

FALL 2009

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## “High-Income” Individuals May Have New Access to Roth IRAs as a Savings Vehicle Starting in 2010

Roth IRAs differ from traditional IRAs in several important respects:

- Contributions to a Roth IRA are never deductible. Contributions to a traditional IRA are deductible if the individual has income below certain levels and/or has no access to a retirement account at work.
- Distributions from a Roth IRA are rarely subject to any tax. Distributions from a traditional IRA are subject to tax on the appreciation in value (if contributions were not deductible) or on the entire distribution (if contributions were deductible).
- Distributions from a traditional IRA must begin after the owner attains age 70 1/2 or dies. Distributions from a Roth IRA are not required until after the account owner dies.

For 2009, contributions to Roth IRAs are limited to married couples with adjusted gross income (AGI) under \$176,000 and single individuals with AGI under \$120,000. These limits will be adjusted for inflation in 2010.

For those whose income level (over \$100,000 of modified AGI) has prevented them from converting to Roth IRAs, a new opportunity is available beginning in 2010. In general, traditional IRAs and accounts in qualified plans (such as 401(k)s) sponsored by past or present employers (provided you can receive distributions under the terms of the qualified plan) can be converted beginning next year into Roth IRAs, regardless of your income level.

When you convert from a traditional IRA or qualified plan to a Roth IRA, you pay tax on the difference between the account's fair

market value at the time of the conversion and the amount of nondeductible contributions, if any, made to the IRA or plan.

Individuals with multiple regular IRAs who do not convert them all to Roth IRAs must pay tax on the proportionate taxable amount in the IRA account relative to the value of all IRAs. For example, if you have two IRAs, each with a fair market value of \$5,000, one with a tax basis of \$0 (you deducted your contribution to that one), and one with a tax basis of \$5,000 (you didn't deduct your contribution to this one), you can't convert the account with tax basis of \$5,000 and not include any income at the time of the conversion. Instead, you'd compute the percentage of all accounts that is taxable. In our example, \$5,000 total taxable/\$10,000 total value = 50% of each account is taxable, so you'd pay tax on 50% of the \$5,000 value of the account you converted.

For conversions made in 2010, unless you elect otherwise, you'll include half of the taxable amount converted on your 2011 return and half on your 2012 return. You may elect to include the entire amount on your 2010 return.

So, you know you can convert your traditional IRAs and, in some cases, qualified plan accounts, to Roth IRAs. Should you? This is a difficult analysis and relies on a number of assumptions. In our next issue, we'll provide more information about essential elements of this analysis, and we'll be glad to help you analyze your situation to see if a conversion may be beneficial to you.

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### 30th Anniversary Celebration

To commemorate our firm's thirtieth anniversary this year, we decided to give back to our community by "adopting" an elementary school. After identifying a school in need of some outside support, the firm's charitable foundation donated \$10,000 to help the school finish building a playground, and our employees provided over 5,800 items of needed supplies. Additionally, several of our staff have committed two hours of their time each week to tutor students in math.



## Employee Dishonesty: Is Your Company Covered?

During our economy's difficulties of the past 18 months or so, I have thought of this situation being a "perfect storm" for employee theft. Individuals may feel the strain of potential home foreclosure, mounting credit card debt, insecure employment, and unemployment of family members. As credit markets have tightened, there has been a huge temptation to get funds from somewhere. Many Americans have had a pattern of negative saving, or spending more than we earn, for years. While this statistic has recently flipped to show a small national savings, the societal damage of overspending remains. If you are a business owner, what can you do to protect your business's cash? Some may choose to purchase insurance to mitigate exposure to employee theft. However, we have found that clients with business insurance don't always have employee dishonesty coverage. Also, some business owners with coverage may not be as "covered" as they think. The time to fully understand the employee dishonesty coverage that you do, or do not, maintain is not after money has been stolen - it is now! Here are some things to talk about with your insurance professional:

1. The policy must specifically address "employee dishonesty"; terms used may also include "crime coverage," "employee dishonesty bond," "fidelity bond," and "crime fidelity insurance."
2. Pay attention to how the policy defines "occurrence." It may be the case that "occurrence" is the loss caused by one or

more employees in a single or a series of acts. This means that if someone steals over a period of time—for example, by regularly increasing their payroll check amount—all of the increased checks may be treated as one occurrence. You should understand this to determine how much coverage to purchase.

3. Pay attention to who is covered. Is it by specific name? Or by position? Or all employees? Do you want to include all current and former employees? Partners, members, or directors? Volunteers? Trustees? Seasonal employees? Temporary employees?
4. Understand what types of fraud are covered. Examples include employee theft, robbery, safe burglaries, forgery or alteration, funds transfer, computer fraud, credit card fraud, money order, and counterfeit fraud.

Time spent to prevent employee theft is time well spent. You already know to focus on internal controls and accounting information review. Attention to these important areas can help reduce the chances of employee theft, but won't entirely eliminate the risk. If this article has made you wonder what your coverage is, or whether or not you have it, we recommend you contact your insurance provider for an informational meeting.

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## Improving Business Operations



Well-executed business process improvement initiatives can yield significant multi-year organization-wide benefits. These initiatives can be applied in virtually any area of an organization and can be used to increase productivity, throughput, and efficiency and to reduce inventory and operating expense. Critical to the success of these initiatives is a well-thought-out process designed to result in sustainable improved performance.

The process begins with defining the entity's (company's, division's, department's, or single process's) purpose and the value the entity delivers to the customer. This step is often overlooked, but is critical to creating an organizational focus on improvement.

Once the entity's purpose and the value it delivers to customers are defined, the Value Stream can be mapped to identify the process actions it takes to deliver a product or service to the customer. During this analysis, called a Value Stream Analysis (VSA), waste and opportunities for improvement are identified and action plans are developed to eliminate or change activities.

Improving the operation is a matter of executing the improvement plan developed in the VSA. Sustaining the improvements is achieved through the development of key metrics, control loops, and continuous follow-up.

This approach can be applied in a variety of industries, such as patient flow through an emergency room in healthcare, product assembly and distribution in manufacturing, and document processing and workflows in financial and service businesses. Every business has processes that can be improved.

Strategic business process improvement initiatives have the proven ability to drive organizations to a sustainable level of improved performance. Please contact us if you would like to learn more about our Process Improvement Services to see how a performance improvement program would benefit your business.

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## Temporary Tax Provisions Set to Expire This Year

As we near the end of the year, several tax provisions are set to expire. Some of these, summarized below, were designed to spur business capital spending, and we also summarize the unusual situation with estate taxes.

### Section 179

Section 179 allows businesses to expense, rather than capitalize and depreciate, all or part of their investments in eligible tangible personal property additions. For tax years beginning in 2009, the maximum Section 179 deduction is \$250,000. The deduction is reduced dollar for dollar by the cost of all eligible property placed in service during the year over \$800,000. Unless Congress passes further extensions, for tax years beginning in 2010, the Section 179 deduction will return to \$125,000, and the \$800,000 phase-out limit will reduce to \$500,000. These amounts will be indexed for inflation, so the exact amounts are not yet known. For tax years beginning after 2010, the limits will drop to \$25,000 and \$200,000, respectively.

A business considering a capital investment qualifying for a Section 179 deduction should remember that the deduction is limited to taxable income. For a C corporation, this means that the Section 179 deduction cannot create a tax loss for the year. For partnerships, S corporations, and sole proprietorships, the deduction is limited to positive business income, determined in the case of pass-through entities first at the entity level and then at the partner or shareholder level.

### Bonus Depreciation

The 2009 Recovery Act extended additional first-year depreciation for assets acquired and placed in service through 2009. A taxpayer can deduct 50% of the cost of eligible property in addition to regular depreciation on the other 50% in the year the property is placed in service. The property must be purchased new (not used). The 50% bonus depreciation is applied to the cost that remains after subtracting allowable Section 179 deductions (if any). Unlike Section 179, there is no income limitation on the deduction. The deadline for taking advantage of this deduction is December 31, 2009, unless extended by Congress.

### 15-Year Cost Recovery for Qualified Leasehold Improvements and Qualified Restaurant Improvements

Generally, improvements made to leased property must be capitalized and recovered through depreciation over 39 years. However, an exception exists for certain qualified leasehold improvements and qualified restaurant property. If the improvement qualifies, a 15-year recovery period applies. The property must be placed in service before January 1, 2010.

### Estate Tax

The estate tax exemption available for 2009 is \$3.5 million with a top estate tax rate of 45%. Based on current law, the estate tax is scheduled to expire after this year, but return after 2010. Barring Congressional action, the estate tax repeal will only apply to 2010, and the tax will return in 2011 based on a \$1 million exemption and top rate of 55%. Most observers are predicting a one-year extension of the estate tax at its 2009 exemption and tax rates for 2010.

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## People News

**David Parks** and **John Herring** published an article entitled "Practice Valuation - Distinguishing Personal Goodwill from Business Goodwill" in the June 2009 edition of *Medical News*.

**Jaclyn Badeau** has been elected to the Board of Directors of the Living Arts & Science Center in Lexington.

Congratulations to **Ashley Hays**, **John Calabrese**, **Lisa Wilson**, **Makenzie Layne**, and **Tabitha Wilson**, who have passed the CPA examination and become licensed CPAs.

**Ozlem Fritz** passed the four-part examination to obtain the Certified Fraud Examiner (CFE) certification. This credential denotes expertise in fraud prevention, detection, and deterrence.

**Phil Amshoff** was awarded by the Kentucky Soccer Association for twenty-five years of service as Treasurer, a position he has held since KSA's inception.

**Paula Hanson** has been elected to serve a two-year term on the Kentucky Chamber of Commerce's Board of Directors.

**Mike McCreary** has been accepted into the Leadership Lexington program. Mike has also been named Treasurer of Kentucky Pink Link, an organization whose mission is "to provide support by reducing and/or eliminating barriers to screening, diagnosis, and treatment of breast cancer."

## Foreign Account Reporting

Individuals and businesses that have a beneficial interest in or signature authority over foreign accounts, including bank and brokerage accounts, and investors in foreign hedge funds are required to file an annual return with the US Treasury Department. The return is due June 30 each year for the preceding year. Failure to file the form, even if all income has been properly reported in the US, can result in substantial civil and criminal penalties. To assist non-filers in becoming compliant, the IRS has a voluntary disclosure program in place now. The program closes this October 15. If you have any concerns relating to this filing requirement or the voluntary disclosure program, please contact us.

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**Lance Mann** has been appointed to the Auditing and Attestation Subcommittee of the American Institute of CPAs. This committee oversees the audit portion of the CPA examination and makes suggestions for improvements.



**Rachel Lester** joins our firm as a Document Processing Specialist. She earned a B.A. in Art History from Virginia Tech University and comes to us with six years of experience in full- and part-time office work.

**Jon Barclay**, who previously interned with us, has started full time after earning his Bachelor of Science degree in Business with a concentration in Accounting at Murray State University.

**Monica Wesolowski** has joined us as our receptionist in our Louisville office. Monica has eight years of experience in office work.

**Julie Whittaker** and **Erin McClain** are starting their full-time professional accounting careers with us after having recently earned Master of Accounting degrees at the University of Kentucky. Each previously worked as an intern with us. Julie has successfully completed all parts of the CPA examination.

**David Lewis** has joined us as a Network Administrator. David earned his degree in Business Administration from the University

of Kentucky and has nearly twenty years of work experience, primarily in the IT field.

**Glenn Whitfield** brings with him a twenty-year background in successful process improvement initiatives, strategic planning, organization alignment, and operations management, serving small, medium, and large businesses. He has worked with businesses in a variety of industries, including information technology, healthcare, automotive, foundry operations, manufacturing, consulting, and not-for-profit organizations. He is a certified Six Sigma Black Belt. Glenn earned both his Master of Engineering in Industrial Engineering and Bachelor of Engineering Science degrees from the University of Louisville. As his experience suggests, he will be working with us as a consultant on client engagements.

**Adam Shewmaker** joins us as a Senior Healthcare Consultant, focusing primarily on revenue cycle improvement. Adam has eight years of experience in the healthcare field and holds a Bachelor of Science in Healthcare Administration degree from Western Kentucky University.

**Bryan Sherwood** joins our support staff as an Administrative Assistant. Bryan has six years of office experience and has a B.A. in Ministry from Kentucky Christian College. He is working on his Master of Library and Information Science degree from Drexel University.

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

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