



**CHREST CPA**  
**TAX & FINANCIAL PC**  
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"Cents" Able Dollars Newsletter

June 2010

**In This issue**.....HealthCare.....July 4<sup>th</sup> Apple Pies.....New Hire Tax Laws.....Tax Corner

### HealthCare:

If you own a small business and are struggling to pay for employees' [health insurance](#), the new health-care law could provide quick [financial help](#). The smallest businesses could get temporary tax [credits](#) that effectively pay for up to 35 percent of their premium contributions. Slightly larger businesses could get smaller credits.

But the tax credit comes with several strings, and not everyone thinks it will do enough.

Blake Anderson, owner of a small construction company in Durham, N.C., is one of the optimists. When he started Innovative Renovation three years ago, he explored buying coverage for himself, his business partner and the seven workers he had at the time. But when a broker told Anderson that his heart condition, which will require a valve replacement at some point, would make the insurance prohibitively expensive, "the conversation ended there," he says. Now he's taking another look.

Here's what he'll see: Starting this year, businesses with 10 or fewer employees (or equivalent part-time workers) and average annual wages of less than \$25,000 will be eligible for the full 35 percent credit. (The owner's salary is not included.) Above those thresholds, the credit gradually decreases until it's completely phased out for companies with at least 25 full-time workers and average wages of \$50,000 or more.

Between 1.8 million and 4 million businesses are estimated to be eligible for the credit. Companies have to pay at least 50 percent of the premiums for their employees' health insurance to qualify. Nonprofit enterprises are eligible for tax credits of up to 25 percent.

To figure out how big a tax credit your company might qualify for, use the calculator at the website of the [Small Business Majority](#), an advocacy group that supports the new law. You claim the tax credit on your federal income tax return.

That's the system you'll use until 2014, when the state-based insurance exchanges, or marketplaces, will begin to sell coverage. From then on, the credit will be available only to small businesses that buy insurance on the exchanges. But it will also increase - to a maximum of 50 percent for small private companies and 35 percent for nonprofits. Because

the new law is supposed to make insurance generally more accessible by this time, the benefit will be time-limited: Each small business will be able to take the credit for only two years.

Critics say the credit is too complicated and doesn't solve the underlying problem for small business owners: the rising cost of insurance. "As long as costs keep going up, the credit is going to become less valuable," says Bill Rys, tax counsel for the National Federation of Independent Business.

Alan Sayler, who owns a water-treatment equipment business in Florida, views the tax credit as just a way to "buy off small businesses like me so we won't complain about the shortcomings of this bill." That said, Sayler figures he'll qualify for a \$1,700 credit against the roughly \$7,000 he pays annually to insure two of his employees. "I'd be foolish not to take it," he says.

John Arensmeyer, founder and chief executive of the Small Business Majority, calls the tax credit a huge step, and Jonathan Gruber, an MIT economics professor who has been a technical consultant for the Department of Health and Human Services, agrees. If a 35 or 50 percent discount doesn't make insurance affordable, "I don't know what you could do besides provide it for free," Gruber says. "That's a really big discount."

And if the insurance is still too expensive for some small businesses, even with the tax credit, they don't have to offer it. Employers with 50 or fewer employees are exempt from penalties for not offering coverage. Once the exchanges open in 2014, employees will be able to start buying coverage there if their employer doesn't provide it. "Employer health insurance will always be important, but we're moving into a world where there will be other options," Gruber says.

**Birthday Gifts for ALL. If your birthday falls in the month of June. Email me and arrange to receive your gift.**

## **Two New Benefits for Employers that Hire and Retain Recently Unemployed**

Employers who hire unemployed workers this year (after Feb. 3, 2010, and before Jan. 1, 2011) may qualify for a 6.2-percent [payroll](#) tax incentive, in effect exempting them from the employer's share of [Social Security](#) tax on wages paid to these workers after March 18. In addition, for each qualified employee retained for at least a year whose wages did not significantly decrease in the second half of the year, businesses may claim a new hire retention credit of up to \$1,000 per worker on their income tax return.

These tax benefits are especially helpful to employers who are adding positions to their payrolls. New hires filling existing positions also qualify but only if the workers they are replacing left voluntarily or for cause. Family members and other relatives generally do not qualify. 😊

Employers must get a signed statement from each eligible new hire, certifying under penalties of perjury, that he or she was not employed for more than 40 hours during the 60 days before beginning employment with that employer. IRS [Form W-11](#) can be used to meet this requirement. Further details, including [answers to frequently asked questions](#), are posted on IRS.gov.

**Did you know?...**In Alaska, it is legal to shoot bears. However, waking a sleeping bear for the purpose of taking a photograph is prohibited.

## Apple Pies:

Free Apple pies for all. Let Chrest buy you an apple pie for the 4<sup>th</sup> of July. Please email Brian at [brian@chrestcpa.com](mailto:brian@chrestcpa.com) by June 15<sup>th</sup> and your pie will be ordered and available for pickup at 1511 York Road during the week of June 21<sup>st</sup>. Just a way of thanking you for your continued loyal service to Chrest in handling all of your tax and financial needs.

## Quote of the month:

"Money is better than poverty, if only for financial reasons." Woody Allen



Tax Corner

## 🦋 Know These Tax-Cutting Investment Tips 🦋

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### List Of Capital-Gains Savers:

1. When you sell your residence, you don't have to pay up to \$250,000 of capital gains taxes (rising to \$500,000 for joint returns.)
2. Instead of selling stock, borrow money against it with a *margin loan* from your stock broker. You'll get the use of the money without having to pay taxes (but... you'll have to pay interest on the loan.) There is no set payment for a margin loan -- you can just let the interest grow if you need to. You can borrow up to 50% of your stock portfolio's value.
3. You can donate appreciated stock to charity. The charity then avoids the capital-gains tax, while you take the full stock value as a tax deduction.
4. You can offset capital gains with capital losses. For example, when you sell stocks for a gain, sell some of your "loser" stocks for a loss, so you won't have to pay taxes on the gain.  
*Related idea:* Do what's called a "wash sale": you can sell a losing stock for a loss, wait 30 days, then rebuy

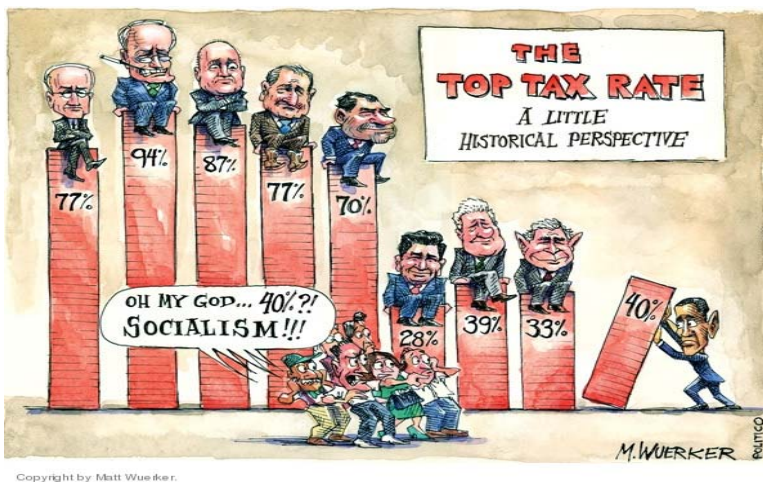
the stock. The loss gives you a tax deduction, and you wind up with the same portfolio.

5. When your heirs inherit your assets, they don't pay any tax on capital-gains appreciation prior to the date of your death.
6. If you sell assets in a year when you are in the 15% tax bracket, your capital-gains tax will be only 10% instead of 20%. Try to restructure your income to make some years income-rich and other years income-poor, so that you'll sell stock in a year when you're in the 15% tax bracket.
7. You can exchange real estate investments for other real estate of equal value. Example: You want to own a ranch, but you don't have enough money to pay for it. You do own a few acres of farmland, but you don't want to pay capital-gains taxes on its sale. If you can exchange the farmland for the ranch, you can avoid the capital-gains tax.

Here's another common technique: if you sell an investment property and reinvest in another investment property within 180 days, you'll pay no capital gains tax.

8. You can defer capital-gains taxes with plans like IRAs, 403(b), 401(k), 457, Keoghs, and SEPs. The capital gains are taxed as ordinary income when taken out of the account. Distributions cannot be made before age 59.5 without a penalty, and must be made by age 70.5.
9. If you bought shares in one company at two different times in the past, always sell the stocks that were purchased at the higher price, to minimize capital gains tax.

## Comic Strip:



### Services we offer:

- Tax Preparation and Planning
- Accounting
- Payroll
- Estate Planning (Service of the month)
- Trust Tax Returns
- Budgeting
- Retirement Planning

**Question of the month:** How much hay was eaten daily by Jumbo, showman P.T. Barnum's famous 6-1/2 ton elephant? A. 100 pounds B. 200 pounds C. 300 pounds D. 400 pounds

Winner of drawing will win a gift certificate to a local restaurant worth \$50.00.

**Service of the month: Estate Planning. Come in today for a free consultation.**

1511 York road Lutherville, Md 21093

Inside:

Tax Corner

Free Apple Pies

HealthCare

Free Consultation

Trivia

Website of the month: [www.usmint.gov/kids](http://www.usmint.gov/kids)

Win a \$50.00 Gift Certificate

Find the Smiley 😊 Face and win a prize - first one to respond only.



June Calendar of events:

June 15 - Deadline to order your free Apple Pie!

June 18 - Free Java Chat starts again. Space limited. Email [brian@chrestcpa.com](mailto:brian@chrestcpa.com)

June 18 - Free Fridays. Space limited. Email [brian@chrestcpa.com](mailto:brian@chrestcpa.com)

June 21 - Week to pick up your Pies.

June 25 - Chrest annual Golf Tourney

- ❖ Give me your input. This letter is written for you. If there is a topic of interest, please let me know.
- ❖ Referrals always appreciated. We keep our fees reasonable because we consistently receive referrals from clients like YOU. Keep spreading the good word!

## **ROTH IRA CONVERSIONS FOR 2010**

*A unique opportunity for IRA owners.*

provided by **Brian F. Chrest CPA**

**In 2010, anyone may convert a traditional IRA to a Roth IRA.** No income limits will stand in the way of the conversion.<sup>1</sup> Should you do it? Here's why it may (or may not) make sense for you to go Roth this year.

**Why you might want to consider it.** A Roth IRA permits tax-free growth *and* tax-free income distributions in retirement (assuming you are age 59½ or older and have held your Roth account for 5 years or longer). You can contribute to a Roth IRA after age 70½, without having to take mandatory withdrawals. While contributions to a Roth IRA aren't tax-deductible, the younger you are, the more attractive a Roth IRA may seem.<sup>2</sup>

However, older investors have reason to go Roth as well - especially if they don't really need to withdraw IRA assets. Under present tax law, converting an untapped traditional IRA to a Roth will shrink the size of your taxable estate, and careful estate planning could foster decades of tax-free growth for those IRA assets.<sup>3</sup>

Currently, if you name your spouse as the beneficiary of your Roth IRA, your spouse can treat the inherited IRA as his or her own after you die and forego withdrawals. So those Roth IRA assets can keep compounding untaxed across the rest of your spouse's life.<sup>4</sup>

If your spouse then names a son or daughter as a beneficiary, that heir has the choice to make minimum withdrawals according to his or her life expectancy, all while the assets continue to compound tax-free. Currently, withdrawals from an inherited Roth IRA are not subject to income tax.<sup>3</sup>

**Why you may want to think twice about it.** The IRS regards a traditional IRA-to-Roth IRA conversion as a distribution from a traditional IRA - a taxable event.<sup>5</sup> You'll need to pay taxes on the entire amount of the conversion.

Guess what, though: the federal government is giving you a tax break this year. If you do a Roth conversion in 2010, you can choose to divide the taxes on the conversion between your 2011 and 2012 federal returns. So you won't have to finish paying them until April 2013.<sup>6</sup>

If you talk to your local tax preparer, CPA or financial planner, you will probably find all of them agreeing on one thing: federal income tax rates are likely to be higher in the future than they are now. This is another reason why 2010 may be a good time to convert.

You could simply do a partial Roth IRA conversion if converting the full amount would send you into a higher tax bracket. If you think you have more IRA assets than you need, a partial Roth conversion could result in a more manageable short-term tax impact as you pursue the objectives of having some tax-free retirement income or leaving some IRA assets to your heirs.

You may be tempted to use the current IRA assets to pay the conversion tax, but should you? If you're younger than 59½, you're looking at a 10% penalty on the amount you withdraw, and you'll lose the chance for tax-free compounding of those assets within the Roth IRA.<sup>6</sup>

**Be sure to consult your tax advisor before you convert.** This is a very good idea before you arrange any rollover, trustee-to-trustee transfer, or same-trustee transfer of your IRA assets. There are many variables to consider, and they differ greatly from person to person. In any year, you should fully understand the potential tax impact of a Roth conversion on your finances and your estate.

Also, remember that while the income limit on Roth IRA conversions will go away in 2010, the income limits on Roth IRA *contributions* still apply next year and for the foreseeable future. So high-income IRA owners can make the conversion, but they may not be able to pour new money into the account. For 2010, the MAGI phase-out limits kick in at \$105,000 for single filers and \$167,000 for joint filers. However, those income limits don't prevent you from contributing to a traditional IRA in 2010 and converting that IRA to a Roth.<sup>7</sup>

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### Citations.

<sup>1</sup> [kiplinger.com/magazine/archives/2009/01/sweet-deal-on-roth-ira-conversion.html](http://kiplinger.com/magazine/archives/2009/01/sweet-deal-on-roth-ira-conversion.html) [1/09]

<sup>2</sup> [thestreet.com/print/story/10505164.html](http://thestreet.com/print/story/10505164.html) [5/26/09]

<sup>3</sup> [smartmoney.com/personal-finance/retirement/estate-planning-with-a-roth-ira-7966/](http://smartmoney.com/personal-finance/retirement/estate-planning-with-a-roth-ira-7966/) [1/22/09]

<sup>4</sup> [smartmoney.com/personal-finance/retirement/roth-iras-to-convert-or-not-7965/](http://smartmoney.com/personal-finance/retirement/roth-iras-to-convert-or-not-7965/) [1/10/08]

<sup>5</sup> [smartmoney.com/personal-finance/retirement/roth-iras-you-wanted-to-know-7967/](http://smartmoney.com/personal-finance/retirement/roth-iras-you-wanted-to-know-7967/) [1/9/08]

<sup>6</sup> [cnbc.com/id/34511917](http://cnbc.com/id/34511917) [12/21/09]

<sup>7</sup> [northjersey.com/news/business/82334757\\_Make\\_a\\_New\\_Year\\_s\\_to-do\\_list\\_to\\_\\_bring\\_home\\_the\\_bacon\\_\\_.html](http://northjersey.com/news/business/82334757_Make_a_New_Year_s_to-do_list_to__bring_home_the_bacon__.html) [1/22/10]

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