COUNCIL *of* PUBLIC RELATIONS FIRMS

Public Relations Issues Monitoring Report

ISSUES UPDATE AND OPINION FROM COUNCIL MEMBERS AND SPECIAL GUESTS NOVEMBER 2011

Tax Act of 2010 Offers Relief for 2011 & 2012 Taxes

CONTRIBUTED BY MICHAEL BELFER C.P.A., ANCHIN, BLOCK & ANCHIN LLP.

Tax law changes enacted in 2010 can provide Public Relations firm owners with tax planning ideas and savings through the end of 2012. Outlined below are key provisions of the law that can be beneficial to both the firm and owners. All individual tax changes are related to the business owner who has flow-through income from an S Corporation or LLC.

Key business changes

The Small Business Jobs Act of 2010 (SBJA) extended 50% bonus depreciation, generally through Dec.31, 2010. This provision allows businesses to immediately write off 50% of the cost of certain capital expenditures, such as tangible property with a recovery period of 20 years or less, computer software, water utility property and qualified leasehold improvement property.

The Tax Relief Act increases bonus depreciation to 100%, generally for qualified assets placed in service after Sept. 8, 2010, and before Jan.1, 2012. Bonus depreciation drops to 50% in 2012 and is scheduled to disappear in 2013.

The SBJA also increased the maximum Section 179 expense deduction for fixed asset purchases to $500,000 for 2011. In addition, the SBJA increased to $2 million the level of qualified property purchases such as furniture, fixtures, computer hardware, and other property, at which time the Sec. 179 deduction begins to phase out.

Key personal changes for owners of pass-through entities (S Corporations, LLCs)

Income tax rates hold steady

The central feature of the Tax Relief Act is a two-year extension of the "Bush tax cuts." Individual income tax rates ranging from 10% to 35% had been scheduled to return to their previous levels (from 15% to 39.6%) in 2011. The Act extends the lower rates through Dec. 31, 2012. It also increases alternative minimum tax (AMT) exemptions that would otherwise have decreased substantially for 2011.

Capital gains and dividends rates extended

The 15% tax rate for long-term capital gains and qualified dividends (0% for taxpayers in the 10% and 15% brackets) was scheduled to expire at the end of 2010. Without new legislation, the capital gains rate would have risen to 20% (10% for taxpayers in the 15% bracket) and qualified dividends would again have been taxed at ordinary-income rates as high as 39.6%. The Act extends the lower rates through Dec. 31, 2012.

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Keeping current is a hallmark of the public relations business. This means being informed on issues that may impact clients or firms directly. If there are issues you would like covered or would like to cover, please contact the Council of Public Relations Firms.

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Perpetual Innovation and Communication

CONTRIBUTED BY ROBERT SCHOOLING, APCO WORLDWIDE

The word "sustainability" is arguably over-used – and misused. When it comes to preparing a business for the future, "sustainability" – with its suggestion of a passive state of being, maintenance and endurance – doesn't always seem like an accurate description of forward thinking.

Instead, a more appropriate term for "future-proofing" in business might be perpetual innovation. Perpetual innovation requires boldness. It requires challenging the status quo and driving change. It requires visionary leadership from CEOs, CCOs and CMOs, who are ideally positioned to transform the way a company engages with its stakeholders and thus create a perpetually innovative business.

Perpetual innovation is increasingly important in a world where business, policy and society constantly overlap and intersect. Three key developments have powered and accelerated the collision of these forces:

1. **The activist consumer.** Social networks have created a much more interactive discussion about brands and, at the same time, radically increased the amount of information

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Owning Social Media

CONTRIBUTED BY BARRY REICHERTER , WIDMEYER COMMUNICATIONS

Who owns (or should own) social media? The answer depends on which social media we're talking about. The subject of ownership comes up in almost every encounter I have with peers or clients. Should clients turn to a full-service agency? A digital pure play? Should it be handled in-house? Even within an agency, should the expertise reside in a digital group or should all staff own it? There are compelling arguments for all of these approaches, but they all assume that social media needs to be a single application. If public relations practitioners can acknowledge the primary elements that comprise social media, we can successfully claim ownership.

Social media is both organic and digital – humans connecting with technology as a conduit. A Clockwork Orange of sorts. At various stages within any successful social media program, the focus of effort should fall into the three elements of analysis, building and content.

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Analysis

As with every other sector of the marketing and communications world, metrics are becoming more and more important for clients in public relations. Because social media is part digital there's an expectation metrics should be more readily available and actionable. How many times have we said or heard, "it's all trackable." Like big website builds years before, the novelty of jumping into social media "shiny object" programs has faded. Going back for that budget renewal is going to be very hard for your clients if you can't provide proof of the opportunity at hand and the performance of a program completed. Analysis for social media has historically fallen to what we used to call the "interactive" group if only because they were the teams that typically dealt with website traffic reports. If not there then the duty has fallen to the account staff because they were the ones who managed the media monitoring and clip reports. Neither is optimal or sustainable. With social media in PR growing from cute child to awkward adolescent, agencies should look to fill this role with people who have strong analytical skills or partner with other specialty agencies that do. The best existing source for this in agencies is sitting over in the research group, but as demand for more sophistication in capturing metrics grows we may need to turn to those highly skilled in mathematics, who can build increasingly effective and complex queries and algorithms to uncover data we rely on. Investing in "quant jock" talent for this role will serve agencies well. Agencies doing this for large corporate clients with data locked up in lots of places will do well to consider a full-time engineer focusing solely on creating the "data glue" to capture information from sales, social media and customer relationship management systems.

Building

One myth about social media that public relations practitioners latched on to was over-exaggerating its democratization effect. Yes, anyone can create a Twitter handle, a blog or a Facebook Page. And that's great if you're trying to keep in touch with your friends or granny. But clients require professionalism in their communications. Social media is no different. Well-designed blogs and websites, compelling videos and mobile apps and games that entertain and inform will continue to be an important part of successful social media programs. As the big website build business has faded for those interactive (now called "digital") groups in agencies, more and more of their time is spent on building the things that can act as a catalyst for social media programs. PR firms should continue their investments in these groups or find partner digital agencies who can supply it to them.

Content

Those who have integrated social media into their public relations practice understand that you can't eliminate creation of negative content on the Web. And with the absence of positive content, reputation of an organization can be at risk. The engine of social media is based on interactions with content. That content (e.g. posts, likes, follows, friends, tags, views, etc.) is produced by people interacting with people, or people interacting with technology (e.g. games, polls, etc.). Without content there's nothing to analyze and the digital tools we built would serve no purpose. Content is social media's oxygen and agencies and clients typically underestimate the value of content. Many should be able to recall a blog or Twitter account that started with fanfare and later died on the vine because the effort to create content was underestimated.

There's one profession within the marketing world that knows content better than any other, and that's the public relations practitioner, but in an effort to remain relevant in a media fragmented world we sometimes shun our roots in (that's right, I'll say it) … publicity. The historically core skill of PR practitioners to understand how a good story is crafted and the ability to pitch that to a skeptical news media is directly applicable for our most natural role in social media – the composers of content. Social media has an insatiable hunger for content and it's typically the element client organizations that are focusing on their business at hand have the most trouble creating in a sustainable manner. Agencies bring scale and outside perspective that is vital for clients looking to secure an accurate perception of their organization's reputation. They have the subject matter knowledge about the client and their industry. If not producing content directly for clients, PR practitioners are the best to help coordinate and counsel those responsible for content within a client organization. Content development is the purest role a PR professional can play in the social media landscape … one we should flock to.

Understanding and acknowledging these three key elements that comprise social media is the first step for public relations clients and their agencies. Determining the elements that already exist in your organization and the ones you should look outside your organization for is the next step to more effective social media programs.

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available to stakeholders of every type – from customers to regulators. And the diffusion of media into self-selected information channels means that interested parties can choose whether or not to engage with your brand – as well as the degree to which they do so.

2. **The engaged corporation.** As a global society, we face significant challenges across all regions and markets. Trust in traditional institutions to address such challenges is waning. Increasingly, companies are expected to be contributors to addressing societal challenges and play roles that may have previously been the purview of governments, civil society or other groups. For those companies with a long-term vision and innovative enough to participate, this can open and create new markets, enhance reputation and expand opportunities.
3. **The long-view executive.** Businesses are judged by financial markets on quarterly returns while simultaneously expected to orchestrate strategies that will enable them to create enduring businesses for years to come. A number of business leaders are addressing this paradox by leading a movement to think differently about their businesses and consider the policy and social environments that must exist if they are to succeed in the long run.

It is amid this shifting landscape that CEOs and their CCOs and CMOs must work together to achieve a state of perpetual innovation. This takes more than a business plan – it takes a true engagement with the company's stakeholders. The ability to succeed in the long term, to create new markets and remake existing ones, will be created by the insights gathered from and the relationships built with a company's most important audiences.

How to begin a process of perpetual innovation? Here are three important steps:

1. **Make your corporate brand work for you.** There is compelling research to suggest that corporate brands can have meaningful impacts on a variety of outcomes including sales, policy, legal, and employee loyalty.
2. **Develop a deeper understanding of your diverse stakeholder expectations among your business leadership.** Perpetual innovation can't happen in a vacuum. Companies have to understand and be aligned with what is expected and valued by a full range of audiences.
3. **Align the story you tell Wall Street with the story you tell Main Street.** You can't have a short-term story and long-term ambitions. Of course there has to be a nod to proximate business realities, but also acknowledge what makes the company great now and into the future.

Sustainability is no longer enough. Companies must be prepared to perpetually innovate not just their products or their brands, but also their role – their presence – across all markets. □

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Tax Act of 2010 Offers Relief *(Continued from page 1)*

Estate and gift tax changes

Without Congressional action, the federal estate tax would have returned in 2011 (after a one-year repeal) with a top rate of 55% and an exemption amount of only $1 million. The Tax Relief Act restores the federal estate tax, retroactive to the beginning of 2010, but reduces the top rate to 35% and increases the exemption to $5 million. The Act also revives the stepped-up basis rules that applied before 2010.

Under those rules, inherited property generally receives a tax basis equal to the property's date-of-death (or alternative valuation date) fair market value, which allows the recipient to sell the property without triggering capital gains taxes other than for post-death appreciation.

Gifts made in 2010 are still subject to gift tax at a top rate of 35%, with a $1 million lifetime exemption. For 2011 and 2012, however, the gift and estate taxes are "reunified" – both apply at a top rate of 35% with a combined $5 million exemption. The generation skipping transfer (GST) tax exemption is increased to match the estate tax exemption, but the GST tax rate for 2010 was 0%, increasing to 35% for 2011 and 2012. There are other important changes as well. □

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