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UPDATE

Volume 35 Number 3 Fall, 2010

On-Line Security Reminders and Tips

By Griffin Katzman
Network Administrator

In this digital age, it's very difficult to distinguish legitimate e-mail messages, e-mail items and websites from fraudulent schemes, therefore, one should be very careful when accessing these items. Here are some tips to follow that can help keep your personal information, and your computer, safe from malicious and damaging e-mails and websites.

Don't open or forward chain e-mail.
Chain e-mail consists of a message that attempts to induce the recipient to make a number of copies of the electronic message or letter, and then pass them on to as many recipients as possible. Most of these types of e-mails are scams or can be a nuisance. They can even be damaging to your computer.

Strong passwords should always be used.
A five-character password takes a computer hacker 60-seconds to break. A ten-character password takes 118 years to break. Try and use at least an eight-character password that combines the use of letters (both upper and lower case), numbers, punctuation marks and symbols.

Change your password at least twice a year.
If your computer doesn't automatically prompt you to change your password every six months, put a reminder on your calendar. Use a different password for each account and don't share your

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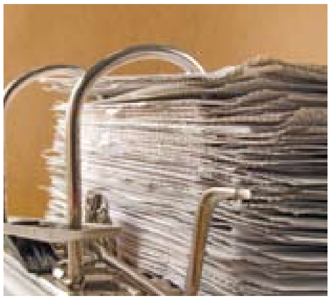
New 1099 Provision

There is a provision in the Federal health care bill that would place an unprecedented burden on small business reporting and paperwork requirements. The bill includes a provision that would require any business that purchases more than $600 of goods or services from another business to submit a 1099 tax form to the Internal Revenue Service. The mandate is to take effect in 2012. Included to help pay for the estimated trillion dollar cost of the health care law, Congress believes that with the 1099 reporting, there will be more taxable revenue that is reported due to the 1099's which is expected to raise $17 billion.



Why the 1099 Provision is Bad News for Business:

- Businesses of all sizes will be required to report on each vendor for all purchases totaling over $600 annually, which will dramatically increase accounting costs and time-consuming paperwork burdens.
- The exemption for purchases from corporations will be lifted.
- The reporting requirement is expanded to property (goods), as well as services.
- At a time when our economy needs small businesses to help our country grow out of this recession, saddling them with expensive new requirements and paperwork burdens, only further hampers their ability to succeed and ultimately aid in our economic recovery.

We are urging repeal of this provision.

What you can do: Write to your members of Congress or contact trade organizations who might lobby to overturn this legislation now, and tell them to co-sponsor the Small Business Paperwork Mandate Elimination Act.

Some information provided by the Waukesha Business Alliance

Contact us at: 235 N. Executive Drive, Suite 160 / Brookfield, WI 53005-6064 (262) 797-9050

1040 Oconomowoc Parkway/ Oconomowoc, WI 53066-4621 (262) 567-6540

138 Hospital Drive, Suite 100 / Watertown, WI 53098-3723 (920) 261-6767

Most Small Business Act Provisions Apply Immediately or Retroactively - Some Apply Prospectively

On September 27, the President signed into law H.R. 5297, the Small Business Lending Funding Act. The tax title of this bill, the "Small Business Jobs Act of 2010" (the Act, P.L. 111-240) includes a number of important tax provisions for businesses large and small, and changes for individuals as well. While a handful of these tax provisions are effective either on the day after the date that the bill was signed or in 2011, the vast majority of these provisions are effective retroactively and have an immediate impact on the 2010 tax year.

Immediate and retroactive changes. Several of the Act's provisions are triggered by the enactment date (the date it was signed into law by the President, September 27, 2010). The 100 percent gain exclusion for qualified small business stock (QSBS) for regular tax and alternative minimum tax (AMT) purposes applies for QSBS acquired after September 27, 2010 and before January 1, 2011. The provision allowing retirement plan distributions to be rolled over to a designated Roth account applies for distributions made after September 27, 2010. The new sourcing rule for guarantees applies for guarantees issued after September 27, 2010. The elimination of the requirement for a pre-levy collection due process (CDP) hearing for certain Federal contractors applies for levies issued after September 27, 2010.

Many of the Act's provisions are retroactively effective (i.e., not just effective from the date the President signed the Act into law) and so have more of an impact on the 2010 tax year:

- The increased Code Sec. 179 expensing ($500,000 limit, with $2 million phaseout threshold) and the qualified real property expensing ($250,000 limit) apply for tax years beginning in 2010 and 2011.
- Revived 50 percent bonus depreciation (and a new long-term contract accounting rule for bonus depreciation) and an additional $8,000 luxury auto depreciation limit applies for qualified property placed in service in 2010

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2010 Roth IRA Conversions

Beginning in 2010, taxpayers may convert a traditional IRA to a Roth IRA, even in those cases where the taxpayer's adjusted gross income exceeds $100,000.

It is important to understand that an IRA conversion is treated as a taxable distribution, taxed as ordinary income at your marginal tax rate. (Note that unlike a withdrawal from an IRA, a conversion does not trigger a ten percent early withdrawal penalty.) This in effect accelerates the tax that you would eventually pay on distributions from the Traditional IRA once you retire, but does so in exchange for not taxing any future appreciation in the value of your account. That may be a significant tax advantage. Please note that Roth IRA distributions are tax-free if they are qualified distributions. To be qualified, they must be made after a five-year holding period has passed and after reaching age 59 ½, or on account of death, disability, or the qualified purchase of a first home.

President Obama has proposed, and Congress may enact legislation to restore the top two pre-2001 marginal income tax rates after 2010. This means that the top two tax brackets could possibly be 39.6 percent and 36 percent after 2010. Consequently, if you do not want to take the chance that your income tax rate will be higher in 2011 and 2012 than in 2010, you may want to elect to pay the full tax on the Roth conversion in your 2010 income tax return, at 2010 income tax rates.

Who should consider an IRA to Roth Conversion?
Time until retirement
This is the most important factor in determining whether or not a Roth conversion makes sense. Depending on the rate of return earned on the Roth IRA investments, 15-30 years of growth is required to recover the funds paid in taxes on the conversion. Candidates for the conversion should have a significant amount of time before reaching retirement or will not need the Roth IRA funds to meet retirement income requirements.

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Health Care Reform Tax Changes

Health-Care Reform Tax Changes for Individuals

2011 through 2013

If you have a Flexible Spending Arrangement (FSA), Health Reimbursement Arrangement (HRA) or Health Savings Account (HSA) or Archer Medical Savings Account (MSA), it is important to note that beginning in 2011 over-the-counter medications (except for insulin and medications that are prescribed by a physician) will no longer be considered qualified medical expenses for purpose of reimbursement and tax-free distributions. And, starting in 2011, the additional tax that applies to HSA and Archer MSA distributions that are not made for qualifying expense increases to 20 percent. In 2013, health FSAs that are part of a cafeteria plan will be capped at a $2,500 reimbursement limit.

Health-Care Reform: Tax Changes for Businesses

Small Business Tax Credit

The new health-care reform legislation provides a tax credit to certain small businesses that offer health insurance coverage to their employees. The credit is available in two phases. For the years 2010 through 2013, the maximum tax credit is 35 percent of the employer's premium expenses. For tax years 2014 and later, the maximum credit increases to 50 percent.

To be eligible for the tax credit, the following conditions must be met:

- An employer must have the equivalent of fewer than 25 full-time employees for the tax year. Generally, this is determined by dividing the total hours for which wages were paid for all eligible employees during the year by 2080.

- Average annual wages must be less than $50,000 per employee (to calculate, total wages paid during the year are divided by the number of full-time employees and rounded down to the nearest $1,000.)

- The employer must contribute at least 50 percent of the premium cost of qualifying health plan offered to employees.

For more information, give us a call.

2010 Roth IRA Conversions - Continued from page 2

Changes to Income Tax Rates

If the taxpayer expects income tax rates to increase, or expects to be in the same or higher tax bracket at the time of retirement, it makes more sense to convert now. The rollover now will generate less tax liability both due to the smaller current IRA fund balance and the assumed lower tax rates. If the taxpayer expects tax rates to decrease or expects to be in a lower income tax bracket at retirement, it makes more sense to leave the funds in a traditional IRA. If the taxpayer is on the verge of moving up into a higher tax bracket, it is important to take a close look at the impact of the conversion, as the differences in brackets could cause a significant difference in the tax consequences.

Available Funds Outside of IRA

Candidates for a Roth conversion should have the necessary funds available to cover the additional taxes due on the conversion. If the money used to pay the tax comes out of the IRA or other qualified plans, it will take longer to recover the tax in the fund and could negate any advantage from converting.

Other Things to Consider

- If a taxpayer has only non-deductible IRAs, only the earnings are taxed on conversion
- Traditional IRA withdrawals may trigger taxable Social Security income
- Roth IRAs are not subject to required minimum distribution rules that apply to traditional IRAs. Therefore, a Roth IRA owner who reaches age 70 ½ does not need to begin taking distributions; instead the funds can continue to grow tax-free until they are needed or are passed on to heirs.

For more information on IRA Conversions, give us a call.

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Client Profile

Germantown Iron & Steel, Inc. & Advantage Research, Inc.

Dave & Lori Gutbrod

Running a successful business can be both challenging and time consuming. It takes a great commitment from the owners and even their families to build a business that is not only profitable during the good years, but can also make it through the challenging times. Lori and Dave Gutbrod have had success not only in running one business, but two.

Dave is President and Owner of Germantown Iron and Steel in Jackson, and Lori is President and Owner of Advantage Research, Inc. in Germantown. The couple has three children and over the years has managed to balance not only a busy family life, but the growth of two successful businesses. WKMR has had the pleasure of serving both of these businesses over the years and to work closely with Lori and Dave in achieving their goals.

Dave Gutbrod, Owner
Germantown Iron & Steel, Inc.

Germantown Iron and Steel

Boyd Gutbrod, Dave's father, started his career in the steel business with a local fabricator who focused primarily on structural steel. Boyd, being an innovator, saw an opportunity for the company to branch out and get more involved in the design and fabrication of stairwell railings. His idea wasn't well-received by his boss, so he took his idea and went out on his own. In 1968 Boyd founded AAA Railing Company in his father's basement and by 1972 he built a facility in Germantown and changed the name to Germantown Iron & Steel (GIS).

Today, GIS specializes in the design, fabrication and erecting of customized structural steel. The company serves the commercial, industrial and residential markets. They also design, make and install customized ornamental iron stairs, railings and mezzanines.

Since the ages of nine and ten, Dave and his brother and now partner, Ken, worked for their father's company in one capacity or another. "We've learned the business from the inside out and have worked around the philosophy of hard work, innovation and customer service," said Dave.

In 1995 Dave and Ken bought the company from their father, who remains active in the business today. By 1997 they had outgrown the Germantown space and moved to a 40,000 square foot facility in Richfield, however, keeping the name Germantown Iron & Steel.

A little over ten years later, in 2008, Dave and Ken moved the business to its current location, a new 53,000 square foot facility in Jackson, Wisconsin. The building was built on 6.5 acres of land which would allow for future expansion.

GIS is also involved in the community. As an effort to get kids more involved in manufacturing and trade jobs, GIS supports Tech Smart, an organization in Washington County that works with area high schools in promoting the trades. Dave and his crew attend career fairs, host tours for students and at times provide an opportunity for youth apprenticeships. "You just don't see as many kids getting into this type of work these days," said Dave. "I think it's important to make students and parents realize that there are great careers out there in the trade industries."

Business has remained pretty steady for GIS over the past year and has started to increase. Dave says one of the greatest challenges they will face is to find high-quality employees to fill new positions. Currently, GIS has 46 employees many of whom have been there for over 20 years.

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Lori Gutbrod, Owner of Advantage Research, Inc. stands behind the staircase railing that her husband Dave designed and manufactured as part of the renovation of her building.

Client Profile - Continued from page 4

Advantage Research, Inc.

When Lori Gutbrod graduated from college she started working with a Milwaukee-based market research company. She worked with the firm for about 10 years, while at the same time raising two children with Dave. While she was pregnant with their third child, she decided to quit her job to be a stay-at-home mom. About two weeks before her son was born, she received a call from an old client at her previous job who needed her assistance with a project. Lori thought about it, and decided she would help. After that, the calls came more frequently and from additional contacts. She couldn't help but think about starting her own business.

That's just what she did. In 1992 Lori started Advantage Research, Inc, a full-service market research firm. Today, the company's services include consulting and marketing research design; data collection; and, data analysis and reporting. They work with various industries, including manufacturing, utilities, health care, higher education, and State and local governments. WKMR had already been working with GIS and was excited to begin a relationship with Lori and Advantage Research, Inc.

Lori built her business from the ground up. For the first two years she worked out of her home. At this time, the focus of the projects she was working on was limited. She really wanted to branch out and offer a more encompassing scope of market research services, but she would need more room to do so.

In 1994 she opened an office in Brookfield and at the time Lori had five employees. After only five years they grew out of the space. She began looking for land in 1999 and purchased an old school building in Germantown. The building needed some work and remodeling. Lori wanted to make sure that when you walked through the door, it didn't look or feel anything like a school. Luckily, she was able to tap into the expertise of her husband, Dave and GIS.

In her current location, Lori now has nine full-time staff members and 15 part-time staff. The building includes rooms for focus groups and interviews.

Through 2008, Lori saw a consistent growth in business. As in the beginning, she attributes the majority of this growth from word-of mouth referrals and returning clients.

In 2009 Lori saw a decline in sales. She explains, "As the economy slows, marketing research efforts increase as companies try to stay ahead of one another. As we hit the recession, market research budgets tend to be one of the first areas to get cut back." Today, things are on the upswing and business is picking up.

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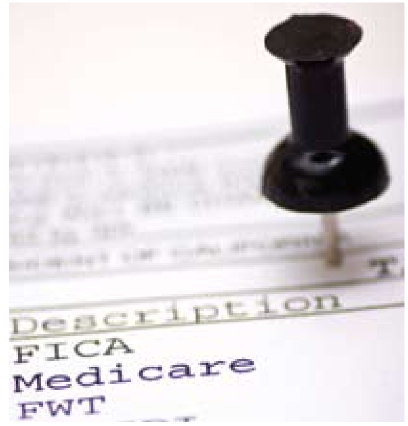
How will the New Health Care be Paid for?
Higher Medicare Taxes on High-Income Taxpayers



High-income taxpayers will be hit with a double whammy: a tax increase on wages and a new levy on investments.

Higher Medicare payroll tax on wages. The Medicare payroll tax is the primary source of financing for Medicare's hospital insurance trust fund, which pays hospital bills for beneficiaries, who are 65 and older or disabled. Under current law, wages are subject to a 2.9% Medicare payroll tax. Workers and employers pay 1.45% each. Self-employed people pay both halves of the tax (but are allowed to deduct half of this amount for income tax purposes). Unlike the payroll tax for Social Security, which applies to earnings up to an annual ceiling ($106,800 for 2010), the Medicare tax is levied on all of a worker's wages without limit.

Under the provisions of the new law, which take effect in 2013, most taxpayers will continue to pay the 1.45% Medicare hospital insurance tax, but single people earning more than $200,000 and married couples earning more than $250,000 will be taxed at an additional 0.9% (2.35% in total) on the excess over those base amounts. Employers will collect the extra 0.9% on wages exceeding $200,000 just as they would withhold Medicare taxes and remit them to the IRS. Companies wouldn't be responsible for determining whether a worker's combined income with his or her spouse made them subject to the tax. Instead, some employees will have to remit additional Medicare taxes when they file income tax returns, and some will get a tax credit for amounts overpaid. Self-employed persons will pay 3.8% on earnings over the threshold. Married couples with combined incomes approaching $250,000 will have to keep tabs on their spouses' pay to avoid an unexpected tax bill. It should also be noted that the $200,000/$250,000 thresholds are not indexed for inflation, so it is likely that more and more people will be subject to the higher taxes in coming years.

Medicare payroll tax extended to investments. Under current law, the Medicare payroll tax only applies to wages. Beginning in 2013, a Medicare tax will, for the first time, be applied to investment income. A new 3.8% tax will be imposed on net investment income of single taxpayers with AGI above $200,000 and joint filers over $250,000 (unindexed). Net investment income is interest, dividends, royalties, rents, gross income from a trade or business involving passive activities, and net gain from disposition of property (other than property held in a trade or business). Net investment income is reduced by properly allocable deductions to such income. However, the new tax won't apply to income in tax-deferred retirement accounts such as 401(k) plans. Also, the new tax will apply only to income in excess of the $200,000/$250,000 thresholds. So if a couple earns $200,000 in wages and $100,000 in capital gains, $50,000 will be subject to the new tax. Because the new tax on investment income won't take effect for three years, that leaves more time for Congress and the IRS to tinker with it. So we can expect lots of refinements and "clarifications" between now and when the tax is actually rolled out in 2013. If you have any questions on these new tax laws, give us a call.

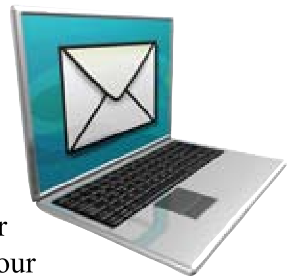
Client Profile - Continued from page 5

As in any industry, to be successful you have to adjust to the trends in your market and to technology. "It's been interesting to see the shift in our research efforts," says Lori. "For instance, the survey process has evolved. You used to go door-to-door to gather data, then mail became the primary source of data collection, then the phone, and now on-line and social media has become an essential way to gather data, especially for the 25 – 40 age group." Lori looks to the future with confidence and continually works to stay on top of the latest trends in the industry. She has also recently turned to more proactive sales to help support her business.

Lori and Dave have worked together to balance two successful businesses and a family. They support each other 100 percent and are both optimistic that their businesses will enjoy continued success.

On-line Security Reminders and Tips - Continued from page 1

password with anyone. You should also never store your password on your computer. If you need to write down your password to remember it, store it in a secure, private location.



Install Anti-Virus Software
Make sure your computer has anti-virus software installed on it and make sure it is updated on a regular basis. This will protect your computer from viruses, spyware and other malicious programs. Schedule a full scan of your computer at least once a week while your computer is on.

Never open e-mail or attachments from someone you don't know.
If you don't recognize the sender, don't open the e-mail. E-mails can contain viruses that can do damage to and compromise your system.

Do not follow links in e-mail messages that lead you to banking or financial institutions or respond to e-mails requesting personal information.
This can often be used to obtain your banking credentials for illegal purposes (Phishing). Legitimate entities will not ask you to provide or verify sensitive information through a non-secure means, such as e-mail. If you have reason to believe that your financial institution needs personal information from you, pick up the phone and call them - using the number in your address book, not the phone number the e-mail references.

If possible only use secure websites when entering personal information into forms and when making online purchases.
You should see a gold pad lock in the lower right corner of the browser. This will indicate that the website you are visiting is secure.

When using online banking\investment sites, it's recommended to only use one computer.
Most banking\investment sites can recognize your computer based upon its hardware address which allows them to verify your identity. Avoid accessing these sites at Internet Cafes or on public computers.

Always be aware of from whom and where your e-mails are coming, and to whom and where you are sending them. Take extra precautions and don't trust everyone. It's better to be safe than sorry. We can help, call WKMR Technology Solutions, LLC at 262.797.9050.

Small Business Act - Continued from page 2

(as well as 2011 for certain aircraft and long production period property).
- Cell phones are no longer "listed property" (subject to strict substantiation rules) for tax years beginning after 2009.
- An increased startup expense deduction ($10,000 limit, with $60,000 phaseout threshold) applies for tax years beginning after 2009 and before 2011.
- Eligible small business credits that are determined in a taxpayer's first tax year beginning in 2010 but are unused, are eligible for five-year carryback.
- Eligible small business credits determined in tax years beginning in 2010 can offset AMT liability and, to an increased extent, regular tax liability for credits determined in tax years beginning after 2009.
- Health insurance costs for a taxpayer and his family are deductible in computing 2010 self-employment tax.
- The controversial Code Sec. 6707A penalty for a failure to report a tax shelter transaction is completely restructured for penalties assessed after 2006.

Prospective changes. A number of the Act's provisions apply after 2010:
- The temporary reduction in the S corporation's built-in gain period (from seven to five years);
- The partial annuitization of non-qualified annuities;
- Permitting Code Sec. 457 governmental plan to include a qualified Roth contribution program;
- The information reporting requirement for rental income from realty, and the increased information return penalty and failure to furnish payee statement penalty.
- And, the accelerated estimated tax for large corporation (assets of at least $1 billion) applies to estimated tax otherwise due in July, August, or September 2015.

For more information on the Small Business Act, give us a call.

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