

The Editorial

Economic Forecast

Over the last several months, the American public has been bombarded with statistics about the economy. One day the economy is turning around, the next day the economy is “in the toilet” and depending upon which analyst you listen to, dictates whether you’re in a good mood or a bad mood.

However, no matter how bad the economy is, you need to understand it to assist you in planning your growth and survival during these challenges. Additionally, as you’re re-evaluating market position, you also have to be cognizant of various tax increases that will impact, not only your profitability, but your earnings.

We all know that the IRS efforts to “pry open” overseas tax savings are just getting started. The US-Swiss Treaty requiring Swiss banking/UBS to provide IRS with information on thousands of American account holders, suspected of tax invasion, is just the beginning. **IRS will use these tactics to seek similar deals with other countries from Andorra to Vanuatu** that provide a refuge for tax discrepancies.

In conjunction with the above, France, Germany and others, will add to the pressure existing on their own treaties as they see the United States agreement reaping billions in revenue. Such bilateral agreements should prove far more effective in combating tax evasion than multilateral efforts will.

So why is this important? Simple; there is no doubt in anybody’s mind that there are going to be tax rate increases for high income earners in future years; **as well as business owners.**

As a business owner, you may want to re-think your entire business structure. Currently, the top income tax range for individual and corporations is the same – 35%. **Odds are, Congress will let tax rate cuts lapse after the year 2010, including the top rate on individuals at nearly 40%.** Any sub tax imposed...to pay for changes in health care or for any other reasons...will lift the rate even higher, potentially to as much as 45%.

Setting up a regular corporation may become a more attractive option than an S Corporation, partnership or proprietorship, despite the extra layer of tax. That’s true for only those with incomes above \$250,000 a year.

One option for business owners to consider is LLCs, which can chose individual or corporate tax status. Other advantages;

1. LLC’s are easy and inexpensive to set up (a few hundred dollars).
2. A limited liability company has many of the benefits of a corporation, including legal protection, the ability to accommodate investors and partners, and easy transfers of ownership offering an exit.

A designation as an LLC is increasing popular. From 2003 – 2008, in Florida, for example, the share of businesses created at LLC’s rose to 52% from 27%. **As you’re reviewing tax situations for the future,** it’s important to recognize that the experts are predicting that;

- Unemployment will continue to climb in 2010.
- Growth will be slow.

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That coupled with the fact that the commercial property outlook is frightening, means that we still haven't hit bottom. In reference to commercial real estate, vacancies are rising, rents falling, prices dropping. Most buyers can't agree with sellers on terms. **The few, who do, often aren't able to secure credit, and we know; it always gets worse before it gets better.**

Unfortunately, many people don't know that there are \$250 billion in commercial loans that are maturing this year and \$300 billion due in each of the next 3 years. The question; how are builders or investors going to be able to refinance existing properties? Property values have taken a nose dive. **In fact, some property values are down 40% for some office buildings over the last several years,** and they're likely to decline an additional 10% by the end of 2010.

That coupled with the fact that there's much less credit available, means it's very difficult, if not impossible, to secure new financing. Lack of financing means there's going to be a surge in default loans.

The Kiplinger Letter states that approximately 5% of commercial loans will go bad this year, which is up from 1.6% in 2008. Additionally, it's anticipated that 200 – 300 more banks will collapse this year. The hardest hit will be small – midsized banks. Why? These banks doubled up on developer loans, as big banks doubled up on mortgages, during the housing boom.

The amount of outstanding commercial backed securities is huge - \$736 billion, and that's less than half of some mortgage backed debt. Therefore, no region will be left unscathed by rising vacancies and loan defaults. However, the hardest hit will be CA, FL, GA, AZ, MI, OH, and IN. **Look for office vacancies to rise until 2011 and for unemployment to continue to suffer** through the downturn in the market.

The question; why are these statistics important and why do analysts keep harping on these statistics? The answer; you need to know in order to survive! Consumer spending represents 2/3 of the economic activity and consumer spending can't pick up much when household income growth is stifled. **It takes years to regain the nearly 7 million jobs lost in the recession.** The current GDP growth rate for 2010 is 2.5% and that barely puts a dent in the ranks of the jobless.

At present, healthcare is the only sector adding jobs and even there, the pace is slowing. That coupled with the fact that new mortgage rules could put a crimp on home sales, further impedes the residential market.

How do these statistics affect transportation? We lose multiple movements, and with consumer spending down, there are less products manufactured; which means there's less products shipped, which means there's less raw material ordered, **which means trucks cannot move product if there is no product to move.**

Although glum, these sobering statistics provide information necessary to plan a company's survival/growth over the next several years. Smaller trucking companies need safety in numbers. Safety in numbers means there are opportunities to become agents, brokers, or partners with larger companies, where a partner can take over the back office and allow a smaller company to focus on operations.

These types of alternatives offer the opportunity to have access to more freight, which is necessary to cover operating expenses. All in all, the next two years are going to be very difficult for our industry, but companies that keep their options open and continue to look for ways to reduce operating cost, will survive.

QUOTE OF THE WEEK: “The difference between genius and stupidity is that genius has its limits.”