Long Term Care

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TAX PRINCIPAL

Chances are one in two that you or someone you love will need long term care after age 65. Now is the time to educate and prepare yourself to meet those needs in the years ahead.

Long term care does not mean nursing home care. Most of us assume that long term care simply means care in a nursing home. But that's not the case. The easiest way to understand long term care is to remember that it is not defined by the setting in which it takes place, but by the type of care that is actually needed.

Long term care is the type of help you need when you're not able to perform daily activities such as eating, bathing and dressing by yourself. Typically, it's not provided by doctors or skilled nursing professionals and its goal isn't to cure you of an illness.

Some people do receive long term care in a nursing home but family members, adult day care centers and assisted living facilities are among the most common care providers. According to the American Association for Long-Term Care Insurance, 43 percent of claims paid in 2007 were attributed to home care, 32.9 percent of claims were for assisted living, and 24.1 percent were for nursing home care.

Who is most likely to need long term care?

Long term care is most often associated with the elderly. Statistics show that Americans who reach age 65 have a one in two chance of needing long term care at some point in their lives. Today, about 41 of every 1,000 Americans over age 65 are in nursing homes, while more than 22.4 million families are involved in long term home care.

Long term care is not limited to people over age 65, however. Many working age adults require long term care due to accidents, injuries or chronic conditions. Many of these people receive care from family members who must continue to work and meet other obligations in addition to caregiving.

What does long term care cost?

Long term care services can be very expensive. The current average cost for a month in a nursing home is $5,000, with that figure being twice as high in some parts of the country. Home care can be less expensive, but it still adds up. Bringing an aide into your home five times a week to help with dressing, bathing, preparing meals, and similar household chores can easily cost $2,600 or more each month.

These costs are likely to rise in the years ahead. In fact, long term care expenses are rising at a higher rate than inflation and other health care costs. Experts predict that by the time America's 77 million baby boomers reach their retirement years, costs for long term care services will have quadrupled.

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S Corporation - Timely Issues

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PARTNER

For small businesses, it seems clear that S corporations are the entity of choice. Even though the tax law now allows up to 100 shareholders in an S corporation, recent IRS statistics indicate that 84% of S corporation entities have only one or two shareholders. In fact, the number of S corporations with 11 or more shareholders is a mere 1% of the total S corporation filings.

In a recent report by the Taxpayer Advocate Service to Congress, the popularity of S corporations was noted. This report observed that sole proprietors may incorporate to gain limited liability, and they likely favor the flow-through reporting structure of an S corporation.

An S corporation, unlike a C or regular corporation, does not separately pay tax. Rather its income or loss flows through to the shareholders, and that net income or loss is taxable in the Form 1040 of the owners.

Two recent issues related to S corporations should be considered by all S corporation shareholders.

Health Insurance for S Corporation Owners

For many years, the tax law has treated more-than-2% owners of S corporations as non-employees with respect to tax-free fringe benefits. The effect has been that the health insurance benefits provided by the S corporation to its owners are not tax-free fringes, but rather must be reported as compensation on Form W-2 to the owner. The owner then claims the 100% self-employed health insurance deduction to offset the extra W-2 income.

Several years ago, the IRS advanced the position that the health insurance policy for the S corporation owner must be in the name of the S corporation. The IRS asserted that the S corporation could not simply reimburse the premium costs if the policy was owned by the individual shareholder.

However, in 2008, the IRS has conceded that it makes no difference whether the health policy is owned by the S corporation or personally by its shareholder-owner. In either case, the S corporation may directly pay the premium or reimburse the owner for that amount. The S corporation must continue to include the premium payment in the owner's W-2 statement, and the owner then claims the offsetting deduction in Form 1040.

If health insurance premiums during 2008 have been paid individually by an S corporation owner, a key point is to make sure that those premiums are reimbursed by the business before year end.

Caution: Proper inclusion of the health insurance premiums in the W-2 is another critical point. S corporation owners face the risk of the disallowance of the self-employed health insurance deduction if the premium is not properly included in the W-2 wages of the shareholder. Please let us know if your S corporation will need assistance with this before the January 31 payroll filing deadline.

The following examples from IRS Notice 2008-1 illustrate these new rules:

Example 1. For 2008, shareholder Adam obtains a health insurance policy in his own name and makes the premium payments on the policy. The S corporation makes no payments or reimbursements with respect to the premiums. Because the S corporation did not establish a plan providing medical care for Adam, he is not entitled to the self-employed health insurance deduction.

Example 2. For 2008, Lily, Inc., an S corporation, obtains a health insurance plan in the name of the corporation. The health plan provides coverage for shareholder Bea, Bea's spouse, and dependents. Lily makes all the premium payments to the insurance company and reports the amount of the premiums as wages on Bea's Form W-2 for 2008. Bea is allowed the self-employed health insurance deduction.

Inadequate Compensation

In a recent report to Congress the IRS noted that S corporations have a key advantage: Any S corporation net earnings are not subject to self-employment tax. This arguably makes S corporations superior to proprietorship and partnership tax treatment.

But the IRS has also noted that this difference in treatment gives rise to a possible tax abuse. Individuals who are both employees and shareholders of S corporations, particularly small one- or two-person entities, will take no salary or perhaps only nominal salary, and withdraw the remaining earnings as distributions that are free of payroll or self-employment tax. The S corporation avoids its share of the payroll taxes, and the individual shareholder only incurs income tax, not Social Security or self-employment tax, on the S corporation earnings.

The Treasury Inspector General for Tax Administration cautioned the IRS and Congress about this strategy, noting that almost one million S corporations with one shareholder had paid no officer's compensation. While some of those entities legitimately may have had no services rendered by the shareholder, others may be abusing the

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Estate Planning and the Transfer of Vacation Property

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When considering the transfer of your property to your children and others, many have invested in a vacation home - that beach house or mountain cabin. This is generally property that the entire family enjoys and cherishes. How should this be transferred for example to three children without the risk of a financial or family blow-up down the road?

In this article, we will discuss three options that individuals in this situation might find useful:

• the "no plan" plan,

• the entity approach, and

• the no-sell solution.

The "No Plan" Plan - This strategy treats the vacation home as any other residual asset: All children share equally. Assuming that they agree to retain the asset, each of the three children would own an undivided one-third title to the property and would share equally in the overhead (property taxes, maintenance, insurance, utilities, etc.). Presumably, they work out a plan to share its use and can agree on the big decisions of capital improvements and major repairs. Things work well - at least in the short run.

Ten or 15 years later the situation has evolved. One child is a very active user and has probably assumed most of the decision-making and, perhaps, the financial cost of repairs and other discretionary expenditures. Another child is an occasional user and contributor to the overhead. The third child never uses the property, has become increasingly resentful of the asset that belongs to the siblings, and has a spouse who regularly points out that they own a multi-million dollar vacation property that is a financial drain from which they get no benefit. The siblings may work it out without the need for expensive appraisals and legal costs, but the process has the potential for becoming contentious.

The Entity Approach - Under this strategy, Mom and Dad transfer the vacation property to a partnership or similar entity, such as an LLC. The children do not inherit a direct interest in the real estate; rather, they receive an interest in a partnership that has a governing document. The key difference is that each child's ownership is subject to the terms of that partnership agreement. This agreement can cover annual operating issues, such as an annual contribution to provide funds for taxes and maintenance. It may also designate one or more children to serve as manager to handle the day-to-day decisions. Most important, the agreement can provide buy-out terms. For example, the agreement might require that the sibling/partners secure two appraisals, average those appraisals, apply a small discount, and structure payments to a departing owner over a specified period of time at a reasonable interest rate. These buy-out terms can eliminate much of the negotiating tension among the siblings and spare the remaining owners from an undue financial burden. This plan is better than the no-plan plan, but there may still be some tension to the timing and payout arrangement if one child presses for a sale at a time that is difficult for the remaining owners.

The No-Sell Solution - Following the deaths of Mom and Dad, the vacation property goes into a trust arrangement for the benefit of the children. In addition to placing the vacation property into the trust, an additional sum of money is transferred. This capital, when invested, is to provide a source of funds to cover the taxes and repairs and, perhaps, even occasional major improvements, so that the overhead of maintaining the property is not a burden on any of the children, regardless of their financial circumstance. The operating decisions rest with independent trustees (such as a trust department or other family members). The children will advise the trustee regarding necessary improvements and maintenance, but independent judgment is in control. The key difference in this plan occurs when a child wishes to cash out, potentially tripping that contentious buyer-seller relationship. The trust specifically prohibits any sale of an interest, although it might permit a qualified like-kind exchange into a similar property. In fact, the children and their heirs are beneficiaries only to the extent of the use of the property. Ultimately, if the users all decide to sell, the sale proceeds are mandatorily bequeathed to a charity. This unusual approach of any sale proceeds directed to charity assures that no child can convert his or her share of the vacation property into other wealth. The vacation property has only one benefit: its ongoing use and enjoyment by family members and their descendents. Ultimately, when the use diminishes down the road, the children will not be in an adversarial financial position. There will be no financial incentive to cash out, which likely encourages continued use and enjoyment within the family for many years.

One of these or a hybrid approach may be appropriate in meeting your goals of transferring this type of estate asset. We are qualified to review your goals and assist with the most appropriate transfer method.

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Thumb Drives

The Network Security hole that fits in your pocket

BILL SCHNELLER

ONE TECH, LLC

Network security is critical and most businesses go to great lengths to ensure that their networks stay secure. IT Managers install firewalls, buy applications to scan email for spam and viruses, lock down and monitor access to files and folders, and ship backup tapes to off site locations in order to secure data. But one of the biggest data security loopholes in every network will fit in your pocket. USB thumb drives have become commonplace because they're so convenient. Few businesses have policies in place to monitor their use, but they represent one of the more immediate security risks in most networks. Depending what type of business you're in, it's likely just a matter of time before you need to implement a policy and solution to control their use.

Thumb drives have three potential issues for network security. Many employees will use their own thumb drives to transfer files. As a business owner or network administrator, you have no idea of what else may be on those drives. Applications or files downloaded at home and transferred via a thumb drive to a business computer can be a source of spyware, viruses, and other malware. Additionally, users can transfer sensitive or confidential data to a thumb drive and easily take it out of the business. Finally, there's the risk that a thumb drive that contains sensitive data can be lost. If this data contains customer information, you likely need to report it to your customers, which can be an expensive and embarrassing process.

So what can you do? Fortunately, there are some solutions. The first thing is to implement a policy and explain it to your employees and end users. Chances are that most of them have never considered the potential risks. As part of your policy, specify that only company owned and issued thumb drives should be used. That way you close the door on spyware, viruses, and other malware that potentially can be brought in on an employee's personal thumb drive.

Once you have a policy in place, you can secure your network. With Windows Server 2008 and Windows Vista desktops, implementing Group Policy to control which users can use thumb drives is relatively straight forward, because Microsoft built it in to the operating system. With Windows Server 2003 and Windows XP desktops it's a little tougher but it can still be done (another good reason to move to Vista). You can also purchase a third party product that can help you lock down access to thumb drives and other end points.

For those users who need to take a thumb drive with sensitive data out of the business, the best solution is to encrypt the thumb drive. There are several products (some of them free) which will help you do this. Most work by using a password. Without the password, you can't decrypt or access the information. If you use strong passwords (a minimum of 8 characters using upper and lower case, numbers and symbols), you can likely keep your data secure even if you lose a thumb drive. While this isn't foolproof, it's certainly better than letting data leave your office unencrypted. I'll leave talking about passwords for another time, but remember that the only thing between you and the bad guys is a strong password. So always use long, strong passwords.

With some planning and a little work, you can prevent thumb drives from becoming a big headache and you can close one more security loophole. Need help? Give us a call.

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Who is BKR?

BKR International is an association of independent firms of accounting, taxation, and business advisers located in major markets throughout the world. Member firms are large enough to offer a full range of technical services, yet small enough to deliver personal service and offer independent and objective advice for entrepreneurs. BKR International member firms are selected for their local influence and international capability, and pride themselves on being at the forefront of commercial activity.

Member firms voluntarily submit to a rigorous assessment of their professional services. In this way, member firms not only adhere to their local regulatory accreditation, but also endeavor to meet even higher standards of professional excellence.

This association allows members to offer a greater range of services to their clients by accessing the knowledge and expertise of other members, who have a greater knowledge or expertise in a particular industry. It also allows members to easily and seamlessly provide consistent services for clients with multiple locations, both nationally and internationally.

Mac’s Radiator and Repair, Inc.

Mac’s Radiator was founded in early 1947 by Clyde MacDonald in a small wooden building on Foster Road on the outskirts of Portland. In the early years the business focused only on the repairing of radiators for the growing automotive industry. In a short time Clyde was joined by his cousin Frank MacDonald, together they soon had out grown the original building and built the first of many additions to the Foster location. With Clyde’s and Frank’s hard work and dedication to giving their customers honest quality service, the business continued to grow. Additional employees were added and Clyde’s two sons Phil and Jim also worked in the business after school and during summer vacations.

In 1962 the unexpected passing of Clyde brought his two sons Jim & Phil into the business full time. Phil, who had more experience in the business, took some time off from attending dental school to help out and teach his brother Jim (who had been working for several years at American Sheet metal), the business. In the coming years after Phil had returned to dental school, Jim continuing his father’s tradition of customer service and forward thinking expanded the business into the emerging field of servicing and installing automotive air conditioning systems and focusing on servicing and manufacturing industrial radiators.

As the business grew so did the family; Jim’s children spent time “helping out” at the business as they grew up. Lisa, the oldest daughter went off to become a schoolteacher, working summers throughout college. Steve joined the business full time after graduating high school, as did daughter Diana, and youngest son Curtis.

Starting in the late 1970’s Jim added a second location in Salem Oregon, followed over the next several years with locations across Oregon and into Washington and Idaho. During this time of expansion Mac’s became one of the largest distributors of new replacement automotive radiators on the west coast. In 1997 Jim handed over the management of the company to his three children. With Jim’s retirement, Stephen became acting President. Working alongside Stephen was his sister Diana Debray and brother, Curtis MacDonald.

After taking over from his father, Steve continued the company growth. His knowledge of metal fabrication and welding was key in the growth of Mac’s business in the custom radiator fabrication business. Mac’s product line now includes high quality show and classic car radiators, Air to Air Coolers along with heavy duty industrial radiators from some of the leading equipment and motor home manufactures in the country. Stephen was key in developing Mac’s partnership with DEQ to write guidelines for the radiator repair industry which was one of the contributing factors that lead Mac’s to receive the second annual small business environmental award from the EPA in 2005. During this time Mac’s focused on using technology to help streamline the warehouse, distribution and accounting aspects of the company.

In February 2006 Stephen unexpectedly passed away and Jim temporarily came out of retirement for a year to take a more active roll in day to day operations. Today, Diana and Curtis oversee a management team of additional family members and key managers that is continuing to plan for the future while dealing with the economic conditions of today. Mac’s is preparing for the changes that will continue to come to the automotive industry through the addition of new products and services that will compliment Mac’s goal of offering our customers honest service and quality products.

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The need for long term care affects everyone involved:

Whether you need care yourself, or you find yourself in the position of caregiver, the impact of long term care can affect your entire family. Family members and friends are sole caregivers for 70 percent of the elderly who need care. Three-fourths of caregivers are women, and two-thirds of those work outside the home. Over half of them report missing work an average of one day a month, going to work late, leaving early, worrying about finances, giving up promotions, personal time and even family vacations, but most of all, caregivers experience stress and fatigue. One in five reported either temporarily or permanently leaving their jobs.

Caregivers, or those in need of long term care, often must sacrifice savings earmarked for college tuition, retirement or nest eggs they have planned to leave behind for family members. When funds are exhausted, many in need of long term care are forced into nursing homes because that's the primary type of care funded by Medicaid.

FACT: Far too many people assume Medicare will take care of long term care expenses. In reality, long term care isn't covered by familiar forms of insurance like health insurance, retiree health plans, Medicare supplement plans and Medicare, to name a few. These plans only pay for skilled medical care and most long term care is just maintenance — helping someone bathe, dress, move around, use the bathroom, etc. And, you must be at least 65 years old to be eligible for Medicare.

A long term care need can happen to anyone. Most associate long term care with the elderly, however people of all ages can have these same needs as a result of auto or sports accidents or a debilitating disease. Consider the lifestyle changes working-aged individuals and their families may face:

- annual nursing home costs of $40,000 to $80,000
- liquidation of valuable family assets
- decisions about where care can/will be received
- the possibility of a family member assuming some caregiving responsibilities

Having long term care insurance can help preserve your assets, and allow you to have choices – including staying at home – because most long term care policies can provide benefits for home health care. Long term care insurers can decline individuals who apply for coverage with pre-existing health conditions. However, insurers also reward with discounts those who apply while in good health.

Tax advantages of long term care insurance:

Tax-qualified long term care insurance policies offer several tax advantages to individuals and businesses. Individuals can deduct long-term care insurance premiums paid subject to age limits, provided that your total medical expenses for the year exceed 7.5 percent of your adjusted gross income. On their Oregon return individuals receive a 15% ($500 maximum per return) tax credit for long term care insurance premiums. For businesses, premiums paid for the benefit of an employee (including owners) may be tax deductible to the company and tax-free to the employee.

Planning for possible long term care costs can help preserve your retirement assets, minimize dependence on family members and provided some control over the care you receive.

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ability to have S corporation earnings flow to the owner without payroll taxes.

IRS court challenges

The IRS has regularly challenged and defeated S corporation shareholders on this wage issue in court. As the recent report to Congress noted, establishing a fair and reasonable wage is difficult, and requires the consideration of a number of factors. The courts will review the time worked by the shareholder, the salary structure in similar industries and businesses, the rate of return that the shareholder received on investment, the financial condition of the corporation, and similar factors.

Implications

With the Treasury Inspector General and the Taxpayer Advocate both sounding the same alarm, it would seem clear that change is in the wind. The Taxpayer Advocate suggests increased compliance efforts by the IRS in scrutinizing owner compensation from closely-held S corporations.

The IRS, from its viewpoint, would rather see Congress adjust the tax law to either eliminate the exemption from self-employed Social Security tax for S corporations or, alternatively, put some limitation in place on the exemption. Any legislative change is unlikely within 2008, but stay tuned when we get to 2009 with a new President and new Congress.

In the meantime, for those with S corporations, give consideration to the defensibility of the compensation amount to owner-employees, and contact us if you need any assistance in evaluating the reasonableness and defensive position that you have taken on this important issue.

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Too Few Investment "Eggs" in Too Many Baskets?

Consider Account Consolidation

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MANAGING PARTNER

So you have focused on your business for all these years and you likely have amassed a collection of various 401(k) and other retirement funds scattered across several accounts in addition to your taxable brokerage accounts. While you know this "collection" accounts for a significant portion of your net worth, you also know that more attention should be paid to these matters. If you haven't consolidated them, chances are, you could be raising your investment risk.

Account consolidation offers a number of potential benefits. It can give you an accurate picture of how much you have amassed and how it's invested. Having one portfolio rather than several makes it easier to see if your assets are appropriately diversified – not just spread out.

Consolidation is also a good time to inventory the assets in your 401(k)s or other retirement accounts. Especially in today's volatile investment environment, the process represents an opportunity to work with a conscientious private wealth advisory team to evaluate your current investments and your goals now — as opposed to three jobs ago. If you find you need to rebalance your assets, consolidation will make it easier both to rebalance and track your overall asset allocation long term. Lastly, and most important, is that having one larger relationship, rather than numerous small ones, may earn you more professional attention and entry into some investment vehicles not available to less sizeable portfolios.

Now What?

To make the consolidation process most efficient, before you contact an experienced and highly recommended private wealth advisory team, assemble the most recent statement for each of your accounts.

From there you can expect your advisor to begin the process of consolidation. Most important: this should not be a long and arduous process for you. Rather, the advisory team you have chosen to work with will prepare everything for you in once concise package and should need only your applicable signatures.

From there, you should expect:

- A meeting summarizing your entire (now consolidated) portfolio and it holdings.
- Detailed recommendation of how the portfolio should be changed (if at all) to align with a previously determined level of acceptable risk as well as return expectations.
- Regular quarterly or, at a minimum, semi-annual review of the portfolio and the attainment of goals.
- The elimination of a mess of tax forms (1099's etc) come tax preparation time. Your new private wealth advisory team should prepare a "tax package" containing everything needed for your accounts and deliver it directly to your CPA well in advance of tax filing deadlines.
- Your portfolio to be managed and overseen like it should be, without any significant effort from you.

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Donna K. Urban, CPA, CMA recently passed the certification exams for 2008 and 2009. She has been a QuickBooks ProAdvisor for versions 2003, 2005 and 2007. The official QuickBooks certification program tests in-depth knowledge of QuickBooks and its business management solutions. To become a Certified QuickBooks ProAdvisor for each year, Donna completed self-study courses and passed online tests with a minimum of 85 percent proficiency.

Keeping current is important as Intuit constantly upgrades their products to keep them competitive in the market place. But as we work to stay current, we have the ability to work with your data in the QuickBooks version that you are currently working in. We maintain QuickBooks software in older versions as well as the newest 2009 version. There are many in our firm who can help you with your QuickBooks problems. Let us help you with your questions before it is time to prepare your return.

Payroll Services

NETCLIENT - We have been adding more and more clients onto our NetClient utility. The utility allows our payroll client to go online to a secure server, enter in the current payroll hours next to their employee names, then press a SUBMIT button which sends the payroll to us for processing. This makes it very smooth for the client and it gives us the data in ways that allow easy calculation and processing of the payroll checks. We keep looking for ways to make payroll easy and efficient and this has been a great way to accomplish both.

DIRECT DEPOSIT - One of the biggest trends we are seeing is the use of direct deposit. Direct deposits allows businesses to transmit payroll checks directly into the employee's bank account without printing a check. In addition, without that paper check out there, there is less risk for theft for both the employee and the business owner. Direct deposit uses less paper and keeps that electronic trail so necessary for reconciling at the end of the month.

PAYCARDS - Many businesses have employees that do not use traditional banking systems. Employees without checking or savings accounts have not been eager to take advantage of direct deposit for their payroll checks. But with the use of PAYCARDS, businesses have been able to move forward with the use of direct deposit in preparing their payroll. Paycards work exactly same way that gift cards work. As the use of gift cards has become more and more widespread, laws have been enacted to protect consumers.

PAYCARDS are simply a card that looks like a credit card connected to a sponsoring bank. They have a unique number on them that is similar to a checking account number. There is a PIN number also associated with each card. If a card is lost it would not necessarily be found money for someone because that PIN number is required to gain access to the card. The PAYCARDS are loaded electronically on payday when the direct deposit transactions are uploaded to the bank. The employee can use the PAYCARD just like a debit card to spend his/her paycheck. There might be small fees associated with the PAYCARD system but other than that it is fairly transparent to the business owner.

Check it out. With the changes in our economy folks are looking for ways to build efficiency and safety into their banking practices. This may be one way to help.

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