

# Client Tell

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

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## Traditional or Roth IRA?

by Sarah Presnell and Myra O'Dell



If you have your retirement savings in a traditional IRA, you are allowed to convert some or all of your funds to a Roth IRA. Prior to 2010, individuals were not allowed to convert to a Roth IRA if their income exceeded \$100,000. Before deciding if you should convert your plan to a Roth IRA, there are certain considerations such as the tax cost of converting, whether or not the conversion will help you save money and how much, if any, you should convert.

### Traditional IRAs v. Roth IRAs

First, let's discuss the differences between a Traditional IRA and a Roth IRA. Unlike Traditional IRAs, Roth IRA contributions are not deductible on your individual tax return. However, withdrawals of contributions are always tax-free and withdrawals of earnings are tax-free as long as it has been at least five years since the year of your first Roth IRA

contribution and at least one of the following conditions have been met: you reach age 59 1/2, pass away, become disabled or make a qualified first-time home purchase, up to a \$10,000 lifetime limit. In addition, the owner of a Roth IRA can make contributions after age 70 1/2 and required minimum distributions are not mandatory during the account owner's lifetime.

### Figuring Reportable Income from a Traditional IRA

One step you should take when deciding to convert to a Roth IRA is to figure out the income you will have to report as a result of the conversion. For deductible IRA funds, the income that will be reported is the value of the funds on the day you convert.

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## BCS at the American Cancer Society Gala

Some BCS partners and managers went "A little bit country and a little bit rock 'n' roll" for this year's American Cancer Society Gala. Melissa Steagall-Jones and Jeff Jones are the co-chairs this year for the local chapter of the ACS.



# Peyton Manning's Favorite Accountant

Viewpoint by Tommy Greer

**In honor of the start of football season and the fact the Broncos are going to win the Super Bowl this year, I wanted to reprint one of my favorite Viewpoints from the past, Fall 2005.**

I never really wanted to make a big deal out of it, but now that MasterCard had a commercial running nationally, I guess it is not a secret anymore. Peyton Manning's favorite accountant? Tommy. That's right. I'm sure many of you always knew I admired Peyton greatly but how many of you knew this admiration went both ways?

The MasterCard commercial I'm referring to shows Payton cheering on a person pumping gas and a butcher with cheers such as "Pump that gas" or "Cut that meat." The commercial then cuts to Peyton over a crowd of professional business people on a busy sidewalk where he shouts that classic line, "You're my favorite accountant, Tommy, Please, Tommy; You're on my fantasy team, you're my favorite worker!" Then his look of glee as I slap him a high five. (They cut all of me out except my hand.) He then exclaims, "Yes! Never going to wash this hand, right here, look at that," as he proudly shows off his hand.

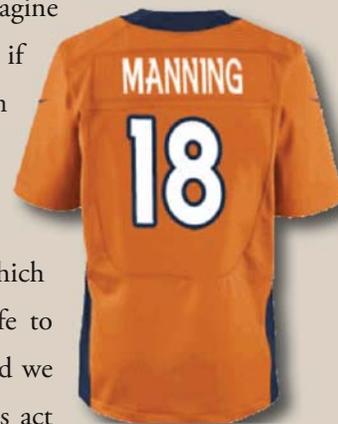
As they say on most MasterCard commercials, "Priceless."

I recently had the opportunity to meet Peyton when my brother, Chad, and his wife, Cindy, had Cay and me as their guests at a fund raiser in Knoxville. Peyton said the

MasterCard commercial had taken a life of its own. In opposing stadiums now the fans holler at him "Cut that meat." He also stated that he has an uncle in Mississippi who is an accountant named Tommy. Imagine the coincidence? I asked him if his uncle was offended by him singling me out as he had.

All joking aside, it was a thrill to meet Peyton Manning for which I have my brother and his wife to thank. Also, for the short period we were with him, he was the class act and gentleman we had always heard he was. He even went so far to write our oldest son, Alexander, a card for part of a weekend church retreat he was attending.

There still may be some question as to who Peyton Manning's favorite accountant is, but I can tell you without a doubt who the Greer Family's favorite football player is!



# Personal Lines



**Landon Jones** Congratulations to Landon who just passed the CPA Exam! Landon works in our Audit Department in Kingsport.



**Erik Stewart** Congratulations to Erik who just passed the CFE (Certified Fraud Examiner) Exam! Erik works in our Tax and Audit Departments in Johnson City and Kingsport.



**Nick Crowe** Nick was recently promoted to manager. He works in the Audit and Small Business Services Department in our Johnson City office.



**Jacqueline Shade** Jacqueline was recently promoted to manager. She works in the Audit Department in our Johnson City office.



**Don Wallingford** Don and Stephanie Pierce were married on June 22. Don works in our IT Department in Johnson City.



**Nathan Goodwin** Nathan and his wife Keely welcomed their first child, Jovie on July 17. She weighed 5 lbs., 15 oz. Nathan is a financial advisor with BCS Wealth Management.

## BCS Improving Technology

A nationally recognized IT consultant, Randy Johnston, visited BCS in August. Randy was very complimentary of our firm, but as always, improvements can be made. He made suggestions about updates to software, processes, security and other items we are excited to implement in order to better serve our clients.



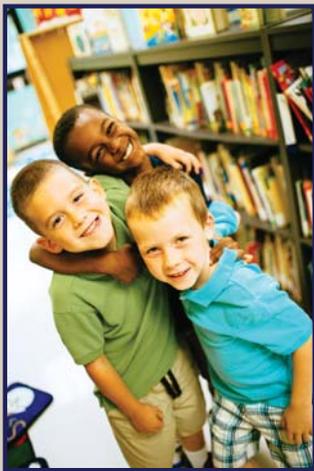
## Client Feature

# Mountain Mission School

In picturesque Grundy, Virginia, Mountain Mission School carries on the work of rescuing kids, raising leaders and glorifying God. It is estimated MMS has improved the lives of 20,000 children, since its inception in 1921.



MMS is not an adoption agency, but cares for children of all ages by giving them a home, a school, a spiritual life and hope for the future. Mountain Mission seeks to break the cycle of poverty in the lives of at-risk children who come to them from the region and all over the world.



“A key ingredient to our success is love,” said Chris Slone, MMS President. “Everyone who works here sees themselves as Christian missionaries.” The teachers at MMS live on campus, providing the kids with the structure they need. Mountain Mission

operates through donations of churches, individuals and businesses and without any government funding.

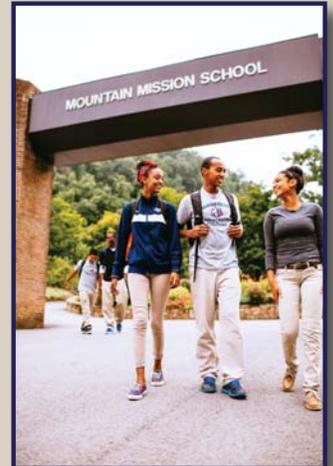
Kids come to Mountain Mission with diverse spiritual backgrounds, but they receive a comprehensive Christian educa-

tion. “We are fortunate to see many kids come to the Lord while they are here,” said President Slone.

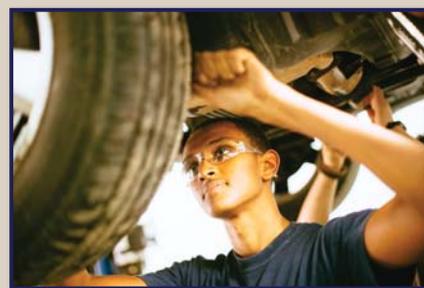
Nearly all of MMS graduates go to college, thanks to their college preparatory curriculum and available scholarships. “The

only graduate this year who didn’t go to college joined the army,” said President Slone.

To learn more about Mountain Mission School, or to aid them in their endeavors to give a chance to seriously disadvantaged children, please visit: [MountainMissionSchool.org](http://MountainMissionSchool.org).



**“Before I came to MMS, I didn’t care about my education, future, or my spiritual life. After three and a half years at MMS, I have put more time into my school work than anything else. I’m now even starting to see a picture of my future. Last but not least, I have come to know God, and I now have a relationship with the Lord.” -An MMS Student**



# BCS Blog

## Why You Should Subscribe

Whether you are an individual taxpayer, small business owner, or serve on a nonprofit board, all of our clients and friends are invited to subscribe to our blog. We provide helpful information on tax credits you may not be aware of, advice on preparing for an audit, updates on healthcare legislation, Tennessee and Virginia sales tax updates, capital gains taxes, QuickBooks tips, cost segregation, fraud detection and prevention, and many more topics.

To subscribe, log on to our website at [BCScpa.com/bcs-blog](http://BCScpa.com/bcs-blog) and type your email address in the subscription box.

A confirmation email will be sent to you, click accept, and you will then begin receiving updates from our blog.

If you have any questions about the articles on our blog, please feel free to contact us for clarification or how a particular topic might affect you or your organization.

At BCS, we do our best to keep our clients up-to-date so that you can make the most informed financial decisions.

Below is a sample blog post from March detailing the importance of checking the wording on charitable contribution receipts you receive.

## Charitable Contributions

by DJ Berry

### Make sure your church contributions will be allowed by the IRS.

The IRS is repeatedly and often referring to a tax court case (*Durden v. Comr. T.C. Memo 2012-140*) in which charitable contributions were disallowed even though the taxpayer had a receipt from the church. **The receipt is required to state that the taxpayer received no goods or services from the charitable organization** (In this case, the taxpayer did not receive any goods or services.).



You need to ask your charitable organization to add this to their receipts for charitable contributions, if it is not already stated on the receipts. Be certain to get a new receipt before a return is filed. You will need this receipt **before** the return is filed.

**Subscribe to the  
BCS Wealth  
Management Blog**

You are also invited to subscribe to blog updates from BCS Wealth Management whether you are a client or not. The BCS Wealth blog features articles about retirement planning at every age, college savings plans, and stock market investing, to name a few.

## ***Traditional or Roth IRA?***

*Continued from Front Page*

It is important to note that income reported from a Roth conversion may be offset by various deductions with proper planning in order to avoid significantly increasing your taxable income. For example, if you have to report \$5,000 in income from a Roth conversion, you may be able to offset this income from additional charitable contributions, etc.

## **Special Rules for Converting Nondeductible IRAs**

Nondeductible IRAs are IRAs in which your contributions were not tax-deductible on your individual tax return in the year that you made the contribution. If you have both a deductible IRA and a nondeductible IRA, a pro-rata rule must be applied to determine the taxable income. Specifically, the amount of all nondeductible IRA contributions must be divided by the total value of all individual IRAs (including SEP IRAs and SIMPLE IRAs). This ratio is then multiplied by the dollar amount being converted to find the amount of the conversion that will not be taxed. In other words, account holders cannot simply convert the nondeductible contributions and pay no income tax.

## **Calculating the Tax**

After figuring the amount of income you will have to report, the next step is to calculate the tax. Because Roth conversions can increase taxable income, the increase in income could propel you into a higher tax bracket, trigger a phase out or elimination of various deductions or tax credits, result in less of your itemized deductions being utilized, increase your alternative minimum tax or may subject more social security benefits to tax.

## **Determining If You Should Convert**

Now that you know how to calculate the tax consequences, the question in determining whether or not you should convert to a Roth mainly depends on if you are

better off paying tax on your savings now or waiting until you withdraw money from your account. Your answer will depend partly on whether you think your marginal income tax rate will be higher or lower in retirement than it is now. As an added complication, no one can predict with certainty what tax rates will be in the future. Another factor to consider is whether you can afford to pay the taxes currently. It is best to pay the tax due with money outside of the converted assets because money used to pay the tax from within the IRA will count as a distribution and may cause early withdrawal penalties.

## **Items to Remember About Converting**

If you do decide that a Roth conversion is best for you, here are some things to keep in mind:

- The deadline to convert to a Roth IRA is December 31st.
- Contributory Roth IRAs and Roth conversion IRA funds may be combined into the same Roth IRA account.
- Beginning in 2010, all investors may convert a traditional, SIMPLE, SEP or SAR SEP IRA to a Roth IRA regardless of income or tax filing status. A SIMPLE IRA must be open for two years before it can be converted.
- There is good news for participants in 401(k), 403(b), or 457(b) retirement plans due to the American Taxpayer Relief Act of 2012. These plans may now allow all participants to convert amounts in their pre-tax accounts to Roth accounts within the plan. Prior to 2013, only those participants who were eligible for a distribution were allowed to do a Roth conversion.
- The converted assets must remain in the Roth IRA account for the five year holding period. If the assets are distributed before the five year holding period, then the distribution may be subject to penalties.

### Conversion Reversals

If you do a Roth conversion and later realize that the tax liability of a Roth conversion is not advantageous to your overall tax situation, you may reverse the conversion, which is called a recharacterization. To recharacterize a Roth conversion, you must transfer the assets plus any net earnings attributed to those assets into another non-Roth tax-deferred retirement account. The deadline to recharacterize is your tax-filing deadline plus extensions. When recharacterizing a Roth Conversion to a Traditional IRA, you may not “reconvert” those assets back to a Roth IRA before the later of:

- The year following the taxable year in which the account was first converted to a Roth IRA, or
- The end of the 30-day period beginning in which you recharacterize the conversion amount back to the original IRA.

Converting to a Roth IRA is a big decision that can be made easier by contacting us for any questions. Together, BCS and BCS Wealth Management can provide the expertise to help you determine the best plan of action for your specific needs.

## BCS Accounting Update Seminar



This year's BCS and ETSU Accounting Update Seminar held at MeadowView Convention Center in Kingsport was a success! Over 130 registrants from the region attended the 8 hour continuing professional education seminar. Make sure you mark your calendar for Wednesday, June 11, 2014 for next year's seminar, also at MeadowView.



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## **Affordable Care Act - 10/1/13 Deadline Notice to Employees**

**by MeLissa Crockett**

The Affordable Care Act of 2010 (ACA) established health insurance Marketplaces (also known as the Affordable Insurance Exchanges) to be available for use beginning January 1, 2014. There will be one Marketplace for individuals and one Marketplace for business. The business marketplace is named Small Business Health Options Program (SHOP). SHOP will be open to employers with 50 or fewer employees.

Employers are required to notify employees of the Marketplaces no later than October 1, 2013. Enrollment for coverage through SHOP is also scheduled to begin October 1, 2013. The notice provides employees with certain information related to the new Exchanges. Employers are required to provide this written notice to each current employee, regardless of benefit enrollment status or full / part-time status no

later than October 1, 2013, and to each new employee at the time of hiring, beginning October 1, 2013. For 2014, a notice will be considered provided "at the time of hiring" if it is provided within 14 days of an employee's start date.

The Department of Labor has provided two sample notices for employers who currently offer coverage and for employers who do not offer health insurance. At [dol.gov/esba/](http://dol.gov/esba/) you will find the sample notices and other helpful resources. [Healthcare.gov](http://Healthcare.gov) and [IRS.gov/aca](http://IRS.gov/aca) are two other sites with useful forms and information.

### **Employers -**

**By October 1, 2013, you must notify your employees of the health insurance marketplaces. Enrollment for coverage through SHOP will also begin October 1st.**