

# focus

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## **Why 2011 may be a great year to invest in your business**

**Are Roth IRAs worth a second look?**

**Learning the ropes before taking the reins**

A smooth transition requires the successor in a family business to know all areas

**Married couples get more estate planning flexibility — temporarily**

# Why 2011 may be a great year to invest in your business

If your company is considering investing in assets, research or people, 2011 may be the year to do so. Why? Because the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provides some enhanced tax breaks that may not be available (or that may be more limited) next year.

## **100% bonus depreciation**

The 2010 Tax Relief act allows 100% bonus depreciation for capital investments made after Sept. 8, 2010, and before Jan. 1, 2012, as long as the assets are placed in service before Jan. 1, 2012. For example, suppose your company spends \$500,000 on capital equipment this year and has it up and running by year end. Under 100% bonus depreciation, it can claim a \$500,000 deduction on its 2011 tax return.

If instead you wait until 2012 to make the investment, only 50% bonus depreciation will be available (unless Congress extends the 100% amount). So, if you invest the \$500,000 next year, you could deduct only \$250,000, plus the amount you'd normally be able to



deduct for depreciation. Assuming the asset has a five-year lifespan and qualifies for the modified accelerated cost recovery system (MACRS), the first-year depreciation expense would typically be \$300,000.

***The 2010 Tax Relief act allows 100% bonus depreciation for capital investments made after Sept. 8, 2010, and before Jan. 1, 2012, as long as the assets are placed in service before Jan. 1, 2012.***

Also keep in mind that bonus depreciation isn't subject to any investment limits. By comparison, Section 179 expensing allows only up to \$500,000 of equipment purchases for 2011 to be deducted (rather than depreciated over a period of years), and only if the company's total investment in new equipment for the year doesn't exceed \$2 million — if it does, the write-off phases out dollar-for-dollar.

That's not to say the bonus depreciation provision is entirely free of restrictions. It applies only to *new* tangible property with a recovery period of 20 years or less (such as office furniture and equipment), off-the-shelf computer software, water utility property and qualified leasehold improvement property.

Of course, depreciating large amounts will lower depreciation deductions down the road, which may result in higher tax bills. Some companies prefer to spread their depreciation deductions more evenly to gain a more consistent cash flow. Companies aren't required to accelerate their depreciation expense but can take it when it makes sense, as long as they follow the regulations.

In addition, this tax break is most useful to firms that are generating profits. If your firm is operating in the red, it likely won't owe taxes anyway.

### Research credit

The research credit (also commonly referred to as the "research and development" or "research and experimentation" credit) is generally equal to a portion of qualified research expenses. It's complicated to calculate, but the tax savings can be substantial.

The 2010 Tax Relief act extends the credit (which had expired after 2009), but only through 2011. The credit has been extended repeatedly over many years, so there's a good chance it will be extended again — or made permanent. But if you're considering some major research, it may make sense to incur as much of the expense in 2011 as possible, just in case the credit isn't extended.

### The Work Opportunity credit

If your company needs to add staff, the Work Opportunity credit can help offset the additional costs. This provision had been scheduled to expire on Aug. 31, 2011. The Tax Relief act extended the credit to include qualifying new hires made between Aug. 31, 2011 and Jan. 1, 2012.

Among the new hires fitting the criteria set within this provision

are disabled veterans and members of families receiving benefits under the Temporary Assistance for Needy Families program. (The provision expanding the eligible groups to include unemployed veterans and disconnected youth, which expired after 2010, was *not* extended.)

The Work Opportunity credit is generally 40% of the first \$6,000 of the employee's qualified wages for the first year, or a maximum of \$2,400 (\$12,000 and \$4,800, respectively, for wages paid to qualified veterans).

### Take action soon

The 2010 Tax Relief act provides many tax incentives for investing in your business — whether it be in assets, research or people — in 2011. But whether such investments are right for your business depends on a variety of factors. And the rules surrounding the breaks are complex. So it's important to discuss investments with your tax and business advisors before you make them. ♦

### How much bonus depreciation is available when?

Qualified assets placed in service	Bonus depreciation
Jan. 1, 2010, through Sept. 8, 2010	50%
Sept. 9, 2010, through Dec. 31, 2011	100%
Jan. 1, 2012, through Dec. 31, 2012	50%
After Dec. 31, 2012	none

*Note: Later deadlines apply to certain long-lived and transportation property.*

## Are Roth IRAs worth a second look?

**W**hen it comes to IRAs, the traditional version is by far the most popular. At the end of 2008, Americans had stashed more than \$3 trillion in traditional IRAs, vs. \$165 billion in Roth IRAs, according to a 2010 report from Congressional Research Service. But it may be time to take a second

look at the Roth IRA, because it can be an important component of your retirement savings strategy.

### Traditional vs. Roth

The biggest difference between traditional and Roth IRAs is how taxes affect contributions



contributions can continue after you reach age 70½ as long as you're earning income, and the entire balance can remain in the account until your death. In contrast, beginning with the year you reach age 70½, you can't contribute to a traditional IRA — even if you do have earned income. Further, you must start taking required minimum distributions (RMDs) from a traditional IRA no later than the April 1 after you reach age 70½.

Avoiding RMDs can be a valuable benefit if you don't need your IRA funds to live on during retirement. Your Roth IRA can continue to grow tax-free over your lifetime. When your heirs inherit the account, they'll be required to take distributions — but spread out over their own lifetimes, allowing a continued opportunity for tax-free growth on assets remaining in the account. Further, the distributions they receive from the Roth IRA won't be subject to income tax.

and distributions. Contributions to traditional IRAs generally are made with pretax dollars, reducing your current taxable income and lowering your tax bill now. You pay taxes on the funds when you make withdrawals.

As a result, if your current tax bracket is higher than what you expect it will be after you retire, a traditional IRA can be advantageous.

In contrast, contributions to Roth IRAs are made with after-tax funds. You pay taxes on the funds now, and your withdrawals won't be taxed (provided you meet certain requirements).

This can be advantageous if you expect to be in a higher tax bracket in retirement or that tax rates will increase. In addition, unlike traditional IRA distributions, withdrawals from a Roth account aren't counted when calculating your taxable income to determine the amount of taxes, if any, you'll have to pay on the Social Security benefits you receive in retirement.

### **More Roth advantages**

A Roth IRA may offer a greater opportunity to build up tax-advantaged funds. Your

Another Roth advantage is that you can withdraw funds up to the amount of your contributions at any time without incurring taxes or penalties. To withdraw the *earnings* tax- and penalty-free, however, you must meet certain criteria: You'll need to have had the Roth IRA

### **Additional options: Roth 401(k), 403(b) and 457 plans**

Another retirement savings option that may be available through your employer is a Roth 401(k), Roth 403(b) or, beginning this year, Roth 457 plan. As with traditional plans, you contribute to your account through payroll deductions. For 2011, the total of your contributions is limited to \$16,500 — \$22,000 for employees age 50 or older.

Similar to a Roth IRA, contributions are made with after-tax dollars. That means withdrawals — assuming you're at least 59½ and have had the account for at least five years — won't be taxed.

for at least five years, and either have turned age 59½ or become disabled.

### **Roth IRA contribution limits**

The amount you can contribute to a Roth IRA is subject to the same annual limits that apply to traditional IRAs — for 2011, \$5,000 (\$6,000 if you're over age 50) — and is reduced by the amount you contribute to a traditional IRA in the same year. Also, as with a traditional IRA, you can't make Roth IRA contributions in excess of your earned income for the year.

The IRS further limits your Roth IRA contributions if your income tops a certain level. For 2011, a taxpayer can contribute the full amount allowed if his or her modified adjusted gross income (MAGI) doesn't exceed \$169,000 (married filing jointly) or \$107,000 (single or head of household). No contributions are allowed

when a taxpayer's MAGI hits \$179,000 or \$122,000, respectively.

If your income is too high to contribute to a Roth IRA and you have a traditional IRA, you may want to consider converting it to a Roth IRA. You'll have to pay tax on the conversion, but it may be worth it, depending on the situation. Another option may be an employer-sponsored Roth plan — see "Additional options: Roth 401(k), 403(b) and 457 plans" on page 4.

### **Is a Roth IRA right for you?**

Saving for your retirement is important, and the more savings vehicle choices available, the better. While traditional IRAs are still hugely popular, don't forget to discuss with your financial advisor the ins and outs of a Roth IRA. ♦

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## Learning the ropes before taking the reins

A smooth transition requires the successor in a family business to know all areas

**G**rooming a successor in any business setting can be difficult, but it can be especially tricky in a family business. Explaining to your adult child or other heir that he or she lacks a specific skill set is considerably harder than telling a non-family member successor.

To help make the transition as seamless as possible, your successor needs to know your family business from the bottom up. To achieve this, your transition plan should include a multidisciplinary approach.



### **Climbing the ladder**

To help your next-in-line become an effective leader, he or she should climb the company ladder. This is especially important in family businesses, because company leaders should be able to step into just about any role when needed, such as when a key person leaves. As you know, your workers often have several duties, and many employees are cross-trained in other areas.

This may be especially true of you. You can probably recall times when you had to fill in at a moment's notice to handle an urgent order or make a sales call. If your successor forgoes this training and starts employment at the management level, he or she probably won't be decisive in a pinch.

Above all, a multidisciplinary approach shows your successor the responsibilities and pressures each employee handles, which can help him or her make practical decisions in any area of the company. For example, your next-in-line should accompany you and other



top sales executives on client and prospect visits. This experience will teach him or her to quote product or service prices, develop sales skills, and follow procedures for opening and closing accounts. To teach the value of accuracy and timely service, have your successor observe co-workers working with clients.

### ***A successor who lacks customer service skills can be deadly for a family business that's competing against larger companies.***

A successor who lacks customer service skills can be deadly for a family business that's competing against larger companies. A family business owner can rely on the input of other employees, but he or she must understand customers' needs and wants. By working with clients, your successor will learn how to handle multiple orders (or tasks) and develop empathy for clients. Firsthand experience in this area will also help him or her hire individuals suited to your company's values.

It's critical for your next-in-line to understand everything affecting the bottom line, such as taxes, salaries and expenses. Without this knowledge, it would be difficult to plan strategically.

Your company's greatest resources are your employees, so understanding the ins and outs of human resources is also important. Working in this department can teach your successor how to handle HR matters, including hiring and retention. Moreover, your successor will become equipped to handle delicate employee issues (such as performance difficulties) or personal problems (for example, drug addiction).

Finally, even though your family business may not focus on marketing, have your next-in-line train in this area. He or she should gain experience developing special offers (such as sales and customer incentive programs) and creating advertising materials. These tasks

will help your successor develop project management skills and understand how marketing can help expand your family business.

### **Going outside the family business**

Many family business owners require successors to gain outside experience before they hire them. But this rule could hamper your efforts to train your next-in-line in multiple company areas.

To help your successor gain outside business experience without slowing down your training efforts too much, have him or her intern at other companies during college.

After graduation, your successor can begin the family business training. Or you can just briefly delay company employment until he or she spends two or three years working for another business.

### **Giving your successor all of the tools**

You've worked hard to make your family business a success, and you want to do everything possible to ensure that your successor has a smooth transition. Having your adult child or other family member train in all areas of your company can help ease the succession process. ♦

## **Married couples get more estate planning flexibility — temporarily**

When it comes to estate planning and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, the reduction in the top estate tax rate to 35% and the exemption increase to \$5 million may have received the most attention. But there's another provision that will give many married couples more estate planning flexibility: exemption portability.

Under the act, if one spouse dies in 2011 or 2012 and part (or all) of his or her estate tax exemption is unused at his or her death, the estate can elect to permit the surviving spouse to use the deceased spouse's remaining estate tax exemption, so that the exemption essentially is "portable."

Making this election is simpler than transferring assets during life and/or setting up a credit shelter trust — steps that are typically necessary to preserve the full exemption of the first spouse to die. It also can provide flexibility if proper planning hasn't been done before the first spouse's death. And portability allows the survivor to apply the deceased spouse's exemption to lifetime gifts.

But unless Congress extends the election, portability will be available for only two years. And even if an election is made during that time, any amount not used by the end of 2012 will be lost.

So married couples with estates that will exceed the estate tax exemption should still consider including a credit shelter trust in their estate plans and making any necessary asset transfers before the first spouse's death to ensure they can take full advantage of both of their exemptions.

Also be aware that in 2013 the estate tax exemption is scheduled to drop back down to \$1 million (and the top estate tax rate to rise to 55%). So even if estate taxes aren't a concern with the current \$5 million exemption, they could become a concern in 2013.

