



2011 Income Tax Planning

Most tax planning is generally oriented toward deferring income and accelerating deductions to minimize taxes. For individuals, deferring income also may help minimize or avoid income-based phaseouts of various tax breaks. Tax planning must take into account each taxpayer's particular situation and planning goals. Year-end planning for higher-income individuals also must take into account the possibility that tax rates may be higher in the years ahead, and that long-term capital gains and qualified dividends may enjoy less of a tax break in future years than they do now.

There are many tax-saving steps that can be taken before the end of this year. Here is a list of important actions that should be taken no later than Dec. 31, 2011 to save taxes:

- Realize losses on stock while substantially preserving investment position.
- Convert investment income taxable at regular rates (e.g., interest income) into qualifying dividend income.
- Arrange with employer to defer bonus until 2012.
- Increase basis in S corporation or partnership to make possible a 2011 loss deduction.
- Use a credit card to prepay expenses.
- Make energy-saving improvements to your home that qualify for tax credits in 2011.
- Put equipment in service before year-end to qualify for the 100% bonus first-year depreciation allowance.
- Make expenditures qualifying for the \$500,000 business property expensing election.
- Apply bunching strategy to "miscellaneous" itemized deductions, medical expenses, and other itemized deductions to increase deductible amounts.
- Increase withholding to eliminate or reduce estimated tax penalty.
- Set up self-employed retirement plan.
- Make gifts taking advantage of the \$13,000 gift tax exclusion.
- Consider deferring a debt cancellation event until 2012.
- Decide whether to elect to deduct investment interest against capital gains and/or qualified dividends.
- Avoid personal holding company tax by making dividend payments.
- Take steps to avoid or minimize income tax on Social Security benefits.
- Step up level of participation in business activity to meet material participation standard under passive loss rules.
- Dispose of passive activity to free up suspended losses.
- Ask employer to increase withholding of state and local taxes to pull the deduction of those taxes into 2011.
- Extend subscriptions to professional journals, pay union or professional dues, enroll in (and pay tuition for) job-related courses, etc., to bunch into 2011 miscellaneous itemized deductions subject to the 2%-of-AGI floor.
- Accelerate a big ticket purchase (such as a boat or car) into 2011 to qualify (if the taxpayer itemizes) for state and local sales tax deductions instead of state and local income taxes.

Please contact our office if you wish to discuss any of these items in further detail. ■

BGH PROMOTIONS



Catherine G. Newman, CPA has been promoted to the position of Manager specializing in real estate and benefit plan audits. Catherine has been with our firm for 13 years.



Edie B. Manney, CPA has been promoted to the position of Manager in our Accounting & Auditing Department. Edie has been with our firm for 13 years.

Join us on BGH's **facebook!**



Type in Bormel, Grice & Huyett and connect with us.

Happy holidays AND OUR BEST WISHES FOR A PROSPEROUS NEW YEAR
FROM THE PARTNERS AND STAFF OF BORMEL, GRICE & HUYETT, P.A.

Retirement Update

What does it cost to provide investment and retirement services these days?

You can log on to your personal account at your company retirement plan or personal brokerage account with the touch of a keystroke. Once logged on, you can see your investments at their current fair market value, how they have performed, and what you have contributed, all in a table, graph, or good old-fashioned numerical schedule. You can see how your investments have done for the last quarter, year, five years, or more, and compare them to benchmarks. Your statement is available online, mailed to your home, or even emailed. All of this information is provided by the plan or broker, and most is compelled by recent laws enforced by the Department of Labor.

What about all of the services you receive?

While online, you can choose how much to contribute to your plan, change it, or discontinue it. You can choose your investments, change the allocation periodically, or transfer between funds at will. You can initiate a distribution at designated times in your career, roll it into another plan, take it out to pay for a home or education, and have tax withheld. You may be able to borrow against your retirement, and have the payments withheld from your paycheck.

Who pays for these services?

You do. Your plan may be as simple as an Individual Retirement Account (IRA), or a combination 401(k) and profit-sharing. The cost of maintaining your assets securely and providing the services that come with a user-friendly retirement plan is being paid out of your account. Fees are calculated in different ways, depending on the service provided. Every time shares are bought or sold, someone is being paid a fee. If you have investments, you may have seen this fee deducted from the proceeds of a sale, or added to the cost of a purchase. The same goes for investments in your retirement plan. Every time you contribute, shares are purchased, but the fee is not reported separately on your statement. In retirement plans, the fees are often based on the total dollars invested in each

of the funds, plus a second tier for recordkeeping.

Traditionally, asset-based fees are deducted from investment gains and losses. As long as the earnings on these funds exceed the annual fees, even the retirement plan administrator may not know how much was charged. However, in recent years, investments have not always covered the costs through plan earnings, so some plan sponsors have had to write a check to make up the difference. Other fees charged separately include consultants providing investment advice, direct transaction fees for loans and distributions, legal fees, and fiduciary insurance.

New Fee Disclosures on Retirement Plan Statements

The Department of Labor (DOL) has issued new regulations to require the disclosure of previously invisible fees charged to participants and beneficiaries of retirement plans. The participant-level disclosures are currently scheduled to appear on your statement for the period beginning January 1, 2012. The benefit of this increase in transparency is that plan sponsors can negotiate with service providers to lower the fees paid, which should increase the overall gains that you are counting on to retire.

Other Retirement Plan News

Definition of a Fiduciary

With the changes over the years from old-fashioned pensions to 401(k) plans, and now to participant-directed accounts, the onus of investment decision-making has tipped toward the individual. The relationship between investment advisers and their plan clients has changed accordingly, and the DOL has been studying the effect of these changes on plans. The DOL initiated a proposal to change the definition of a plan fiduciary for investment advice, in order to more accurately reflect this change. Their main concern is that advisers remain impartial and free from conflict of interest. According to the proposal, a person gives fiduciary investment advice if, for a direct or indirect fee, he or she:

Provides the requisite type of advice:

- Appraisals or fairness opinions about the value of securities or other property;
- Recommendations on investing in, purchasing, holding, or selling securities; or
- Recommendations as to the management of securities or other property;

And meets one of the following conditions:

- Represents to a plan participant or beneficiary that the individual is acting as an ERISA fiduciary;
- Is already an ERISA fiduciary to the plan by virtue of having any control over the management or disposition of plan assets, or by having discretionary authority over the administration of the plan;
- Is an investment adviser under the Investment Advisers Act of 1940; or
- Provides the advice pursuant to an agreement or understanding that the advice may be considered in connection with investment or management decisions.

Selecting and Monitoring Pension Consultants

ERISA requires plan sponsors to administer and manage their plans prudently and in the interest of the plan's participants and beneficiaries. In order to carry out these responsibilities, you may require professional advice. DOL offers these suggestions: Consider what services you will need: legal, accounting, trustee/custodial, recordkeeping, investment management, investment education or advice. Ask service providers about their services, experience with employee benefit plans, fees, and expenses, and customer references to determine the quality of their services. Provide complete information about your benefit plan to obtain realistic bids. Consider alliances of providers or those that offer multiple (bundled) services for

a single fee. Ask for specifics about which services are included in the estimate. Compare bids, bearing in mind that quality and completeness of services are as important as cost. Ensure that providers who handle plan assets are covered by a fidelity bond and confirm that providers are properly licensed. Read contracts carefully to understand the terms and what is expected of both you and the provider. Keep records of your inquiries and the reasons for your selection. Obtain a commitment from your service provider to regularly provide information regarding the services they provide. Periodically review their performance to ensure the services are provided in accordance with the agreement.

SEP Retirement Plans for Partnerships and LLCs

Partners and LLC members are owners of a business, but not when it comes to a Simplified Employee Pension Plan (SEP). For purposes of contributing to a SEP, each partner or LLC member is treated as an employee, and therefore cannot maintain their own SEP. The employer can maintain a SEP plan, and must generally cover all employees who have reached age 21, worked for the business at least three of the last five years, and received at least \$550 of compensation in 2011, subject to cost of living adjustments. Contributions can be up to 25% of compensation or a maximum of \$49,000 in 2011. Under a SEP, the partnership contributes to a SEP-IRA, which each employee owns and controls. The partnership reports contributions for partners on Form K-1, and for other employees as a regular business expense on Form 1065. You can set up a SEP plan as late as the extended due date of the business tax return for that year.

Schedule SSA

Schedule SSA, which reports vested retirement balances of terminated plan participants to the Social Security Administration, is no longer filed as part of Form 5500, the plan's annual filing with the Department of Labor. This changed when Form 5500 began being elec-

Tax Due Date Calendar



JANUARY 16

Final installment of 2011 estimated tax by individuals and trusts due.

JANUARY 31

Last day to receive Forms W-2 and most 1099 statements from your employer, banker, broker, etc.

Fourth quarter 2011 payroll tax returns and annual federal unemployment returns due.

FEBRUARY 15

Last day for filing Form W-4 by employees who wish to claim exemption from withholding of income tax for 2012.

FEBRUARY 29

File Forms 1098, 1099, W-2G and Form 1096 with the IRS.

File Forms W-2 (copy A) along with Form W-3 with the IRS and the Social Security Administration (SSA).

If Forms 1098, 1099, W-2, W-2G, are filed electronically, the due date for filing them with the IRS and the SSA is extended to April 1.

MARCH 15

Corporation and S Corporation income tax returns for calendar year 2011 due.

Last day for calendar year corporations to file Form 7004, an automatic six-month extension of time, for 2011 income tax returns.

APRIL 17

Individual income tax returns, Form 4868 (automatic six-month extension) plus payment of any 2011 tax liability due.

First quarter individual estimated tax payments due for 2012.

Last day for making 2011 IRA contributions.

Gift tax returns and payment of any gift tax for 2011 due.

Calendar year fiduciary income tax returns and requests for six-month automatic extensions due.

Partnership returns and requests for five-month automatic extensions (Form 7004) for 2011 due.

First installment for corporation estimated income tax is due for 2012.

APRIL 30

First quarter 2012 payroll tax returns due.

LEVELS OF ACCOUNTING SERVICES

Compilation. The objective of a compilation is to collect, classify, and summarize financial information provided by the client, using accounting expertise as opposed to auditing expertise. The accountant assists in preparing the financial statements according to the client's needs. Inquiry and analytical procedures are not required. The accountant provides no assurance that the financial statements were presented in accordance with generally accepted accounting principles and does not issue an opinion on the financial statements.

Businesses and organizations will choose a compilation when they are comfortable with their accounting system and audits are not required by funding sources, banks, national organizations or their own by-laws.

Review. The review is the first level of an accounting engagement that provides a measure of assurance that the financial statements were prepared in accordance with generally accepted accounting principles. The review provides limited assurance in the form of negative assurance. That is, based on the work performed and evidence gathered, nothing came to the accountant's attention to indicate that the financial statements do not give a true and fair view in accordance with generally accepted accounting principles. Inquiry and analytical review are the primary procedures used.

A business will choose a review when some form of assurance is required but an audit is not called for.

Audit. An audit provides assurance that the financial statements are fairly presented in accordance with generally accepted accounting principles. In addition to inquiry and analytical review, the auditor examines, on a test basis, the evidence supporting the amounts and disclosures in the financial statements and assesses the accounting principles used by management, as well as evaluating the overall financial statement presentation. The auditor must be independent in its relationship with the client.

A not-for-profit organization will choose an audit if it is a requirement under state charities registration rules. National or regional organizations and some funding sources, grantors, or government agencies may also require an audit of an organization.

Retirement Update

continued from previous page

tronically filed. Schedule SSA has not gone away, it has just been delayed for a while. Form 8955-SSA is the new form, available now for the 2009 and 2010 plan years. It sounds odd, but you use the 2009 form to report both years. The new form is due January 17, 2012 and can be filed with IRS electronically, or on paper. What used to be an attachment to Form 5500 is now a separate filing.

DOL Enforcement

It used to take the Department of Labor (DOL) anywhere from three months to a year or more to notice that the Form 5500 they received contained an error or omission. The letter they issued, comparable to the dreaded IRS letter, outlined the problem and the associated penalties. The maximum penalty is \$1,100 per day. The recipients were often small companies who overlooked something, or growing companies that suddenly discovered that their plan required an audit for the first time. Plans with 100 employees eligible to participate are required to have an annual audit,

which takes time, particularly if there are any issues with how the plan was administered during the year. Often, companies who discover too late that they require an audit often file the return without the audit, only to send in the audit report with an amended return. Now that these returns are e-filed, the DOL has eliminated the months of lead time that used to allow for these corrections to be made under the radar. Now DOL immediately screens the returns electronically, and if the audit report or other schedules are not present, the return is rejected as deficient. This means that when a complete return is subsequently filed after the due date, it is considered a new filing subject to late filing penalties. Nonprofit organizations that just started filing for the first time are particularly at risk because 403(b) plans have not previously been subject to 5500 filing and audit requirements, and therefore may not have procedures in place to meet the standards that other businesses have become accustomed to over time. Form 5500 is due July 31, and can be extended to October 15. ■

Client Profile:

Bormel, Grice & Huyett, P.A. is proud to feature our client, **Up To Date Laundry, Inc.**

Up To Date Laundry, Inc. is one of the largest healthcare laundries in the Mid-Atlantic region, processing over one million pounds of healthcare textiles per week. The business was started in 1946, and now employs over 375 employees at their Baltimore, Maryland, location. Up To Date Laundry provides laundry services, linen rental services, exchange carts services, and linen management and consulting services for many of the largest hospital systems in the area such as Johns Hopkins, University of Maryland Medical System, and MedStar Health. Up To Date Laundry provides services to customers in Maryland, Virginia, Pennsylvania, Delaware, and Washington, DC.

Their production facility is highly automated, allowing Up To Date Laundry to process almost 12,500 pounds of soiled textiles per hour. Automation is the key to operating efficiently and safely for employees and customers. Thinking and acting "green," Up To Date Laundry has installed new high-efficiency boiler systems,



water heat reclamation systems, and high-efficiency lighting to improve their carbon footprint.

Up To Date Laundry runs a modern leased fleet of tractor trailers and straight trucks that allows for timely service to their customers.

Beginning in January 2012, Up To Date Laundry will expand their linen services to smaller healthcare

locations such as doctors' offices, labs, surgery centers, and clinics. These customers will be provided with service that meets the rigorous standards required by hospitals, and the same on time performance they are known for at Up To Date Laundry.

The mission statement at Up to Date Laundry, Inc. is to be the premier provider of laundry services for healthcare in the Mid-Atlantic region. Up To Date Laundry provides textile solutions via customized rental programs, laundry services, and textile fulfillment.

Up To Date's commitment is to create value for their customers by providing consistently high-quality, cost-competitive services within the framework of long-lasting business partnerships. ■

Mark Carter, President
mark.carter@uptodatelaundry.net

To learn more about Up To Date Laundry, Inc., visit www.uptodatelaundry.com.

BGH NEWS



AWARDS

BGH recently presented three awards at our annual strategic planning retreat. The team members selected for recognition this year were **Bette Anne Sanders**, who received the Thumbs Up Award, **Ron Rendle**, who received the Superstar Award, and **Tina Megofna**, who received the Appreciation Award.

PEER REVIEW

Bormel, Grice & Huyett, P.A. successfully completed its most recent peer review in June 2011. Our firm has been a participant of the CPA peer review program since 1990. At that time the process was voluntary for our firm and it was called a quality review. The state board of Public Accountancy in Maryland successfully lobbied for legislation in Maryland, which requires

all licensed CPA firms that perform accounting or auditing services in Maryland to undergo a triennial peer review. Certified Public Accountants have three years in Maryland to become compliant with the new law that became effective as of March 31, 2011.

You may ask what is a peer review and how does it work? This is a process in which our firm's work is reviewed every three years by another qualified firm to ensure that we are following correct policies and procedures set by industry standards. It is a system set up by the members of the American Institute of Certified Public Accountants to maintain high quality in the performance of accounting and auditing engagements.

The process involves our firm choosing another accounting firm with a practice similar to ours to perform the peer review. They will then select and send a team to our office to perform fieldwork. The team will spend several days reviewing our workpapers and financial statements we have issued, interviewing our staff, and investigating all facets of our practice. The period they review is normally one year. Upon

conclusion of the fieldwork they issue a report based on their findings.

Our firm has received an unqualified opinion for our peer review reports since 1990. Our staff has consistently worked hard to achieve high standards to assist the firm in maintaining the levels necessary for us to receive a clean opinion for our most recent peer review completed on June 8, 2011.

Our compliments to the entire staff of Bormel, Grice & Huyett, P.A. for making quality of work and client service our primary objective!

Catherine G. Newman recently became the firm's representative as a member of the Greater Bowie Chamber of Commerce.

Susan & Bruce Quigley recently celebrated the marriage of their daughter Erin to Brad Martinez. Erin graduated from Ohio State University and is now a licensed and practicing veterinarian. Best wishes, Erin & Brad!

Francesco Mazziotti has joined our firm's accounting and auditing department. Francesco is a graduate

of Towson University, Towson, MD, and was our intern this past summer.

Bormel, Grice & Huyett, P.A. recently sponsored the following events: **First Generation College Bound** 8th Annual Riverfest 5K Run/Walk, **Leukemia & Lymphoma Society** Light the Night Walk, and the **Baltimore Washington Corridor Chamber of Commerce Foundation** Holiday Mixer.

If you haven't already done so, please visit our website at www.bormel-grice.com. Through our website, you can access information about our firm and its specialty groups, the latest issue of our newsletter, and links to other sites such as tax forms and publications, Maryland Comptroller of the Treasury, Maryland Association of Certified Public Accountants, American Institute of Certified Public Accountants, Baltimore Washington Corridor Chamber, State Department of Assessments and Taxation, Bloomberg Financial Services, and various client websites. Your comments and feedback are welcome and appreciated.

The BGH UPDATE is published for our clients, staff, and professional contacts. Copies will be provided to other business people upon written request. Any action based on information contained herein should be taken only after a detailed review of the specific situation.

The following members of our firm have contributed to this edition: Larry Bormel, Kathy Grice, Marlene Collins, Mike Myers, Tina Megofna, Brenda Cummings, Steve Hartong, and Catherine Newman.