to optimize the amount of deductions that they can take in the current year before these items subject them to AMT.

Rate-shifting strategies

Are you in the maximum tax bracket? You might explore the following income-shifting strategies:

- Shift taxable income to tax-exempt bonds as a part of your longer-term investment strategy. For example, if you have a taxable coupon bond at 5%, after federal and state taxes at 40% you're only netting 3%. If you can get 4% on a municipal bond, you've reduced taxes and saved money.
- Consider investments that produce income that is taxed at lower tax rates. Qualified dividends and long-term capital gain income are subject to a maximum tax rate of 15%, compared to a 35% maximum rate for other classes of income.
- Transfer income producing assets to children, grandchildren or other individuals over age 18 in a lower income bracket. Caveat: new kiddie tax rules for 2008 increase the tax on full-time students between the ages of 19 and 23 whose earned income does not provide one-half of their support.
- If you are looking to finance your child's education, consider a 529 plan. Congress has recently passed legislation which allows earnings on investments in the plan to be withdrawn tax-free assuming that the funds are used for qualified educational expenses. Also, some states permit a tax deduction for contributions to their state sponsored plans.

Other useful planning ideas

- **Convert nondeductible interest to deductible interest.** Though interest expense on personal auto loans, credit cards, and most student loans is not tax deductible, interest on home equity loans and investment loans is tax deductible within certain limits. It is prudent tax planning to use cash to buy personal items, such as cars, boats, etc, and to use loans to purchase investments. This maximizes the amount that you can deduct on your return as interest expense while avoiding non-deductible personal interest.
- **Hybrid vehicle credit.** If you are interested in purchasing a hybrid vehicle, do not overlook the hybrid vehicle credit. Consumers seeking the Alternative Motor Vehicle Credit created by the Energy Policy Act of 2005 may want to buy early, since the full credit is only available for a limited time. A tax credit for hybrid vehicles may be available for those purchased in 2007, and could be as much as $3,000. Many currently-available hybrid vehicles may qualify for this new tax credit, but the specific amount of the credit varies from model to model of eligible vehicle. The credit is available for taxpayers at all income levels.

Finally, be sure to check your federal and state tax withholdings and estimated tax payments to make sure you will not be subject to underpayment penalties. These penalties have edged up along with interest rates. Compensating the IRS for the use of its money now costs more than it did when interest rates were 4%. Individuals generally avoid estimated tax penalties by paying in at least 110% of the prior year tax, or 90% of what you expect your tax liability will be for 2007, whichever is less.

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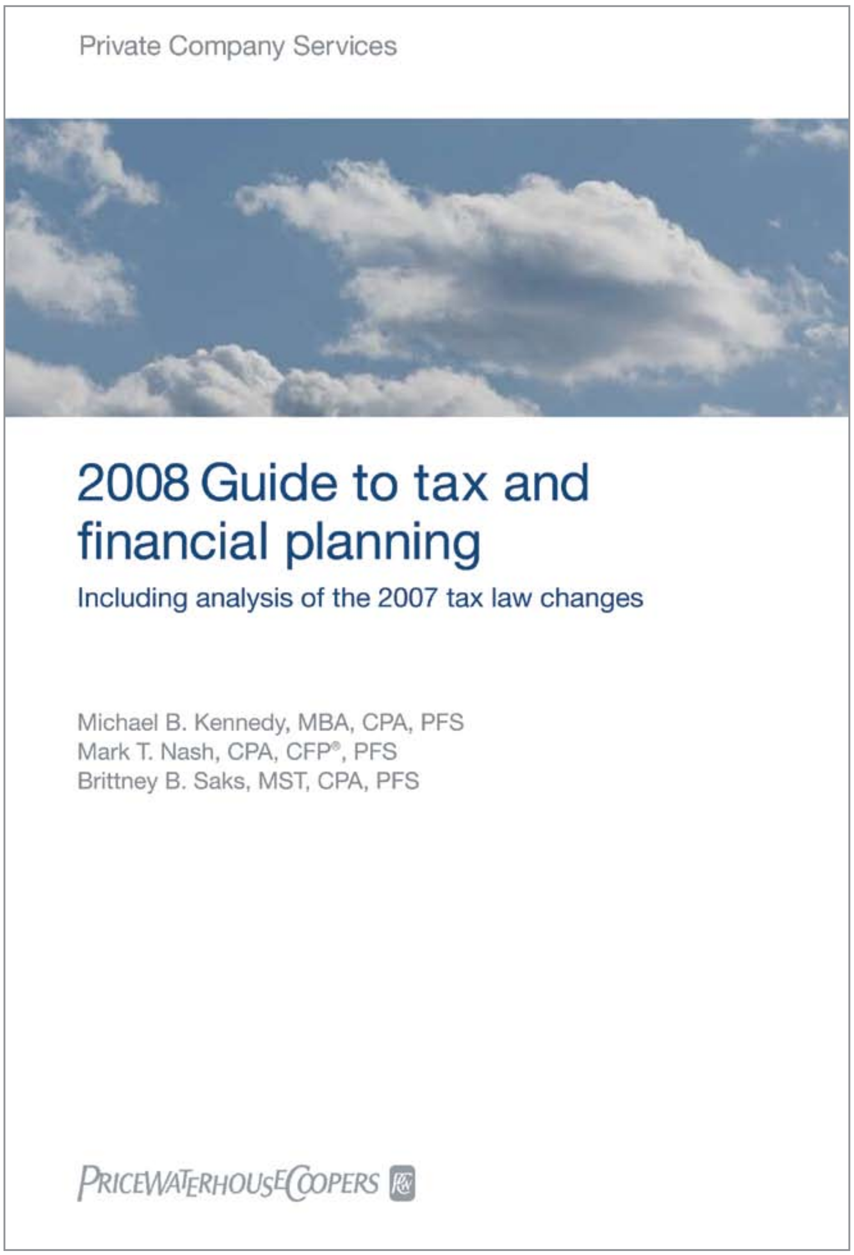
Understand how the 2007 tax laws will affect you

How could the current tax rules affect your personal finances?

How can you benefit from available opportunities?

Where can you find information and strategies to enable you to accurately calculate your tax liability?



The tax professionals at PricewaterhouseCoopers eliminate the jargon and offer unique insights, suggestions, and examples for dealing with this year's tax provisions in the PricewaterhouseCoopers 2008 Guide to tax and financial planning, published by John Wiley & Sons, Inc.

To receive your copy, contact your PricewaterhouseCoopers advisor.

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PricewaterhouseCoopers' Private Company Services practice is an integrated team of audit, tax and advisory professionals who focus on the unique needs of private companies and their owners. Within the practice, our professionals concentrate on the needs of manufacturing, retail, wholesale and distribution, construction, and food and beverage companies, as well as on the needs of law firms and other professional service organizations. They are committed to delivering cost-effective, practical solutions and proactive services with the quality clients expect from PricewaterhouseCoopers.