

Client Tell

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

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Blackburn, Childers & Steagall, PLC Quarterly Newsletter

What Health Care Reform Means for You

By DJ Berry



On June 28, 2012, to the consternation of some and the delight of others, the U.S. Supreme Court upheld the constitutionality of the Patient Protection and Affordable Care Act, as well as the Health Care and Education Reconciliation Act. What will this mean to you in the next few years? What steps do you need to take next?

The part that many in the media focused on, the “individual mandate” portion of the health care law, which is set to begin in 2014, basically requires certain individuals to carry minimum essential health coverage for themselves and their dependents or be required to pay a penalty for each month of noncompliance. This law will not apply to those who are exempt, or those who receive essential health insurance via a third party (e.g., an employer).

From a tax standpoint, one of the more vital sections of the individual portion of the act is related to the creation of several new Medicare taxes that are being used to generate revenue for the health care law. The first is an additional Medicare tax of 0.9% that will be imposed on wages and self-employment income of higher-income individuals beginning in 2013.

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Tri-Cities Estate Planning Council

Amy Greene, the Inheritance and Gift Tax Manager with the Tennessee Department of Revenue recently spoke at the monthly meeting of the Tri-Cities Estate Planning Council. She is pictured at right with Wade Farmer, BCS partner and President of the Council.



Viewpoint by Tommy Greer

Thank You to Our Clients

A few weeks ago at our monthly partners' meeting, we were discussing how blessed our firm has been over the last 51 years. While we know that several factors have contributed to our success, including our outstanding employees and the fruitful blessings of God, it is humbling and truly an honor to acknowledge our clients. We are so grateful that you choose us to be your trusted advisors and greatly appreciate the loyalty shown to our firm. It continues to be our pleasure and a privilege to serve you.

Cled Kevin Karen Jeff Wade Charles Jim
Melissa Andy Don Tommy



Is It a Tip or a Service Charge?

By Gina Lemons

The Fair Labor Standards Act was established so that every employee might receive fair wages. Every employer must display an FLSA Minimum Wage poster that states current federal minimum wage, overtime pay, child labor laws, and tip rules. The United States Department of Labor provides free posters via their website, <http://www.dol.gov/whd/flsa/index.htm>.

As stated on this poster, the current minimum wage rate is \$7.25 per hour. Most employees must be paid at least \$7.25 per hour for every hour worked. There are few exceptions to this law. One of those exceptions is tipped employees. An employer of a tipped employee is only required to pay \$2.13 per hour in direct wages if that amount plus the tips received equals at least the federal minimum wages. If the employee's tips combined with the employer's direct wages do not equal the federal minimum hourly wage, the employer must make up the difference. So what defines a customer's payment as a tip?

The federal government uses four factors to determine if a customer's payment is a tip.

1. The payment must be made free from compulsion
2. The customer must have the unrestricted right to determine the amount
3. The payment should not be the subject of the negotiation or dictated by employer policy
4. Generally, the customer has the right to determine who receives the payment

If the customer is charged a standard tip rate for large groups, (18% for parties of 8 or more, for example) this amount is not considered a tip. Instead, the federal government considers this a service charge. This service charge becomes part of gross receipts and cannot be counted as tips received. However, the employer may use service charges distributed to employees to satisfy the employer's minimum wage and overtime obligations.

I encourage all restaurant employers to consider this information carefully. Please contact our Small Business Department if you would have questions or need copies of the DOL Fact Sheet related to tipped employees.

Personal Lines



Gary Boyd Gary Boyd, Chief Information Officer for BCS, was recently awarded CRISC certification (Certified in Risk and Information Systems Control).



Jacqueline Shade Jacqueline Shade recently passed all sections of the exam to become a CFE (Certified Fraud Examiner). Jacqueline is also a CPA.



Andy Hatfield Congratulations to Andy and Jessica Hatfield on the birth of their third child, Knox Andrew Hatfield. He weighed 9 lbs. and was 21.5 inches long. He joins sister Madi and brother Abe.



Rachel Owens BCS welcomes Rachel Owens as an intern in the Audit Department. She plans to graduate in May from Milligan College where she is studying Accounting and Psychology.



Toby Hoyle BCS welcomes Toby Hoyle as an intern in the Audit Department. He graduated from Milligan College with a degree in Accounting and Applied Finance with a minor in Business Administration.



Matt Stanley Matt Stanley is now full time in the Audit Department. He graduated with a degree in Accounting from ETSU, where he was on the tennis team.



Eric Nauman Eric Nauman recently passed all sections of the exam to become a CPA (Certified Public Accountant).



Rachel Squibb Congratulations to Wesley and Rachel Squibb on the birth of their second son, Levi Steven Squibb. He weighed 7lbs. 8 oz. and was 19 inches long. He joins big brother Weston.



Rachel Wallen Rachel Wallen recently passed all sections of the exam to become a CFE (Certified Fraud Examiner).



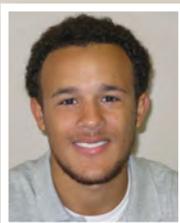
David Babb Congratulations to David and Sarah Babb on the birth of their first child, Oliver Keith Babb. He weighed 8 lbs. 1 oz. and was 20.25 inches long.



Makala Henderson BCS welcomes Makala Henderson as an intern in the Audit Department. She plans to graduate from ETSU with a degree in Accounting in December.



Tyler Williams Tyler Williams is now full time in the Audit Department. He graduated with a degree in Accounting from ETSU, where he was on the Dean's List from 2007-2011.



Ryan Owens Ryan Owens is now full time in the IT Department. He graduated with a degree in Computer Information Systems from Milligan College, and was a student of the Betty Goah Scholarship.

Client Feature

Phil's Dream Pit

Phil's Dream Pit, located off Eastern Star Road, was started nearly five years ago by Phil and Dianna Pipkin. Phil Pipkin dreamed that he should open a restaurant. Phil's Dream Pit will celebrate their fifth anniversary this year, along with an award from the Small Business Administration's State of Tennessee Entrepreneurial Success Award.

Phil's Dream Pit is festooned with pigs of all shapes and sizes and gospel music fills the air. On each table in the restaurant, there are prayer cards anyone can fill out and ask for prayer. "A few weeks ago, a young couple in their 20s left \$100 attached to a card and wrote 'Answer someone's prayer.'"

Before Phil's Dream Pit, the Pipkins owned a smoker they used for catering in addition to their regular full time jobs. When Dianna's job was eliminated and Phil was asked to relocate, the Pipkins decided it was time for a change.

Phil drove past a little restaurant every day on his way to work. One day, he stopped and talked to the owner who was willing to rent it out. Phil drove home and told Dianna, "We're going to open a restaurant!"

She said, "At first, I thought it was a crazy idea, then the more we kept talking about it, the more I thought, how can

we not do it?"

"We had always said it would be a cool thing to do, for us to open a restaurant. So we just went for it. We said if we don't do this now, we never will," said Dianna.

"We spent a lot of time trying to get loans. The banks didn't want to give loans to startups or restaurants or people with no experience, and we were all three. Plus the economy wasn't the best to be starting a new business," Phil said. The Pipkins did get help from the Small Business Administration, and the assistance of the Kingsport Office of Small Business Development and Entrepreneurship (KOSBE).

Phil said, "The hardest thing about this was getting past the fear. We went from two full time jobs to starting a business. The easiest thing was cooking, just doing what I love every day."

Local Walgreens stores carry Phil's Dream Pit's sauces and dry rubs. Their long-term goal is to market and sell their sauces nationally. They have won numerous "Best BBQ and Ribs Awards" along with a high ranking on TripAdvisor.com. For a full menu, videos, and more information about Phil's Dream Pit, visit their website at PhilsDreamPit.com.



From Left: Phil and Diana Pipkin with their BCS accountants Cathy Peters and Jake Hutchison



Who Wants to Be a Millionaire?

by David Greene



While many of us may answer that question in the affirmative, the number who could answer “yes” to the question “Are you a Millionaire?” is much smaller. Following is a discussion of times and circumstances which call for planning with trusts for those who are not necessarily wealthy.

Persons with Credit Risk

These persons can benefit from asset protection trusts designed to protect against creditors. The grantor may retain certain rights of payment of income and possibly earn estate savings or federal gift tax savings if structured properly. They are useful for medical and dental professionals, executives, business owners and other individuals subject to potentially costly lawsuits.

Entrepreneurs

Enterprising business owners who are in the process of establishing successful, growing businesses can position themselves for tax minimization, and future business succession planning by utilizing trust structures after their business is established, but before its value balloons their estate.

Special Needs Beneficiaries

Many of us have people in our lives with special needs, and caring for those needs can be expensive. Federal and State governments have established programs to assist those persons—but if a special needs beneficiary suddenly comes into even a modest inheritance, that government assistance could be stopped. Planners will establish special needs trusts for those individuals, thus preserving state aid, and providing trust funds to supplement the other sources of support. But administering Special Needs Trusts can be tricky, so utilizing the services of a professional in this scenario is often wise.

Individuals with Children

When estate planning for those with children, it almost always makes sense to provide that a child’s inheritance will be held and managed in trust for the child’s benefit until such time as the child is able to wisely handle it him or herself in the unfortunate circumstance that the child inherits while still young. This responsibility could be given to a responsible friend or family member—otherwise a professional trustee would be needed.

Spendthrift Beneficiaries

Every family has at least one—the prodigal son who treats money like a hot-potato and spends everything he has as soon as he gets it (and often before). Clients want to provide for these beneficiaries after their deaths, but know that any money left outright will be quickly used. Trusts with appropriate restrictions on access to inherited funds for these beneficiaries are a great solution. A neutral, objective professional can often preserve family harmony while simultaneously honoring the decedent’s instructions.

Inheritance - Not a Burden

One spouse of a long-married couple has recently passed away. The surviving spouse is all at once simultaneously grieving—devastated from losing a life’s companion—and overwhelmed at the prospect of handling the family finances. But that burden can be lifted—or avoided all together—through an ongoing trust for the benefit of a surviving spouse.

Thus, there are various planning scenarios which prove that the answer to the question “Do I have to be a millionaire?” to use a trust or need a trustee like Covenant is clearly “no.”



How Strong Is Your Password?

by Ryan Owens

When many people think of someone “hacking” their passwords, they think of a person sitting in front of a computer randomly attempting passwords they believe will work. This is not always the case. There are computer programs capable of discovering your password by searching through thousands of passwords using dictionaries, encyclopedias, and information from the internet in a matter of minutes. Here are five tips to think about when creating your passwords:

1. Change passwords regularly

Very few people change their passwords regularly (every four to five months). Changing your passwords ensure that you are less likely to be hacked.

2. Use a password manager

A password manager will help organize your passwords. The manager will hold all of your passwords in one database that will make it easy to remember and manage passwords. Among them are two favorites: KeePass and 1Password.

3. Do not make passwords too short

The longer your password is -- the more secure it is. Period! You should never settle for just the minimum password requirement. It is ideal to have 12-14 characters in your password. Even a simple password such as “AAAAA!!!!!!!!!!!!” is just as effective due to the length of characters.

4. Do not use the same password everywhere

Using the same password for multiple websites and applications helps to cut back on remembering several

different passwords. However, if someone gets hold of your password for one site, they will also have a good chance of gaining access to other websites you use. This can be avoided by using multiple passwords, combined with a password manager to remember them all.

5. Do not be obvious

Using obvious choices such as your name, hometown, phone number, or birth date will likely result in your passwords being in jeopardy. Do not use information that can be associated with you and do not use simple terms. Also, do not store your passwords in obvious places such as post-it notes under your keyboard or on papers near your computer.

Two options for creating a strong password:

1. Use the first letters in a phrase or song that is familiar to you. For example, you could use The Star Spangled Banner to get “TSSB.” To remember the password, all you have to do is sing the song to yourself. Use a mixture of upper/lower letters, numbers, and punctuation marks.
2. Use a master password and a site rule. Create one secure password, then use a rule for each different website. For example, your master password could be “55itigt8” and your rule would be to place the first and last letter of the website at the beginning and end of your master password, respectively. In this case, your Facebook password would become “f55itigt8k” and your Yahoo password would become “y55itigt8o.”

What Health Care Reform Means for You

Continued from page 1

This includes individuals who make more than \$200,000, and married filing joint couples who make more than \$250,000. The 0.9% tax will only apply to amounts that are over the threshold; i.e., for married filing joint, the 0.9% tax will only apply to wages/self-employment income that exceeds \$250,000. The second Medicare tax, which also begins in 2013, imposes a 3.8% tax on unearned income. At this point, it seems the tax will be applied to most forms of passive income (interest, dividends, rents, royalties, annuities, etc., but probably not tax-exempt income) at their net amount. Essentially, the tax applies to the lesser of your investment income, or the amount that your AGI exceeds the \$200,000/\$250,000 threshold. Unfortunately, the 3.8% tax is in addition to the normal dividend/capital gain/ordinary income rates that still apply, so taxpayers subject to

the tax will pay tax on passive income at their marginal rate as well as the new 3.8% Medicare tax. Couple this with the expiration of the qualified dividend tax rates of 15%, and the potential top tax rate for dividends could be as high as 43.4%.

Most of the attention regarding important tax changes has been centered on the health care laws, but another vital part of the tax code that needs to be considered as soon as possible is the Bush-era tax cuts, many of which will expire at the end of 2012. Because it is an election year, it is improbable that all of the expiring provisions will be extended into 2013 and beyond, which means it would be wise to consider accelerating into 2012 any possible tax benefits that are now available, including capital gains, estate planning, and other planning. Go to www.bcsca.com and click on BCS Blog to see a more detailed discussion of both the provisions of the health care law and the expiring Bush-era tax cuts.

BCS at the Greeneville Astros Game



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CPE at Meadowview a Success!

BCS' Governmental and Nonprofit CPE at Meadowview on June 19th was counted as a success. Introduced by Charles Steagall, Congressman Phil Roe gave an opening speech about changes in Washington that will affect local governmental entities. In addition to sessions throughout the day taught by BCS partners and managers, was an expert panel comprised of Rowena Bailey - Southern Appalachian Ronald McDonald House, Steve Gehret - Tusculum College, Janet Jennings - City of Johnson City, Steve Allen - City of Bristol, Virginia and Lester Lattany - United Way of Washington County.



Mark Your Calendar for Next Year!

Wednesday, June 19, 2013 at Meadowview