

**SPECIAL
POINTS OF
INTEREST:**

- Check out some of the provisions made to the Small Business Jobs Act of 2010
- Take a closer look at trusts and see how they may be able to shield your assets from probate.
- How much do you know about Roth Conversions? Read on to find out how you can avoid costly mistakes!

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Another Economic Stimulus

Temporary Incentives Could Affect Businesses of All Sizes

Although Congress was unable to tackle the controversial issue of future income tax rates before the 2010 midterms, it quietly passed a little-noticed tax package: the Small Business Jobs Act of 2010 (H.R. 5297). Here's a roundup of some of the bill's major provisions.

Lending support — A \$30 billion lending fund was created to make inexpensive credit available to small businesses. The loans will be made available through community banks.¹

Bonus depreciation — The 50% first-year bonus depreciation, which expired at the end of 2009, was extended through 2010. It allows 50% of the cost of a depreciable item to be deducted as an expense in the first year of ownership. The additional year of bonus depreciation for equipment with a recovery period of 10 years or longer, and for tangible property used to transport people or equipment, was extended through 2011.²

Maximum first-year depreciation caps for new vehicles increased to \$11,060 for passenger automobiles purchased and put into service in 2010. The maximum deduction for

light trucks and vans remains at \$11,160.³

Section 179 expensing — The maximum deduction related to qualified Code Sec. 179 property doubled to \$500,000 for tax years beginning in 2010 and 2011. The law also temporarily modified the

Start-up expense deduction — In 2010 only, start-up costs related to the creation of a new business can be expensed instead of having to be amortized. The maximum expense that can be claimed is \$10,000.⁶

Self-employed tax break — In 2010 only, self-employed people are allowed to deduct their health insurance premiums *before* computing their payroll taxes.⁷



Some provisions affect individual taxpayers:

- Workers no longer have to log personal use of an employer-provided cellphone and pay tax on it.
- Workers can transfer qualified assets in 401(k), 403(b), and 457(b) plans to Roth accounts within their plans. Income taxes are due on transferred assets.
- New reporting requirements for individuals who receive rental income from real property.

Sources: *The Wall Street Journal*, September 25, 2010; CCH, 2010

1) U.S. Small Business Administration, 2010

2) 2-7) CCH, 2010

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definition of qualified Section 179 property to include up to \$250,000 of qualified real property (qualified leasehold improvement property, restaurant property, and retail improvement property).⁴

Small-business income tax credits — The law extended the carry-back period on general business tax credits to five years, and they can be applied to both regular tax liability and AMT tax liability.⁵

Help Keep Your Estate Out of Probate



If you've ever seen an estate go through probate, you know that it's the legal equivalent of having a tooth pulled — an unpleasant procedure to be avoided whenever possible. And just like tooth decay, probate may not be entirely avoidable, but you may be able to reduce the risk through preventive care.

Probate is a costly and sometimes lengthy procedure wherein a court oversees the distribution of property to a decedent's heirs. During probate, courts can freeze assets until the process is completed. Probate also risks a loss of privacy, because court records are open to the public. Perhaps the biggest drawback is the price tag — probate costs can eat up 4% to 5% of the total value of an estate, depending on its size, complexity, and the state in which probate occurs.¹

One way to help shield assets from probate is by placing them in a trust. As you'll see, trusts offer other benefits as well.

Meet the Key Players

Although trusts involve a complex web of tax rules and regula-

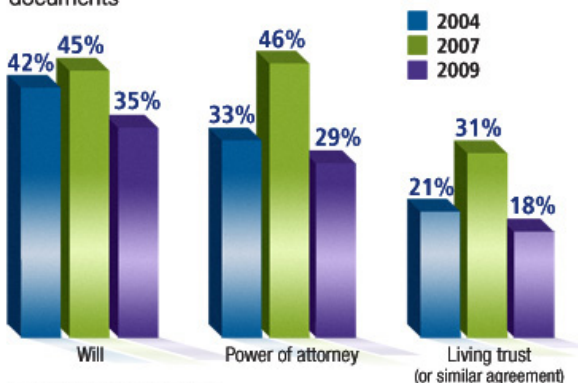
tions, the concept behind them is fairly simple. The *grantor* places ownership of his or her assets in the trust, which holds the property for the benefit of the *beneficiaries*. The trust is typically overseen by a *trustee* who must distribute the assets based on instructions outlined in the trust. Even though a trust is a legal document, it enjoys a level of privacy not available with a will because it may never see the inside of a courtroom.

There are several types of trusts, but most fit into one of two categories.

Irrevocable trusts don't offer the same flexibility, but they excel when it comes to reducing exposure to creditor claims and estate taxes. The grantor is essentially required to surrender control of any assets that are placed in the trust. Transferring ownership of assets to the trust means they are no longer considered part of the grantor's estate. Although the grantor can specify how the assets will be distributed, he or she is generally prohibited from benefiting from the trust assets once they are in the trust.

Cutting Back on Estate Conservation

Percentage of Americans with basic estate conservation documents



Source: LexisNexis, 2010

Revocable trusts allow the grantor to modify the terms, add or remove assets, and even revoke the trust entirely during the grantor's lifetime, after which the trust becomes irrevocable. This type of flexibility is popular for grantors who want to control how their assets are managed and distributed. Revocable trusts can be used to place limits and conditions on beneficiaries, help married couples segregate community assets from individual assets, and establish rules and guidelines for management of the trust assets during and after the grantor's lifetime.

A properly structured trust can be a valuable estate conservation tool, but it is not something you should set up yourself. Before implementing any trust strategies, you should consider the counsel of an experienced estate planning professional.

1) 2010 Field Guide, National Underwriter

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Roth IRA Conversion Mistakes Can Be Costly

Roth IRAs have experienced a spike in popularity over the past decade. Between 2000 and 2009, the number of households owning Roth IRAs increased by an average of 6.3% per year, the fastest-growing rate of ownership among all types of IRAs.¹

What distinguishes a Roth IRA from other types of IRAs — and what may be responsible for its rise in popularity — is its ability to provide a tax-free income in retirement and its exemption from required minimum distribution rules.

Although contributions to a Roth IRA are made with after-tax dollars (income eligibility limits apply), qualified distributions are free of federal income tax as long as all conditions are met and regardless of how much growth the account experiences (under current tax law).

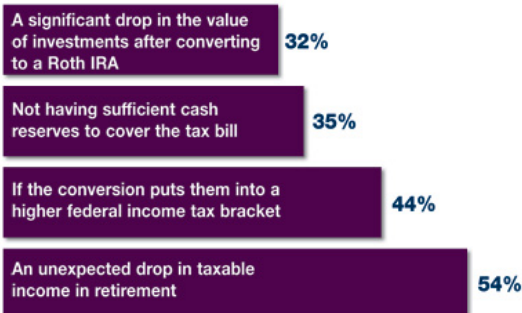
One popular way to fund a Roth IRA is by transferring assets from a traditional IRA or an employer-sponsored retirement plan. This type of transaction, called a Roth IRA *conversion*, is simple in theory but can be complicated in practice. If you make any of these mistakes, you could lose some key advantages.

Paying the conversion taxes with funds from the account you are converting. When tax-deferred assets are converted to a Roth IRA, you must report them as income on your tax return for the year in which the conversion takes place and pay the taxes owed.

Unless you're older than 59½, it's generally not advisable to pay the income taxes using money from the account you are converting. Withdrawing money from a tax-deferred plan to pay the conversion taxes before age 59½ would be considered an early distribution and thus may be subject to a 10% early-withdrawal penalty. Consider paying the taxes from a non-tax-deferred account. Even if you are older than 59½, it could take years before the conversion begins to pay off. If you use some of the tax-deferred assets you are converting to pay the income taxes, you are reducing the amount of money available to pursue potential investment returns.

WHY CHANGE NOW?

Survey results on what might prompt investors to recharacterize (or reverse) a Roth IRA conversion



Source: *Employee Benefit News*, September 15, 2010

Failing to consider a recharacterization” if the account loses value. If the value of the converted assets declines after the conversion, you may be able to “undo” the conversion using a process called recharacterization. This enables you to amend your tax return and obtain a refund of the conversion taxes that you paid. The deadline to recharacterize is October 15 of the year after the year in which the original Roth IRA conversion took place.

You can reconvert the assets to a Roth IRA later at the presumably lower value (which may result in a smaller tax liability) as long as you wait 30 days after the recharacterization date or until the calendar year following the year in which you made the initial Roth IRA conversion, whichever is longer.

Violating the five-year rule. To qualify for a tax-free and penalty-free distribution of earnings and converted assets, Roth IRA distributions must meet the five-year holding requirement and take place after age 59½ or result from the owner's death, disability, or a first-time home purchase (\$10,000 lifetime maximum). The rules governing the five-year holding requirement for converted assets are complex. Before you take any specific action, be sure to consult with your tax professional.

1) Investment Company Institute, 2010

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What's New at Brandywine



From Raymond's Desk

Wow..what a month! First week of March I was in a nice deep sleep one evening and all of a sudden was woken up by a banging and scratching in the walls of my bedroom. It sounded like a very large animal, raccoon or maybe a squirrel, I thought. It was the first time I heard anything like this in my walls so I was hoping it would just go away. I was not so lucky, this kept up for a few days so finally I had to call someone in to trap the fella. First, I called a roofer to see if they could find a hole or any entrance point where the varmint could enter and they saw nothing. But of course, they shared with me that some shingles were missing and that the type of shingle I had was recalled. So he recommended replacing the roof (of course), I said just replace the shingles that are missing for now, I will deal with roof replacement if I keep the house, but I am contemplating selling in the spring. Anyway, back to the varmint...then I called Orkin Pest Control, and they looked in some areas and found some "droppings." So they placed a few traps and what I thought was a squirrel or raccoon turned out to be a little tiny mouse! This little fella sounded like he was a 5 or 6 pound squirrel! He made so much noise I could not believe it. Long story short, no more pounding and scratching at night any longer, thanks to the Orkin Man!!

I am considering putting my house of for sale shortly, but my master bath is a little dated. So I had the bright idea to tear it out and re-tile and put in a new vanity and mirror to update it a little bit. Last weekend I completed the paint job, next weekend is the tile work (no I am not doing it myself) then I should be ready to put it up for sale, in a month or so. Wish me luck!!

Paulie (new puppy) is also doing very well. He is now 6 months old and Sarah (girlfriend) is trying to teach "come." But he seems to want to not listen very well yet.

From Jill's Desk

Happy belated St. Patrick's Day! This year I went to Chambersburg, PA to celebrate the holiday with a couple of my friends started a little St. Patrick's Day tradition, back when they were in college, that they call the Celtic Games.

The Celtic Games is an outdoor event, held in a huge park where everyone dresses in their favorite green St. Patrick's Day attire, which includes some men in kilts. Throughout the day they play silly games such as the log toss, potato sack race, and buttered egg toss, while spectators watch and cheer from the sidelines. They also hire a blue grass band, who play all types of songs, under the covered pavilion.

The Celtic Games used to take place at West Chester University, but now that they are older, they continue the tradition back in their home town in Chambersburg, PA where two of the guys opened up a microbrewery and make their own beer. They have many different types of beers and ales, but my personal favorite is a wheat beer called the "Best Blonde." They also have a great watermelon beer, but it is only available summer, so it looks like I'll have to wait a little longer...