

# Client Tell

Blackburn, Childers, and Steagall, PLC  
Certified Public Accountants and Consultants

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Blackburn, Childers & Steagall, PLC Quarterly Newsletter

## NEW GREENEVILLE OFFICE OPENS



*Greeneville office members at the Ribbon Cutting Ceremony (pictured from left to right): Lindsey Rollins, Dennis Rasnake, Jenny Bowman.*

On Monday, November 23, BCS celebrated the grand opening of our new office building located at 550 Tusculum Blvd. with a ribbon cutting ceremony and open house. The ribbon cutting was conducted by the Greene County Partnership with comments from BCS Managing Partner, Tommy Greer. Several Greene Coat Ambassadors were in attendance along with local elected officials, BCS partners, Greeneville office members, and many clients, staff members and friends of the firm. Immediately following the ceremony refreshments were served at the open house. *More photos on page 3.*

## BCS Selected Second Year in a Row as a Business TN Magazine Hot100 Company



BCS has been selected for the second year in a row as a Hot 100 Company in the state of Tennessee. The Hot 100 is Business TN magazine's annual look at Tennessee companies on a roll. BCS was one of only two Upper East Tennessee companies chosen for the list.

The list is comprised of Tennessee companies that are fast-growing, emerging and brimming with promise and is perhaps best described as a list of "companies to watch."

According to Business TN magazine, these companies "...represent some of the best Tennessee has to offer in terms of entrepreneurial vision and growth." They "...are enriching our local and regional economies, providing jobs and fueling the Volunteer State's entrepreneurial culture. These businesses speak volumes about the value of free enterprise -- especially amid today's challenging economic times."

Selection is based on numerous factors, ranging from revenue and employee growth to growth over a period of years, growth as compared to industry average, projected growth and projected pitfalls, among other criteria including editorial judgment. You can view the Business TN article in its entirety online at: <http://business.tn.com/content/200911/2009-ibusiness.tn-hot100>.

## Coming Soon:

### BCS Rankings Top 25 College Basketball Poll



BCS is proud to present "The BCS Top 25 College Basketball Rankings." The rankings will run on WXSM 640-Extreme Sports Monster throughout the day beginning January 5, 2010 through April 3, 2010. Every week, we will also post our Top 25 College Basketball teams on our website: [www.bcs.cpa.com](http://www.bcs.cpa.com).

The BCS rankings are calculated based on several polls, strength of schedule, and a panel of radio personalities from WXSM and BCS representatives. The panel consists of: Bill Meade, Bobby Rader, "Bud", Kenny Hawkins, Tommy Greer and Gary Boyd. Be listening for the "BCS Top 25" on WXSM beginning January 5th!

# GIFTING YOUR SMALL BUSINESS STOCK



By Travis McMurray

If you are a small business owner and you've ever considered the need to gift ownership to another individual, now may be the time to do so. Even with the recent gains in the stock market, the economy overall is still marred with uncertainty. This translates

into higher risk on investments, which in turn can translate into lower values for small businesses. Currently, one individual can gift up to \$13,000 (for federal tax purposes only) per year tax-free to another individual. So, if your company's per share value is \$13,000, you can gift one share to another individual without any tax consequence to either party. The process of gifting ownership can play a very important part in your overall estate tax planning.

The value of a company is basically the value of the future economic benefit of ownership. There are two major components: 1) the annual cash flow or economic benefit stream and 2) the risk associated with the investment – which translates into the expected return. In the past year and a half, we have seen many companies' cash flow deteriorate and we have seen the risks associated with investments increase. Each of these trends results in a reduced valuation of a company's stock. Let's look at the following example:

	As of 2005	As of 2009
Expected annual benefit stream	\$110,000	\$85,000
Capitalization rate (based on risk)	/ 18%	/ 22%
Value of company (rounded)	\$611,000	\$386,000
Number of shares	/ 1,000	/ 1,000
Value per share	\$611	\$386

If the company were valued today based on the 2005 figures, an individual would be able to gift 21 shares (\$13,000/\$611), or 2.1% of the company, tax-free. As of 2009, however, based on the reduced benefit stream and increased risk of investment (which translates into a required higher rate of return), the tax-free gift could be as high as 33 shares (\$13,000/\$386) or 3.3% of the company.

There are, of course, other things to consider such as discounts for lack of control (minority interest) and for lack of marketability. In addition, many factors such as company strength (financial, management, etc), industry trends, and the overall economy play an important part in determining the capitalization rate. Should you have questions about gifting ownership of your company or if you need assistance in valuing your company, please contact our office.

## Important Change to Tennessee Business Tax

By Vickie Ball

On June 25, 2009, Governor Bredesen signed Public Chapter 530, shifting the administration and collection of business tax from local municipalities and counties to the Department of Revenue. This change is a true partnership between state and local officials. Annual business tax returns will now be filed and paid to the Tennessee Department of Revenue, and the department will collect all delinquent taxes and handle all necessary audit functions.

Businesses will continue to obtain business licenses from the county clerk and/or municipal officials, and clerks and municipal officials will continue to administer transient vendor licenses. The Department of Revenue is currently gathering registration data from the counties and cities so they can register the business tax taxpayers and mail out tax returns by the end of 2009.

Due to law changes and with an emphasis on simplicity, these returns have been revised. Once state business tax filing begins in 2010, taxpayers must file online with the Dept of Revenue if they are required to file sales and use tax electronically. Businesses filing paper tax returns must use the new forms provided by Revenue (older versions previously filed with local governments are not acceptable).

The department will soon initiate a compliance program designed to identify taxpayers subject to business tax but not yet registered and filing returns. **Taxpayers not yet registered and filing business tax returns, who are not specifically exempt, are strongly encouraged to request a voluntary disclosure agreement from the department prior to Dec. 31, 2009.**

Voluntary disclosure will allow taxpayers to limit the look-back period for paying taxes and interest and allow them to avoid the assessment of delinquency penalty. The look-back period for voluntary disclosure agreements requested this year will be for periods covered by returns due or filed in 2006 through the most current completed reporting year. The look-back period may be extended to at least six years for those businesses that do not voluntarily come forward to register and file for business tax purposes.

Sales of some services are exempt from business taxes. Examples are: Medical, Dental, Legal, Educational Services, Accounting, Public Utilities, Insurance Carriers and other sales of services.

*As always, if you have questions or need assistance please contact us.*



By Jeff Moore

## ROTH IRA's: To Convert or Not to Convert

Greetings once again from the BCS Tax Department. It is hard to believe but we are coming up on the end of yet another year, leaving us to consider possible tax planning strategies for the coming year. When considering one's retirement funds, one possible option that may be worth considering is the conversion of a traditional IRA to a Roth IRA.

Previously, the option of converting a traditional IRA to a Roth IRA was available only to those making less than \$100,000 per year. However, tax laws regarding Roth IRA conversions are changing. **Beginning January 2010, individuals with modified adjusted gross incomes above \$100,000 will have the option of making this conversion.** In short, this change provides individuals the option of having a Roth IRA even if they earn too much to be eligible to contribute to one.

The conversion of a traditional IRA to a Roth IRA may not be the right option for everyone. For those in the highest tax bracket, converting to a Roth IRA may not be advantageous. But for many individuals earning between \$100,000 and \$250,000 per year, the conversion may be well worth a second look. **Roth conversions are normally best suited to investors who are likely to be in the same or higher tax bracket by the time they retire, will not need to withdraw the money for at least ten years, and have cash on hand to pay the income tax upon conversion.** Roth IRAs are also attractive due to the fact that there are no required distributions. Thus, before planning to convert to a Roth IRA, each individual should weigh factors such as investment horizon, future tax rates, inflation, and life expectancy.

When the decision is made to convert a traditional IRA to a Roth IRA, income tax must be paid on all pretax contributions

and earnings included (see next paragraph) in the amount being converted. However, in relation to a conversion made in 2010, the new tax law does allow the taxes to be deferred until 2011 and 2012, with half of the income being taxed in each of those years. On the other hand, the prospect for higher tax rates in those years may lead to the election to include all of the income and pay the tax in 2010. It should also be noted that a 10% penalty may be imposed by the IRS if funds are withdrawn from the Roth IRA within the first five years after the conversion. Normally, the penalty only applies to taxable withdrawals. However, the entire payout may be subject to the penalty unless the taxpayer has turned age 59 ½, is disabled, or has elected to take a series of substantially equal distributions from the Roth.

When determining the tax on conversions, the IRS prorata rule must be used, which can be a bit confusing. This involves dividing the amount of all after-tax IRA contributions (recorded on IRS Form 8606) by the total value of all individual IRAs, including rollover IRAs, SEPs, and SIMPLEs. This number is then multiplied by the dollar amount to be converted, regardless of which account it comes from. The resulting amount represents the portion of the conversion that will not be taxed. By requiring the use of this method, the IRS is preventing individuals from simply converting only their nondeductible contributions and, thus, paying no income tax. Now, it should be noted that there are other planning techniques that will help eliminate any tax on the conversion, but that discussion is beyond the scope of this article.

This article simply highlights the main points of converting a traditional IRA to a Roth IRA. As noted earlier, **this conversion may not be beneficial for everyone and you should consult with one of your BCS tax advisors to discuss your specific situation to determine if a conversion may be beneficial to you.**

## New Greeneville Office Ribbon Cutting & Open House



Sheila Emory, Kevin Peters, Janie Morelock & Lorrie Hale



Dennis Rasnake & Jason Edmisten, Jones Media

Tommy Greer



Bill Cutshaw, Builder & Jeff Blackburn



Artie Wehenkel, Vicki Andrew & Lori Collins  
Greene County Partnership



Wade Farmer, Chuck Huffman & Chad Kisner



Travis, Erica, Karen & Stan McMurray



John Walker, Builder



Melissa Steagall-Jones



## When NOT to Roll Your Work Place Retirement Account Into An Individual Retirement Account (IRA)

By Myra O'Dell

In the fall newsletter edition, I wrote an article explaining why you might want to roll your work place retirement account into an IRA when you change employers or retire. However, sometimes it might be best to leave it with your work place plan. Here are a few of those circumstances:

▶ If the account is a 401(k) or 403(b) Plan and you retire during the calendar year in which you turn 55 or later, you can take withdrawals without the 10% penalty that you would incur in an IRA before reaching age 59 ½.

▶ Some employer sponsored plans do not require you to take distributions if you continue working past age 70 ½. However, IRAs require you to begin taking required minimum distributions at age 70 ½ regardless of whether or not you are still working. If you plan to work for your employer past the age of 70 ½, leaving the account in your work place plan may allow you to defer taxes longer.

▶ Since loans are not permitted in an IRA, an outstanding loan in your 401(k) plan may cause you to pay income taxes (and possibly a 10% penalty if you are not 59 ½) on the amount outstanding if you roll your account into an IRA before repaying the loan.

▶ If you have net unrealized appreciation (NUA), you will forfeit the opportunity to treat the unrealized capital gains as long term gain once you roll it into an IRA. NUA pertains to employer stock held in a retirement account that receives special tax treatment when taken as a lump sum distribution. If you have NUA, consider transferring the stock to a nonqualified account and rolling the remaining assets into an IRA to preserve the special tax treatment of the NUA.

▶ Rollovers from SIMPLE IRAs are only allowed after two years of participation, even if you leave your employer, in order to avoid a 25% penalty. In this situation, it is best to wait until the two year period is up before rolling it into an IRA.

▶ Some plans may offer a life time monthly payment option for you and your spouse through an annuity. If this interests you, consider your options before rolling your account into an IRA.

When it becomes time to leave your current employer or retire, make sure you consider all of your distribution options before making a decision to roll your work place account into an IRA. You should contact your financial adviser to determine the best option for you.



### BCS Dragon Boat Team 2009

Left to right - bottom row: Rachel Squibb, Melissa Jones, MeLissa Crockett, Tara Bradley, Sheila Emory, Jacqueline Ayers, Noel Hebert, Myra O'Dell, Sandy Reaves, Brittany Cassell, Rebecca Smith, Kathy Smith. Left to right - top row: Kay Pickering, Luke Gillis, Preston McMurray, Travis McMurray, Jason Shade, Don Wallingford, Patrick Cross, Jake Hutchison, Jeff Jones, Jake Cassell, Paul Adams.

## DRAGON BOAT 2009

By Noel Hebert

Race day jitters couldn't stop this year's BCS Navy from being Strong to the Finish. BCS was one of 46 teams who competed in the 2009 Mountain States Dragon Boat Festival at Winged Deer Park benefiting the Niswonger Children's Hospital. The team, armed with good food, great friends and an undeniable spirit of teamwork focused on paddling for this worthy cause as BCS continues to show its commitment to the community. BCS's Strong to the Finish philosophy adopted from the popular cartoon character Popeye, was not only the theme for race day but has proved to be a firm wide philosophy as BCS continues to provide excellent client service and remains one of the most respected accounting firms in East Tennessee.



## CONSTRUCTION INDUSTRY: SIMPLE TIPS FOR SURVIVING THE RECESSION

By *Jacqueline Ayers*

The recent economic recession has forced businesses in all industries, especially the construction industry, to re-evaluate the way they operate. But, as a presenter at a recent Tennessee Society of Certified Public Accountants Construction Industry Conference discussed, a recession can be seen as an **opportunity** to push the “reset button” on your business and develop new practices to help you survive these difficult times. Presenting on behalf of a firm having numerous years experience with accounting and consulting clients within the construction industry, Robert Davidson, CPA, of Davidson, Golden & Lundy, suggested a few simple strategies that can help construction contractors of all sizes and specialties survive the recession.

### Controlling Labor Expense:

Davidson stated “If labor is managed, other costs will be managed. Equipment doesn’t drive itself.” That is why it is so critical that construction contractors maintain tight controls over labor costs. One of the most effective ways to accurately track labor hours is to require that time sheets be filled out daily in order to avoid the “10-10-10-10 time sheets.” Not all employees arrive, and leave, the job site at the same time every day, all week long. Therefore, requiring daily time sheets will more accurately track labor expense

which can improve the profitability for each job. If this is an area where you feel your business could use some assistance, you might consider investing in a field reporting system to assist management in the recording of labor hours on the job site quickly and efficiently. The money saved by using one of these systems can sometimes outweigh the cost of the system in the long run.

### Managing Overhead Costs:

While this seems to be an obvious suggestion, there is no better time than now to concentrate on re-evaluating overhead expenses such as insurance policies, cell phone policies, and company credit cards terms. Staying with the same provider that you have always used could be costing your business more money. Multiple quotes should be obtained to verify that you are getting the best possible rates. Construction contractors can also focus on reducing overhead “shop costs” by getting external quotes before performing large repairs in house. Being open to outsourcing can sometimes prove to be more cost effective.

These are just a few recession survival strategies that businesses within the construction contractor industry should consider. If you would like further information, please contact our office.

## Breast Cancer Awareness Month: Office Fundraisers



Blue jeans can be very powerful! Just ask BCS employees. Breast Cancer Awareness month was observed during October. On Fridays, the employees at all 3 locations were asked to donate \$5 to wear jeans. Over the course of 5 Fridays, the firm raised \$1,250! We also asked participants to sign a pair of jeans in honor of someone they knew, loved, or lost to this disease. The money was split between Lee Denim Day and the Susan G. Komen Foundation. We are very excited and proud of such a wonderful contribution to breast cancer research and awareness.

By *Christina Morgan*

BCS employees participated in Pass the Plate, a fun and delicious program that raises funds and inspires others to support the breast cancer movement. Using a specially marked plate, created by KitchenAid and Villeroy & Boch, employees made one of their favorite recipes, put it on the plate, brought it to the office the next day to share with coworkers, and then passed it to the next volunteer. Each time the plate was passed and registered on the website, KitchenAid donated \$5 to the Susan G. Komen Foundation.

By *Sabra Houston*

## RETIREMENT PLAN OPTIONS



By Alice Williams

Even in tough economic times, it's important to save for retirement. There are many opportunities for you and your employees to put aside money for your future. The old-school Defined Benefit and Money Purchase Pension Plans are almost non-existent these days, but other options are available and some even have tax benefits for you, the employer.

Let's start with the simplest retirement arrangement, a payroll deduction IRA. Only your employees make the after-tax contributions, and the employer has no filing requirements. A payroll deduction IRA is essentially an easy situation for any size business, and it helps your employees invest in their future. A more organized approach to IRA contributions is a Simplified Employee Pension plan, or SEP plan. Unlike a regular IRA, employers make all contributions to a SEP. These plans

are easy to set up and operate, and allow a higher annual contribution limit.

One other IRA type plan is a SIMPLE plan (Savings Incentive Match Plan for Employees). This type of plan mandates employer contributions, but also allows your employees to contribute pre-tax contributions to their account. They are easy and inexpensive to set up, but have lower contribution limits compared to other type plans.

The 401(k) plan is the most common type retirement plan. These plans have greater flexibility in contributions and your employees may contribute more than with an IRA type arrangement. 401(k) plans are more expensive to set up and administrative costs will run higher. There is an annual tax return requirement, and these plans may require annual testing, but they have added features such as loans and early distributions.

A Profit-Sharing plan is designed for employers to make discretionary contributions. This type plan can be combined with other plans, commonly with a 401(k) component. Of the plan types mentioned, the Profit-Sharing has the most flexibility for contributions, but has the same drawbacks as a 401(k) plan.

There are also retirement plan options for schools, churches and charitable tax-exempt entities. They are called 403(b) plans and are similar to a 401(k) plan that "for profit" companies maintain. There is flexibility in contributions, added features such as loans and early withdrawals, but they may require annual tax form filing.

*For more information on setting up a retirement plan for your employees, please contact one of the accounting professionals at our office.*

## Chad Kisner and Kevin Peters are 2009 40 under Forty Honorees



**Chad Kisner**

BCS would like to congratulate two of our partners, Chad Kisner and Kevin Peters, on their selection as members of the Business Journal's 2009 Class of 40 Under Forty.

Each year, The Business Journal honors 40 rising stars under the age of 40 in the Tri-Cities. Criteria for nomination and judging include business achievement, leadership potential and community involvement. Chad and Kevin are assets to their profession, community, family and friends. Our firm is proud to call them "Partners."



**Kevin Peters**

As part of the 40 Under Forty Class of 2009, Chad and Kevin were honored at the 17th Annual 40 Under Forty Gala on Friday, September 25 at the Centre at Millennium Park in Johnson City. They were also featured in the 40 Under Forty section of the October issue of The Business Journal.

*Past BCS Recipients:*

1993

**Tommy Greer**

2002

**Melissa Steagall-Jones**

2005

**Wade Farmer**

2008

**Jacqueline Ayers & Luke Gillis**

# HOT CHRISTMAS GIFTS FOR 2009



by Jon Phillippe

Every year people want to know about the latest and greatest Christmas gifts. With consumer spending down this year, many vendors have began dropping prices or creating different products for the price conscious. Three great items people always want, but often won't pay for are computer notebooks, flat screen TV's, and smart phones. Well, I have found that these items were hit particularly hard by price drops so this might be the year to make your move.

## Computer Notebooks

Very small laptops or "netbooks" are very popular lately because of both low cost and convenience. **The Dell Vostro A90 laptop is available from Dell.com for only \$219** and with an 8.9" screen it is very light and mobile (2.4 lbs).

## Flat Screen TV's

If you are ready to get a flat screen TV but don't want to break your bank, **newegg.com currently has a Toshiba 32" LCD TV for \$330.**

## Smart Phones

It's hard to turn on the TV today without seeing an ad for a cell phone from Verizon. The **Droid smart phone is the current hot item for \$200** with a 2-yr contract from Verizon online, but for the more cost conscious consumer the **Samsung Omnia offers Windows Mobile 6.1, a 3.2" screen, and many business and leisure features for only \$15** with a 2-yr contract from Verizon online. A similar phone would have run you \$500 or more just a few years ago. So, you might want to take a second look at items that weren't in your budget last year.

## Personal Lines



**Nick Crowe**, a member of our Audit Department, passed the CPA exam in August. Nick is a graduate of the University of Tennessee with a Bachelor's Degree in Accounting. He joined BCS in 2006 as an intern and became a full-time employee in 2007.



**Beth Lillycrop**, a member of our Small Business Department, passed the CPA exam in November. Beth is a graduate of ETSU with a Bachelor's of Business Administration Degree in Accounting. She joined BCS in 2007 as a part-time employee and became a full-time employee in 2009.



BCS welcomes **George Keralis** to our Family. George comes from Deloitte where he worked 3 years in the Tax Department. He graduated from UT Knoxville and has his Bachelor and Master's Degree. He passed the CPA exam in 2003. George is working in the Johnson City Office Tax Department.

## BCS Chats with...



## Lorrie Hale

Lorrie began working at BCS in December 2004 and is currently the Coordinator for the

Small Business Department. Maintaining the Small Business Department is demanding but she also aids in other areas of the firm by preparing and processing tax returns, client billing for the firm, and various other jobs.

She had previously worked for CPA Associates, P.C. since 1998 until they merged with BCS in 2004. She graduated Cum Laude from Milligan College with a Bachelor of Science Degree in Business Administration in December 2006.

Lorrie is a native to Upper East Tennessee and is a member at Boones Creek Christian Church. She is a true animal lover and her hobbies include golfing, camping, and spending time with family and friends.

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Childers &  
Steagall, PLC**

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[www.BCScpa.com](http://www.BCScpa.com)

801 B Sunset Drive  
Johnson City, TN 37604  
423-282-4511



550 Tusculum Blvd.  
Greeneville, TN 37745  
423-638-8516



440 East Sullivan Street  
Kingsport, TN 37662  
423-246-1725

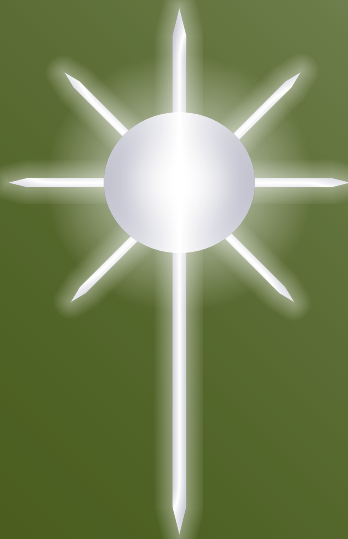


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UNTO US*



*A*

**Merry Christmas & Happy New Year  
from your friends at  
Blackburn, Childers & Steagall, CPA's!**



**We would like to thank you for your friendship  
and for the opportunity to serve you.**

*CHILD IS BORN, UNTO US A SON IS GIVEN...*