

# Nation's Business<sup>®</sup>

The Small Business Adviser

Published by U.S. Chamber of Commerce

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In 1999 Trucks**

## **EPA's New Reach**

*The federal agency's policy on  
environmental justice  
could affect your firm or your community.*

OCTOBER 1998 - \$3.00





## COMPENSATION

## Advance Payment Of The Earned-Income Tax Credit

A little-known method for increasing low-paid workers' take-home pay is to give the employees advance payments for their federal earned-income tax credit.

Wayne S. Goshkarian, president of AGB Insurance Services in Phoenix, says many employers don't realize that employees who are eligible for the earned-income credit may request that the money be added to their paychecks rather than wait for a lump-sum tax refund.

Goshkarian, whose firm helps employers with earned-income-credit forms and information, says, "Most employers are concerned about benefits and pay, and this is one way they can provide additional income to their employees ... who qualify."

In general, employees who earn less than \$26,473 this year and who support a

dependent child are eligible for the earned-income credit. The total amount of the advance paid to an employee in 1998 cannot exceed \$1,363, or \$26.21 a week.

Many employers don't know that they must notify low-income employees that they might be eligible for the earned-income credit. The notification requirement may be satisfied by giving employees the official IRS

W-2 form; on the back of Copy C of the form is a notice about advance payments for earned-income credit.

To request advance payment, employees must fill out IRS Form W-5, the Earned Income Credit

Advance Payment Certificate.

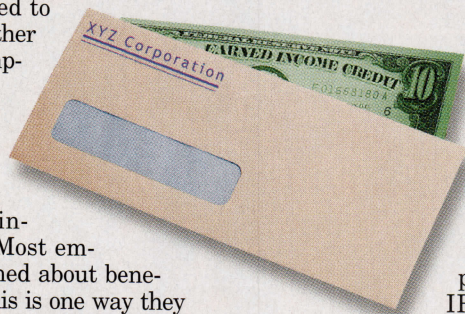
In general, employers make the advance payments from withheld income tax and

employee and employer Social Security and Medicare taxes. The advance payments actually reduce the amount of income and employment taxes owed by the company making the payments.

For employees, the amount of payments received in advance earned-income credit is not considered wages and is not subject to withholding taxes. Employers simply add the earned-income-credit payment to the employee's net pay for the pay period.

Directions for calculating how much earned-income-credit advance to add to employees' paychecks are included in IRS Publication 15, *Employer's Tax Guide*. For details on the earned-income credit, see IRS Publication 596, *Earned Income Credit*. Call the IRS at 1-800-829-1040 for copies. Or visit the agency's World Wide Web site—at [www.irs.ustreas.gov](http://www.irs.ustreas.gov)—to download copies of the publications.

—Cynthia Scanlon



## OWNERSHIP

## Watch Out For The 'Millennium Bug'

If you are thinking about buying a business soon, don't sign a deal before you check on whether the firm's computers will be affected by the year 2000 problem.

Due diligence is more important than ever, says Deborah L. Bayles, a partner with Freeborn & Peters, a law firm in Denver. She warns that unsuspecting buyers may end up with expensive computer problems that a wily seller conveniently neglected to disclose.

The so-called millennium bug is a result of programmers' decisions decades ago to reduce years to as few digits as possible. Thus, 1999 is represented by 99. When Jan. 1, 2000, arrives, computers might behave as if it's Jan. 1, 1900, or they simply might stop functioning. (For more on the subject, see "Counting Down To The Year 2000," August.)

"The purpose of a due-diligence request is simply to uncover information," says Bayles. Including six or seven questions in your due-diligence request about issues related to the year 2000 problem can save a lot of headaches down the road, she says.

If the questions come back unanswered, it may indicate that the company's officials are hiding something or simply have not analyzed the issue. Under either scenario, you will want to take a closer look and ask

more-detailed questions, says Bayles.

In shaping your due-diligence checklist, make sure that, among other things, you take the following steps:

- Identify potential sources of year 2000 problems, whether within the company or with contractors or suppliers.

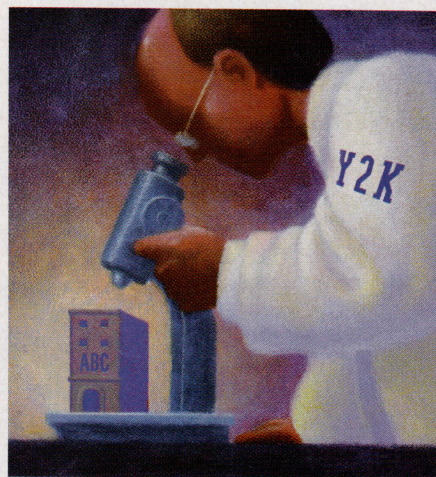
- Request details about what has been done to solve the identified millennium-bug problems.

- Obtain copies of all documents relating to any millennium compliance audits and all contracts regarding software development and computer-system maintenance.

It's not just computer-program problems that you are looking for, says Richard Halloran, an attorney with the Lewis and Roca law firm in Phoenix. "Many electronic components have integrated circuits that can be subject to problems. Come Jan. 1, 2000, things such as copy machines might not work."

Says Bayles: "You will want to get warranties that any software and hardware you are acquiring is year 2000 compliant." You also need to be able to analyze the contracts you are acquiring, not only supply and vendor contracts, she says, but customer contracts as well.

If you are selling a business, be pre-



pared to answer potential buyers' detailed questions about your operations and computer systems.

"We're not going to know the true ramifications of this [year 2000 problem] until the turn of the millennium," says Bayles. "But I have very little doubt that there will be business failures because of this. And I have very little doubt that there will be substantial legal fights."

Says Jose Cardenas, also an attorney with Lewis and Roca: "Some members of the plaintiff's bar are looking at this as a fertile source of litigation for the years to come."

—Cynthia Scanlon