Beyond the name on the door, the nicely decorated, pleasantly quiet, unobtrusive corporate office of Prospect Airport Services, Inc. (PAS), in Des Plaines, Ill., gives visitors little hint of the scope of this family owned and operated company. The small headquarters staff is, however, just the tip of the corporate iceberg. Out of sight, but central to the success of the company, are 4,000 employees working at 19 airports across the nation serving millions of airline passengers each year.

Founded in 1966 by Robert Strobel and now headed by his daughter, Vicki, PAS began its history cleaning a parking lot at O’Hare International Airport. It has evolved into a multi-faceted organization delivering a wide range of vital services to nearly 200 domestic and international airlines. Its largest operations today are at O’Hare and at the major airports in Detroit and Dallas, but growth continues at other locations, and PAS recently entered the Philadelphia market for the first time.

PAS’s primary areas of operation are aircraft cleaning, passenger wheelchair services, baggage handling and skycap services, but it also does much more, including security screening for charter flights and hosting services at airline clubs.

“We really are a home grown company,” says Vicki Strobel. “I began working here at 16 delivering lost luggage, and most of our top managers started with us pushing wheelchairs. We’re a very operationally oriented company because our management team has done the frontline work.”

Because it operates in so many locations, PAS has a decentralized management structure. Airport operations are managed by five senior vice presidents, including Vicki’s brother, Michael Strobel. Each of these executives is responsible for a specific airport or group of airports. Other members of the senior management team are focused on risk management, human resources and finance, which impact all PAS operations.

“Providing employees with the best possible training really is our number-one job because we recognize that our product is our people,” says Ms. Strobel. PAS has at least one training professional at each of its locations.

“One of our ongoing priorities is making sure our entry-level employees understand how important their job is even if the pay is minimum wage and realize they have a future in this company if they do well. We’ve learned over the years how much it means to passengers when one of our staff members treats them with care and respect.”

PAS has grown rapidly over the last 25 years as the airline industry has faced the rigors of intensified competition. The need to control costs has led to increased outsourcing of operations to companies like PAS. In other instances, growth has come from changes in the way people travel.

“The use of wheelchairs has increased tremendously in recent years as more older people fly and because of the increased time they have to spend clearing security and getting to their flights,” says Ms. Strobel. “We recently set a record when we had 55 wheelchair requests on a single flight.”

The two top challenges facing PAS, according to Ms. Strobel, are staying on top of its finances in an industry where margins are under intense competitive pressure and keeping up with the rapid

(Continued on page 4)
Take High Road with Cloud Computing

A growing number of KRD clients are taking the high road with business accounting software by making use of “cloud computing.” If you aren’t familiar with the term, it refers to the increasingly common situations in which software applications and data storage are hosted by a third party, and users access the applications and data via the Internet, rather than using software and drives housed on their own computers.

“We are seeing increasing interest in cloud computing among our clients, whether they use QuickBooks, Peachtree, Navision or something else, because it relieves them of the need to deal with a variety of technical issues and provides increased flexibility,” says Richard Kane, who leads the Business Services practice at KRD.

“The data or programs you have in the cloud work with wherever you have Internet access,” notes Kane. KRD has been making use of cloud computing since 2002.

“If our staff is stranded at home by a blizzard, they can still deal with pressing tasks by accessing the cloud. If you are on the road and need to look at some financial data to make a decision, it can be accessed at any hour, day or night.”

KRD does not offer cloud hosting, but can point clients to reputable firms that do.

“Hosting for QuickBooks and Peachtree is easily available, but for more sophisticated manufacturing-oriented programs, it may be necessary to jump through a few more hoops to reach the cloud,” says Kane. For QuickBooks or Peachtree, a typical monthly fee for hosting would be $50 to $75. Other programs might cost a bit more.

Kane points out that the cost of hosting is offset by a number of savings:

- Investment in computer hardware can be reduced and utility bills will decline;
- Cost of updating software every two or three years in eliminated;
- Staff will spend less time on IT issues and more time being directly productive;
- The ability to work anywhere the user has Internet access should enhance performance.

The idea of putting sensitive company data on a server controlled by others may be a bit discomforting, but Kane says that with standard security procedures offered by hosting services, there is scant reason for concern.

“Cloud computing works especially well in two situations: For small companies, it offers increased flexibility and fewer technical demands, which let a staff of limited size be more efficient. For large companies, where a significant number of employees need access to the same data, cloud computing allows that to happen easily and at minimal cost,” he says.

Kane says the trend toward cloud computing is still in its early stages and is likely to grow dramatically over the course of the coming decade, in part because it is good for the environment.

Total energy consumption declines when multiple businesses use a centralized service for data storage and processing.

“Eventually, many employees won’t have their own computer,” contends Kane. “Instead, they will work at terminals with Internet access but without data storage and processing capabilities; all the computing power and data storage they need will be in the cloud.”

Some Thoughts About Capital Gains – And Losses

As you evaluate investments held in your taxable brokerage accounts, consider the impact of selling appreciated securities this year instead of next year. The maximum federal income tax rate on long-term capital gains realized in 2010 sales is 15%. However, that low 15% rate only applies to gains from securities held for at least a year and a day. In 2011, the maximum rate on long-term capital gains is scheduled to increase to 20%. That will happen automatically unless Congress takes action, which looks increasingly unlikely right now.

To the extent you have capital losses from earlier this year or a capital loss carryover from pre-2010 years (most likely from the 2008 stock market meltdown), selling appreciated securities this year will be a tax-free deal because the losses will shelter your gains. Using capital losses to shelter short-term capital gains is especially helpful because short-term gains will be taxed at your regular rate, which could be as high as 35% if left unsheltered.

What if you have some loser securities (currently worth less than you paid for them) you would like to dump? Biting the bullet and selling them this year would trigger capital losses you can use to shelter capital gains, including high-taxed short-term gains, generated this year.

If selling a bunch of losers would cause your capital losses for this year to exceed your capital gains, no problem. You will have a net capital loss for 2010 which you can then use to shelter up to $3,000 of this year’s high-taxed ordinary income generated by salaries, bonuses, self-employment and so forth ($1,500 if you’re married and file separately). Any excess net capital loss gets carried forward to future years and can be used to shelter gains and income that may be taxed at higher rates.

Get More Out of Quick-Books™ WithTips from KRD

Does your business handle its financial record keeping, billing and payments through QuickBooks, the widely popular accounting software? If so, there is an easy way for you or those in your office who use QuickBooks to get more out of this versatile accounting tool.

Each month, Kutchins, Robbins & Diamond posts a newsletter on its website that provides detailed information on how to make better use of QuickBooks. In July the featured subject was data security. In April, the discussion was about how to accelerate the collection of receivables. To see for yourself, just visit our QuickBooks Tips web page at http://www.krdcpas.com/tips.php to download a copy of any recent edition of this helpful series. To receive this monthly publication via e-mail, send your e-mail address to mcercone@krdcpas.com
Tax Outlook for 2011 Could Be Less Favorable

Although 2010 is half over, we’ve already seen legislation that makes major changes in our tax laws, and more is almost certainly on the way. Despite confusion created by the never-ending changes, the 2010 federal income tax environment is still quite favorable. However, we may not be able to say that for 2011 and beyond. Therefore, tax planning actions taken between now and year-end may be especially important.

Be careful when considering the time-honored strategy of deferring taxable income from this year into next year. The strategy still makes sense if you’re confident you won’t be in a higher tax bracket next year, but the tax picture for 2011 is blurry.

The top two rates are widely expected to increase in 2011 from the current 33% and 35% to 36% and 39.6%, respectively. Therefore, individuals in the top two brackets might want to consider reversing the traditional strategy and accelerating income into 2010 to take advantage of this year’s presumably lower rates.

Until very recently, conventional wisdom said the existing 10%, 15%, 25%, and 28% rate brackets would be left in place for next year. The little-known fact is that Congress must take action for that to occur. If Congress sits on its hands, which now looks more likely than just a few months ago, the four lowest rates will be replaced automatically by three higher rates: 15%, 28%, and 31%. Therefore, individuals currently in the 10%, 15%, 25%, and 28% rate brackets should also be skeptical about following the traditional strategy of deferring income.

For 2010, the dreaded phase-out rule that previously reduced write-offs for the most popular itemized deduction items (including home mortgage interest, state and local taxes, and charitable donations) is gone. However, the phase-out rule is scheduled to return with a vengeance in 2011 unless Congress takes action to prevent it, which now looks increasingly unlikely. If the phase-out rule comes back as expected, it will wipe out $3 of affected itemized deductions for every $100 of Adjusted Gross Income (AGI) above the applicable threshold. Individuals with very high AGI can see up to 80% of their affected deductions wiped out. For 2011, the AGI threshold will probably be around $170,000, or around $85,000 for married individuals who file separate returns.

BOTTOM LINE: Depending on your AGI, you may get greater tax savings by accelerating your January 2011 mortgage interest payment, your state and local tax payments that are due early next year and some charitable donations. However, things get a bit tricky if you’ll be subject to the Alternative Minimum Tax (AMT) this year. Please contact us if you have questions about the advisability of accelerating some itemized deductions into this year.

Giving Gifts of Stock: Sell the Losers; Give Away the Winners

You may be considering making gifts to favorite relatives and/or charities (who may really be hurting financially). You can make gifts in conjunction with an overall revamping of your holdings of stocks and equity mutual fund shares held in taxable brokerage accounts. Here’s how to get the best tax results from your generosity.

**Gifts to Relatives.**

**Don’t** give away loser shares (currently worth less than you paid for them). Instead, sell the shares and take advantage of the resulting capital loss. Then, donate or gift the cash sales proceeds.

**Do** give away winner shares. Most likely, the recipient will pay lower tax rates than you’d pay if you sold the same shares. In fact, relatives who are in the 10% or 15% federal income tax brackets will generally pay a 0% federal tax rate on long-term gains from shares that were held for over a year before being sold this year. The same may be true if they sell appreciated shares next year. (For purposes of meeting the more-than-one-year rule for gifted shares, you get to count your ownership period plus the recipient relative’s ownership period, however brief.)

Even if the shares are held for one year or less before being sold this year, your relative probably will pay a lower tax rate than you would (typically only 10% or 15%). However, beware of one thing before employing this give-away-winner-shares strategy. Gains recognized by a relative who is less than 24 years old may be taxed at his or her parent’s higher rates under the so-called Kiddies Tax rules. (Contact us if you’re concerned about this issue.)

**Gifts to Charities.**

The strategies for gifts to relatives work equally well for gifts to IRS-approved charities. So, sell loser shares and claim the resulting tax-saving capital loss on your return. Then, give the cash sales proceeds to the charity and claim the resulting charitable donation write-off (assuming you itemize deductions). As you can see, this idea results in a double tax benefit (tax-saving capital loss plus tax-saving charitable donation deduction).

With winner shares, give them away to charity instead of giving cash. Here’s why. For publicly traded shares you’ve owned more than a year, your charitable deduction equals the full current market value at the time of the gift. And when you give winner shares away, you walk away from the related capital gains tax. So this idea is another double tax-saver: you avoid capital gains tax on the winner shares, and you get a tax-saving charitable donation write-off to boot. Because the charitable organization is tax-exempt, it can sell your donated shares without owing anything to the IRS.
It Might be Time to Convert Traditional IRA into Roth IRA

Here’s the best-case scenario for converting a traditional IRA to a Roth IRA: Your traditional IRA is (or was) loaded with equities and took a major beating during the 2008 stock market downturn. As a result, your account is worth considerably less than it once was. Correspondingly, the tax hit from converting your traditional IRA into a Roth IRA right now would also be a lot less than before. Why? Because a Roth conversion is treated as a taxable liquidation of your traditional IRA followed by a nondeductible contribution to the new Roth IRA. While even the reduced current tax hit from converting is unwelcome, it may be a small price to pay for future tax savings. After the conversion, all the income and gains that accumulate in your Roth IRA and all withdrawals will be totally free of any federal taxes—assuming you meet the tax-free withdrawal rules. In contrast, future withdrawals from a traditional IRA could be hit with tax rates that are higher than today’s rates (maybe much higher depending on how things go).

Of course, conversion is not a no-brainer. You must be satisfied that paying the upfront conversion tax bill makes sense in your circumstances. In particular, converting a big account all at once could push you into a higher 2010 tax bracket, which would not be good. You also must make assumptions about future tax rates, how long you will leave the account untouched, the rate of return earned on your Roth IRA investments and so forth.

IMPORTANT POINT: Before this year, there were two big restrictions on the Roth IRA conversion privilege. First, your Modified Adjusted Gross Income (MAGI) could not exceed $100,000. Second, you were completely ineligible if your tax status was married filing separately. For 2010, both restrictions are eliminated. If the Roth IRA conversion idea intrigues you, please contact us for a full analysis of all the relevant variables.

(Continued from page 1)

PROFILE: Prospect Airport Services

pace of change, which is driven not just by the airlines, but also by the Transportation Security Administration and the Department of Transportation.

“We’re proud of our ability to meet those challenges,” says Ms. Strobel. “We have been an industry leader in computerizing our operations so that everything is documented almost instantaneously. With systems like our automated wheelchair dispatch system and automated aircraft cleaning audit program, we know where our people are, what tasks they have completed and when each was done. Our customers require increased accountability, especially in this post-9/11 environment, and we have worked hard to make sure we can deliver it.”

PAS joined the KRD family about five years ago when the growing size and complexity of the company’s operations and structure demanded the enhanced accounting resources that KRD can offer. For example, PAS was once a single entity, but today its operations at a number of locations are structured as subsidiary companies.

“We’d the assistance of David Diamond and the staff at KRD, we were able to successfully integrate the financial and tax controls for all our operations,” says Ms. Strobel. “We do much of our accounting in house, but we count on KRD to thoroughly review and audit what we do and make sure we have proper documentation. Working with KRD gives us a great sense of confidence.”

ClienTALK is a publication of Kutchins, Robbins & Diamond, Ltd.
The general information contained herein is for educational purposes and should not be acted upon without first obtaining professional advice. Copyright 2010. Kutchins, Robbins & Diamond, Ltd., 1101 Perimeter Drive, Suite 760, Schaumburg, IL 60173, Phone: 847.240.1040, Fax: 847.240.1055, Website: www.krdcpas.com.