

ExecutiveMemo

www.ima-net.org



A newsletter of the Illinois Manufacturers' Association

February 11, 2010

BRIEFLY

Baise debates taxes on CNBC

IMA President and CEO Greg Baise appeared as a guest on the CNBC program Kudlow & Company to discuss efforts by some members of Congress to tax foreign income of U.S. companies. Baise pointed out the fallacy of such a policy noting that U.S. corporations are paying the second highest corporate tax rate in the world and that what American business needed more was a predictable and stable tax policy at the federal and state level. Visit www.ima-net.org to view the entire seven minute segment.

100% chance of an earthquake today

There's a 100 percent chance of an earthquake today. Though millions of persons may never experience an earthquake, they are very common occurrences on this planet. So today — somewhere — an earthquake will occur.

It is estimated that about 700 shocks each year have the capability to rattle windows when centered in a populated area. But fortunately, most of these potentially destructive earthquakes center in unpopulated areas far from civilization.

Since a major portion of the world's earthquakes each year center around the rim of the Pacific Ocean (Ring of Fire), referred to by seismologists as the circum-Pacific belt, this is the most probable location for today's earthquake. But it could hit any location, because no region is entirely free of earthquakes.

To date, earthquakes cannot be predicted. Several million earthquakes occur annually; thereby, thousands occur each day, although most are too small to be located. The problem, however, is in pinpointing the area where a strong shock will center and when it will occur.

Earthquake prediction is a future possibility, though. Earthquake research was stepped up after the Alaska shock in 1964. Today, research is being conducted by the USGS and other federal and state agencies, as well as universities and private institutions. Earthquake prediction may some day become a reality, but only after much more is learned about the earthquake mechanism.

Source: USGS

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Is the "New Normal" cliché or reality?

This survey from Plante & Moran can help you learn where your manufacturing peers are as we enter 2010 in terms of the industry's optimism, priorities, and changes

The recession that was felt at the end of 2008 and throughout 2009 has caused many companies to re-evaluate their organizational structure, capital requirements and business plans. Companies cut employment, salaries and benefits, deferred discretionary expenses, and cut capital spending to save cash. The question that remains is whether the pending economic recovery will restore these cuts to the old levels or has a "New Normal" been established. This survey is designed to identify how the market is responding to the current recovery. Knowledge is power. All those who participate in this survey will receive a free copy of the study. There are only seven main questions with four sub-surveys of four to eight questions each (complete if the topic interests you).

Pledge for confidentiality: Plante & Moran will not disclose who participates. You may even participate anonymously with a hotmail, yahoo, or gmail account (an email address is needed to share the final reports with you). No company specific data is requested.

Click on the following link to take this survey or cut and paste to your browser.

<http://www.zoomerang.com/Survey/?p=WEB22A669VKCIQ>. For any questions you answer, Plante & Moran will send you the full results.

Thank you for participating in this Plante & Moran survey. Your feedback is important.

Plante & Moran is a CPA and business advisory firm serving thousands of businesses throughout the Midwest. Plante & Moran's thought leadership helps drive business strategies.

New study gives road map for U.S. job creation and long-term growth

A new economic report conducted by the Milken Institute and sponsored by the National Association of Manufacturers (NAM) shows that changes to economic and tax policies and investment in key infrastructure project categories could create more than 11 million jobs in the United States this decade.

Jobs for America: Investments and policies for economic growth and competitiveness, a study conducted by the Milken Institute, analyzes how reducing corporate tax rates, establishing a permanent research and development (R&D) credit, modernizing the U.S. system of export controls and making major investments in energy and transportation infrastructure would create jobs and make the United

States more competitive.

"This report makes a powerful case that manufacturing can lead the United States into a renewed era of growth — if Congress enacts policies to promote U.S. competitiveness," said John Engler, NAM president. "This is a growth agenda.

However, it requires policymakers to legislate with our position in the global economy in mind. It is critical that we accelerate our economic recovery and create jobs for the benefit of manufacturers, their workers and the entire U.S. economy."

"This report is designed to be an effective tool for policymakers to weigh the options they have — both in policy and in investment — to address the very real issue

See **JOB CREATION**, page 2

IMA'S EXECUTIVE MEMO IS UNDERWRITTEN BY:

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EXPERIENCE RESPONSIVENESS.

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of jobs,” said Ross DeVol, executive director of economic research at the Milken Institute. “It shouldn’t be overlooked, however, that the policies and infrastructure projects analyzed are also key to the long-term competitiveness and continued economic growth of the nation.”

The policy changes proposed — decreasing corporate tax rates, increasing and making permanent the R&D credit and modernizing export controls on commercially available products — would significantly increase jobs and grow the economy. Key findings include:

- Reducing the U.S. corporate income tax to match the average of other industrial countries (OECD nations) would trigger new growth. By 2019, it could boost real GDP by \$375.5 billion and create an additional 350,000 manufacturing jobs — increasing total employment by 2.1 million.
- A permanent R&D tax credit, increased by 25 percent, could boost real GDP by \$206 billion (1.2 percent) and generate 316,000 manufacturing jobs.
- Modernizing U.S. export controls could increase exports in high-value areas, enhancing real GDP by \$64 billion by 2019 and creating 160,000 manufacturing jobs.

The report also demonstrates the major economic impact that would result from investments in 10 areas of infrastructure — highways and transit, broadband infrastructure, onshore exploration/offshore drilling, drinking water and wastewater infrastructure, smart grid, sustainability projects (natural gas and clean coal technology), nuclear energy, waterways and aviation (NextGen).

The proposed investments amount to \$425.6 billion, creating 3.4 million construction- and R&D-related jobs. Accounting for ripple effects across other sectors, the total impact would add up to more than 10 million jobs. The impact on long-term competitiveness is just as critical.

The full report is available at www.milkeninstitute.org. A data web site with the outcomes of the policy simulations and data sets for the investment in each of the project categories is available

at www.milkeninstitute.org/jobsforamerica. An interactive investment model allows the user to input an investment amount in each category and calculate the projected jobs, wages and output.

New initiative focuses on doubling U.S exports

In his first State of the Union speech, President Obama set a goal of doubling U.S. exports over the next five years. Last Thursday, U.S. Secretary of Commerce Gary Locke outlined how to ensure that will happen.

Facing pressure to revive the economy, Obama unveiled a broad initiative to open foreign markets for U.S. exports, targeting emerging economies in particular. Locke said the president ordered a cabinet-level group to oversee the strategy with a vigorous effort to remove trade barriers and make accessible export financing to U.S. firms.

Releasing details of the new National Export Initiative, Locke outlined three ways the government aims to make that happen: 1) increasing financing available for small and mid-sized businesses to \$6 billion a year from \$4 billion through the U.S. Export-Import Bank; 2) boosting the presence of trade experts to serve as advocates for U.S. companies in fast-growing nations; and 3) rigorously enforcing international trade laws to remove unfair barriers to U.S.-made products.

“This initiative will correct an economic blind spot that has allowed other countries to chip away at the United States’ international competitiveness,” Locke said. “We simply must elevate exports as a key part of our economic recovery efforts,” Locke said in a speech on Thursday.

The National Association of Manufacturers (NAM) applauded Commerce Secretary Locke’s new export initiative and announced it looks forward to working with the administration to increase manufacturing exports. “America needs a broad array of trade initiatives and pro-growth tax policies to significantly boost manufactured exports and jobs,” NAM said in a statement. “America’s manufacturers look forward to working with the Administration and Congress to obtain the programs and policies that will enable

manufacturers, farmers and services producers to double exports in five years.”

“Making Exporting Easier” Web-based seminar series

The U.S. Commercial Service & PNC Bank help you increase your export sales with this series of Webinars:

February 17, 2010 — Afraid You Won’t Get Paid for an International Sale?

Do you know the safest ways to get paid for an international sale? In this webinar, you will learn common methods of international payment to ensure your risk is minimized. This web-based seminar will outline the common international methods of payment used in global trade and risk mitigation tools.

March 3, 2010 — Are Trade Shows Generating the Quality and Quantity of Sales Leads You Expect?

Learn effective ways to use trade shows to maximize sales leads — this webinar will give you the tools to get the most out of your international trade show experience by learning from global exhibitors and trade show producers. Expert speakers will discuss key marketing tactics, exhibit space and set-up considerations, and shipping your booth, samples and brochures.

March 17, 2010 — Can’t Make Sense of Export Classification Numbers?

Learn about the harmonized system and the general rules of interpretation for successful export transactions in this advanced product classification (HS) webinar. This advanced course will explain the structure and logic of the harmonized system as well as learning how to follow the “General Rules of Interpretation” (GRI’s). Understanding of the harmonized system and the GRI’s is a fundamental skill that will help assure that you are in compliance with U.S. law regarding the re-reporting of your exports.

March 31, 2010 — How can Credit Availability Boost Sales for Your Company?

Learn how the U.S. Export-Import Bank and the Small Business Administration can help you offer attractive financing for your international customers. This webinar explores programs available to acquire needed capital for exports. Learn how export credit insurance can be used as a marketing tool for export sales and how to use credit insurance in your export marketing strategy.

- All programs will be held from 10:00-11:15am CST;
- Expert presenters;
- \$40 fee for each live event;

See **EXPORTING**, page 3

Illinois Manufacturers’ Association 2010 Business Day at the Capitol

WEDNESDAY • MAY 5, 2010 • SPRINGFIELD

- Easy to use technology and Interactive format allows you to ask questions;
- Participate from your office or home computer;
- Can't attend the live event? Order the audio/visual recordings made available shortly after the original event.

Register at www.export.gov/index.asp.
For more information contact Margaret Gottlieb at 314-425-3348, or email: Margaret.Gottlieb@mail.doc.gov.

Durbin: Improved access to credit for small businesses crucial to job creation

Illinois small businesses would receive a much-needed lifeline if legislation included in the Senate jobs proposal to improve access to credit and jump start job creation becomes law, U.S. Senator Dick Durbin (D-IL) said on Monday, February 8, during a news conference in Chicago.

"Small businesses desperately need access to credit in order to grow and hire more aggressively," Durbin said. "They are the economic engine of this country and the key to a true recovery. Job creation is the highest priority of the people of this country and it is my highest priority in the Senate."

Durbin said a Democratic proposal in the Senate, which he helped write, includes several programs to spur job growth. One program in particular would focus on helping small businesses access the credit they need to grow and hire.

In Illinois, between 2003 and 2006 small businesses created a net increase of

over 141,000 jobs. These 258,000 small businesses in Illinois accounted for over 90 percent of the net jobs created in Illinois over that period, when the state's economy was growing. In 2010, however, small businesses in Illinois and in every other state are struggling to stay alive.

"If you own a restaurant, you have to pay the rent, the utilities, the staff, and the food you prepare before your customers walk in the door, and that requires access to credit. Yet the Treasury Department reported in December that the 22 banks that received the most assistance from the taxpayers since the onset of the financial crisis have cut their small business loan balances by a collective \$11.6 billion since last April. With the big banks using their money for bonuses instead of small business lending, we need to create stronger incentives for smaller banks and credit unions to step in and lend to worthy borrowers."

Durbin said he is working with his colleagues in the Senate to make several improvements to the existing Small Business Administration programs that help small businesses access the financing they need to expand. He applauded the Obama Administration's new proposal to create a Small Business Lending Pool.

The Obama Administration has proposed a \$30 billion Small Business Lending Pool that community bankers would be able to tap to write loans for the small businesses in Illinois that are ready to grow. Banks with less than \$10 billion in assets would be able to access this capital very cheaply — they'd owe five percent back to the Treasury on whatever capital they take from the pool. However, if banks lend the money to small businesses, the rate they'd owe back to Treasury would decrease to as

See **JOB CREATION** page 4

DATES OF NOTE

More information/events may be found at <http://www.ima-net.org/calendar.cfm> and <http://www.ima-net.org/MIT/open.cfm>
Email: jstanley@ima-net.org

February 18, 2010

IMA Breakfast Briefing — Managing & Closing Workers' Compensation Claims in a Cost Effective Manner

Mon Ami Gabi—Oak Brook Center Mall (SE corner), Oak Brook— (see ad, this page, lower left)

February 24, 2010

IMA-MIT Event: Strategic Planning and Goal Setting — DePaul University O'Hare Campus, 3166 River Rd, Des Plaines

Effective strategic planning and thinking skills combined with the ability to set compelling and achievable goals are at the core of all successful leaders and help to establish the foundation for sustainable business success. The ability to develop winning business strategies and then take those strategies from plan to action (or to rethink them on short notice) sets true leaders apart from their peers. Forward-looking strategy formulation can become a key competitive differentiator and provide a clear "road-map" and path for success.

March 4, 2010

IMA-MIT Event: Consultative Selling Skills for Sales Professional, DePaul University O'Hare Campus, 3166 S River Rd., Des Plaines

Be ready to turn your "lean and mean" sales team into "customer friendly" advisors your clients will trust to help them make complex buying decisions. Get a better grasp of the needs and vision of your customers, and leave with tools you need to develop great working relationships with key decision makers.

March 16, 2010

IMA-MIT Event: Essential Leadership Skills for Front Line Managers and Supervisors — DePaul University O'Hare Campus, 3166 S. River Rd., Des Plaines

This one-day program will prepare your supervisors for a complete change of responsibilities and offer a plan for the challenges ahead. They will come away with a better understanding of what the boss, peers, staff and company expects of them.

March 23, 2010 — Oak Brook Terrace

March 30, 2010 — Peoria

IMA Breakfast Briefing — How to Find Cash in Your Company, 8:30-12:00 noon

Experts from Clifton Gunderson & Co. will provide information specific for manufacturers and will cover: cash forecasting, budgeting and profitability. Visit www.ima-net.org/calendar for more information. Cost per session: \$60 IMA member — \$85 non-members. Questions? Contact Kimberly McNamara at kmcnamara@ima-net.org or 630-368-5300, Ext. 2109

March 24, 2010

IMA-MIT Event: Assertive Communication Skills: Communicating With Authority and Impact — DePaul University O'Hare Campus, 3166 S. River Rd., Des Plaines

Visit www.ima-net.org/calendar for details.

IMA Breakfast Briefings 2010 . . . Managing and Closing Workers' Compensation Claims in a Cost-Effective Manner

THURSDAY • FEBRUARY 18, 2010 • 8:00-11:00 am

Mon Ami Gabi Restaurant, Oak Brook Center Mall (SE corner) Oak Brook
presented by Richard Lenkov, Bryce Downey & Lenkov LLC

Workers' compensation costs are skyrocketing nationwide. Part of that increase is because the number of workers' compensation claims involving more than 30 days away from work increased by 15 percent in the past four years. The more complex the claim, the more money employers are spending.

These costs can spiral out of control unless they are managed effectively. This session will give you the practical tools necessary to effectively handle your workers' compensation claims and close them, in the most cost-effective manner possible.

You will learn how to: avoid claims in the first place and to properly handle injuries when they first occur, conduct early and thorough investigations without ever retaining an attorney, manage vendors and reduce their costs, reduce attorneys' fees and expenses, move injured workers from collecting benefits back to work, know when it is more cost effective to settle vs. trying a case, use litigation tools to your advantage, leverage a claimant's past medical history to your advantage, and get money back via subrogation.

REGISTER ONLINE at: www.ima-net.org

Cost per session: \$60 IMA member ♦ \$85 non-members

Questions? Contact Kimberly McNamara at kmcnamara@ima-net.org or 630-368-5300, Ext. 2109

low as one percent. Additionally, the faster the money is lent, the less the banks would owe back to the Treasury.

Both the Administration proposal and the Senate proposal would grant small businesses better access to loans and community banks would benefit from earning a higher rate of interest on their loans than they will owe on the capital taken from the pool. Taxpayers would also receive a small return on that capital borrowed from the lending pool by the banks.

New federal budget raises the stakes of employee misclassification

President Obama's \$3.8 trillion federal budget for the 2011 fiscal year will boost spending for several new initiatives within the Department of Labor ("DOL"). The DOL will receive \$117.5 billion of the \$3.8 trillion. Overall, this represents a 43 percent decrease in the DOL's budget from FY 2010. This decrease is based on an expected drop in unemployment insurance programs because of an economic rebound. At the same time, the DOL's budget dramatically increases funds in the Wage and Hour Division.

Under its new budget, the DOL plans to hire more than 350 new employees, including 177 investigators and enforcement staff. After several years of decline, the FY 2011 budget builds on the FY 2010 budget policy of returning DOL programs to FY 2001 staffing levels. For example, the DOL's Occupational Safety and Health Administration (OSHA) will receive \$14 million more than it received in FY 2010. Likewise, the DOL's Wage and Hour Division will receive \$244 million, which is an increase of \$20 million from FY 2010.

The DOL's budget also includes an additional \$25 million for a Misclassification Initiative to target employee misclassification. Along with more money, the budget allots 100 additional enforcement personnel and competitive grants to boost states' incentives to

address employee misclassification.

The federal government's effort to target employee misclassification is the latest in a series of federal initiatives and state laws that have brought independent contractors under increasing scrutiny. For example, President Obama signed an IRS directive on January 20, 2010, that will increase IRS scrutiny of federal contractors' classification of employees. States also have begun to pass legislation making it a violation of law to misclassify employees and imposing penalties on employers who knowingly misclassify workers. For example, the Illinois Employee Classification Act prohibits the misclassification of employees in the construction industry as independent contractors and provides stiff fines for non-compliance.

By definition, independent contractors are self-employed. Because they are not employees, they are not covered by employment, labor, and various tax withholding laws. In some instances, employers reclassify employees as independent contractors to avoid taxes, payment of overtime and benefits, and workers' compensation liability. The determination of whether a worker is covered by a particular employment, labor, or tax law hinges on the definition of an "employee." Inadvertent misclassification is a genuine concern for many employers because state and federal agencies have applied different standards for classification.

The Illinois DOL and DOL, for instance, often rely on the "Economic Realities Test" or a hybrid of the "Right-to-Control" and "Economic Realities Test" to determine independent contractor/employee status. These tests take into account the degree to which workers are economically dependent on the business, in addition to considering the degree of control an employer exercises.

The IRS, on the other hand, uses a three-factor test for determining whether someone is an employee or an independent contractor. The factors focus on behavioral control, financial control and relationship of the parties.

As employee misclassification continues to come under scrutiny, it is important for employers to be careful in classifying inde-

pendent contractors in light of the potential risks of misclassification. Along with payments of back taxes and potential interest also come heavy penalties, personal liability of corporate owners, possible criminal sanctions and the possibility of losing government contracts for federal contractors. Moreover, although agencies apply different standards for classification, the DOL has coordinated its efforts with the IRS, the National Association of State Workforce Agencies, the Federation of Tax Advisors, and agencies that administer state employment and unemployment taxes.

If you have any questions or concerns about independent contractor classification or the Misclassification Initiative, please contact co-authors Daniel A. Kaufman (Partner) and Charmaine M. Butler (Associate), who are with the law firm of Michael Best & Friedrich LLP. Dan can be reached at dakaufman@michaelbest.com and Charmaine can be reached at cmbutler@michaelbest.com. You may also contact Dan or Charmaine via phone at 312-222-0800.

U.S. manufacturing slips in competitiveness

The United States' manufacturing industry slipped from fifth place to eighth in global cost-competitiveness, according to new rankings from business advisory firm AlixPartners PPL.

The study, announced on Wednesday, shows that Mexico continues to lead as the No. 1 low-cost country for U.S. outsourcing, followed by India. Even though it improved over last year's study in many aspects, China slipped from fourth to sixth place. Vietnam, Russia and Romania, newly entering the ranks of the study this year, made impressive showings as No. 3, No. 4 and No. 5, respectively.

Almost all of the countries analyzed improved their cost competitiveness relative to U.S. manufacturers.

"There is no doubt that economic forces worked against U.S. manufacturers this past year," Stephen Maurer, a leader of AlixPartners' Manufacturing Improvement Practice, said in a statement. "This study shows that despite recent improvement in U.S. productivity, hungry global competitors have become even more formidable, both as out-sourcing destinations and as competitors to U.S. companies."

AlixPartners took into account seven key cost drivers: exchange rates, labor costs, transportation costs, raw-materials costs, inventory costs, capital-equipment and overhead costs and duties, as well as their combined impact on total cost for a range of fabricated parts and products.

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