

ClientTell

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

Volume XVIII No. 1 Spring 2012

Blackburn, Childers & Steagall, PLC Quarterly Newsletter

Charles Steagall Inducted Into Chamber's Hall of Fame

Charles Steagall, one of the founding partners of Blackburn, Childers & Steagall, was inducted as the 34th member of the Johnson City-Jonesborough-Washington County Chamber of Commerce Hall of Fame. This announcement came during the 97th Annual Chamber Meeting, with Governor Haslam as the keynote speaker.

Charles was commended for his work with local governments and businesses for the last 45 years. He was introduced by his daughters, Melanie Stanton and Melissa Steagall-Jones, and then presented the award by Gary Mabrey, Executive Director, and Scott Folsom, Chair of the Board.



Introducing Covenant Trust

Inside the ClientTell, you will find a copy of our introductory newsletter for Covenant Trust. Covenant was founded last year by the partners of BCS who saw a need for expert fiduciary services in our region as other institutions moved their trust departments out of our area. Covenant is your regionally-owned independent trust company.

**COVENANT
TRUST**

US Chamber Names BCS as a 2012 Blue Ribbon Award Winner



BCS was named to the US Chamber's Blue Ribbon list for the 2012 Dream Big Small Business of the Year Awards. A total of 75 small businesses were selected from a nationwide pool of applicants based on innovative business practices, employee development, customer service and strong contributions to the community.



Spending Less Than You Make

by Tommy Greer

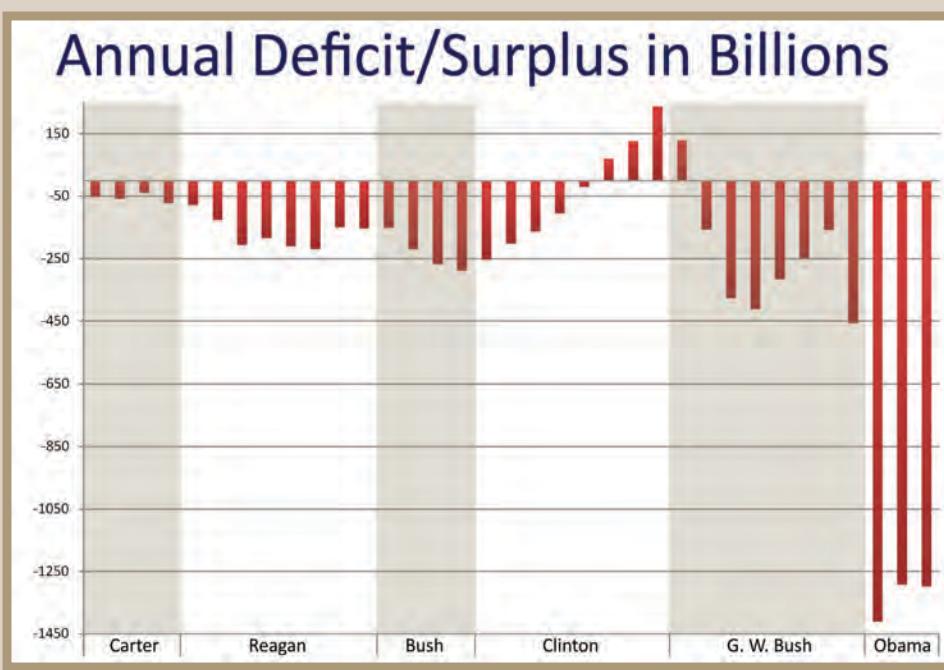


This magazine cover made a huge impression on me last year. In about twenty words, it sums up a pretty depressing financial picture. I don't claim to be smart enough to understand the complexities of this new global economy we now operate in or the ins and outs of our own government, but I do know a few things.

1. As financial advisors, we would be very concerned about a client in this situation.
2. The principle of spending less than you make is timeless, powerful, and works whether it is applied to individuals, families, businesses or governments.
3. Republicans and Democrats are equally to blame for the situation. Where are the men and women that examine issues and then vote strictly on what is the wise thing to do, rather than how the party is voting?
4. The last hope for change, many times, is a crisis. I think we're about there.

Again, I definitely don't have all the answers to this complex issue, but at least we could start by actually budgeting surpluses *instead* of deficits.

I've heard great personal testimonies about people who have taken second jobs and cut personal spending to slowly but surely get out of debt, and they've never been happier. So we need to CUT SPENDING to balance the budget *and* RAISE TAXES to fund a surplus *and* use the surplus to pay down debt. As a country, let's please start with the basic, simple principle of spending less than we make!



Source:
Congressional Budget Office
CBO.org

Small Business Updates

E-VERIFY Program for Tennessee Employers

In our last newsletter, we told you that the E-VERIFY Program was mandatory for all businesses over 500 employees as of January 1, 2012 (The dates for compliance for businesses over 200 employees are July 1, 2012 and January 1, 2013 for 6 or more). However, the State of Tennessee just passed a bill at the close of 2011 giving you an option.

Public Chapter 436 gives Tennessee employers an alternative to the federal law that requires all employers to use the E-VERIFY Program. Tennessee employers may request and maintain a copy of any one document listed in PC436 in lieu of enrollment in E-VERIFY Program. This alternative does not apply if the Tennessee employer has already enrolled in E-VERIFY Program. See our blog at BCScpa.com for a full list of acceptable documents.

Payroll Tax Cut Extension

On February 22nd, President Obama signed the payroll tax cut extension into law. This extension affects nearly 160 million workers by continuing to keep the social security withholding rate at 4.2%, instead of the 6.2% in effect prior to 2011. This extension is set to expire on December 31, 2012.

Those who are self-employed will also see a reduction in their social security withholding from 12.4% to 10.4%, up to a threshold of \$110,100 of wages and net self-employment income. The new lower rate will have no effect on workers' future social security benefits.

Visit the blog at www.BCScpa.com/category/news for up-to-date news concerning your small business.

50 Weeks of Giving Wraps Up

See all our pictures from 2011's 50 Weeks of Giving on the blog at BCScpa.com and click the blog link. You can also watch a slideshow and read recaps of every week.



Client Feature

Creative Energy

Celebrating their 20th anniversary this year, Creative Energy is the region's only full service advertising, marketing and public relations firm with offices in Johnson City and Asheville. They have local, regional, national and international clients, such as Red Gold, Texas Pete®, Bunge Cooking Oils, Windsor Foods, Johnson City Convention & Visitors Bureau and General Shale.

Who They Are

The founders of Creative Energy, Tony and Teresa Treadway, both worked at Nuclear Fuel Services until after the end of the Cold War as part of an internal marketing department. The option was to see most of the employees laid off, or start an advertising agency and the choice was to transition the group into an advertising agency.

Creative Energy has become a local economic engine by hiring local talent and purchasing from local vendors. They have played a role in the rebirth of three vacant buildings as the firm's corporate office through the history of the company. They support local higher education institutions by using interns from ETSU and Milligan College, and by hiring qualified graduates.

Creative Energy employees work hard and play hard. "Our employees are talented and competitive," said Teresa. "We frequently hold cook-offs, parties, and events just for employees."

Teresa is on the Hands On! Museum Board of Directors and is a past Tennessee State Director of District 7- American Advertising Federation. Tony served two terms as a school board member in Johnson City as well as the Johnson City Development Authority. He currently serves as President of the Southeastern Food Processors Association and is a recent recipient of the American Advertising Federation Silver Medal Award.

What They Do

"Marketing your company is so important because if you don't tell your story, no one will. You can only go so far with word-of-mouth," explained Teresa.

Creative Energy is focused on return on investment for their clients. "We want your marketing campaign to be measurable in its success."

"Pal's Sudden Service has been a longtime client of ours, and our growth can be tracked by theirs. We do depend on our loyal longstanding clients, but we are always growing and looking for new opportunities."

"We believe in partnering with clients, not just working for them," explained Teresa. Creative

Energy is constantly expanding their capabilities and updating their technology. The company now produces videos in-house, create web sites, develop corporate branding campaigns, design print ads, and execute public relations and social media strategies. To see a full list of their services and client work, visit their website at www.cenergy.com.





INTRODUCTORY NEWSLETTER :: SPRING 2012

COVENANT TRUST



INTRODUCING COVENANT TRUST

Covenant Trust's founding was based on the need for independent, expert fiduciary services. This need was seen by our founders, and was also expressed to them by area financial advisors and members of the bar. The area of trusts is dynamic and complex, which can be intimidating and perplexing for those unfamiliar with the landscape.

That's where Covenant Trust can help. We're familiar with the territory and can guide you successfully from where you are to where you want to be. Covenant provides a variety of services: we can guide an estate through probate by acting as execu-

tor of a will, or we can serve as trustee for a variety of trusts--from basic testamentary trusts, to irrevocable life insurance trusts, to charitable trusts, to complex dynastic asset protection trusts, or as a consultant to a captive insurance company. Covenant Trust's goal is to help its clients succeed, by providing individualized fiduciary services to each client the way we would want to receive the same service: in the most efficient, effective and caring manner possible. Covenant also wishes to act as a resource to advisors and planners in the legal and financial community in the area of trust and estate administration.

Covenant Trust is a regional company, founded by people who live in East Tennessee and Southwest Virginia. Covenant is supported by individuals and organizations which, combined, provide decades of experience and expertise in the provision of fiduciary services and the related tax, accounting, and legal issues that surround trust and estate administration. 

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MEET OUR PEOPLE

Covenant is managed by Todd Bernhard, Jeff Blackburn, Wade Farmer, Tommy Greer, and Eric Ratliff. Together they bring decades of experience and expertise in the areas of Accounting, Banking, Business, Fiduciary Services, Law and Tax. Their vision and leadership provide guidance and stability to Covenant Trust.



Covenant's primary Trust Officer in the Tennessee office is David A. Greene. David graduated *summa cum laude* from the University of Tennessee, with a degree in Accounting and a collateral in Finance. He then earned his Law Degree from Washington and Lee University School of Law, concentrating his course work in tax law, corporate law and estate planning. David has experience in estate planning and administration as well as individual and fiduciary tax compliance.

Myra O'Dell manages Covenant's back office operations. Myra holds a Bachelors in Business Administration and Mathematics and an MBA from Milligan College. She is a CFP® and is experienced in financial operations.



More info is available on the website:
www.covenanttrustllc.com/about.html 

FLEETING

At this time

in history, an unusual confluence of factors have combined to create one of the most favorable estate planning environments we've had for decades, or are likely to have again in the foreseeable future—especially for high net worth families. Planners who are able to assist their clients in taking advantage of the fleeting opportunity will likely be admired and rewarded for years to come when the effort put forth in planning bears fruit. What are these converging factors? Why is the opportunity fleeting, and how long will it last? What difference does it really make to clients?

High Exclusion Amount

At present, the Federal exemption for estate and generation skipping transfer tax purposes, and the exclusion amount for gift taxes is \$5.12 million—an all-time high. Combined, a wealthy couple can pass \$10.24 million free of federal transfer taxes. But the tax law that enacted this favorable exclusion did so only temporarily—unless Congress takes further action, the exclusion returns to \$1 million on January 1, 2013, its lowest since 2001.

Low Marginal Rates

The estate, gift and GST rate at present is 35%. While this is equal to the highest marginal income tax bracket, it is historically low for transfer tax purposes. This rate also expires at the end of 2012, and will return to 55% in 2013 without congressional intervention in the meantime.

Extremely Low AFRs

As a result of the sluggish economy, applicable federal rates (AFRs) are also at or near historical lows. This creates the opportunity to maximize the leverage available from making discounted sales and gifts using intentionally defective grantor trusts, grantor retained annuity trusts and charitable lead annuity trusts. AFRs will stay low as long as the economy struggles, but they change monthly, so planners should not depend on such low rates indefinitely.

Depressed Asset Values

Another result of the downtrodden economy is that asset values are, in many cases, artificially low. While that's generally not good news, it is advantageous for purposes of maximizing wealth transfer to future generations.

OPPORTUNITY

Valuation Discounts & Defined Value Clauses

For years the IRS has attempted—with some measure of success—to put the kibosh on planners taking valuation discounts for transferred interests in Family Limited Partnerships and LLCs. The courts have generally approved discounts in situations where the taxpayer went through the established procedures, with requisite documentation. Some clients may nevertheless be nervous about the specter of the IRS auditing a transfer which was made subject to a valuation discount.

Fortunately for taxpayers, several recent cases have upheld the use of Defined Value clauses, effectively depriving the IRS of an incentive to audit. The clause provides that a donor will provide a certain defined value of the property to descendants, with the remainder to charity. If the IRS then successfully challenges the discount applied to the transferred property, the difference is paid to the charity and not subject to additional tax because of the charitable deduction.

So What?

Because of the confluence of these and other factors, many planners believe that wealthy individuals and families can pass greater wealth at lower transfer tax cost now, and for the next 10 months, than at any time in the remainder of their lives.

Taking advantage of these factors by utilizing all of the tools at the estate planner's disposal, including gifts and sales to trusts of various

TAKING ADVANTAGE OF THESE FACTORS COULD YIELD MILLIONS IN SAVINGS OR PASSING AN ENTIRE ESTATE FREE OF FEDERAL TAX.

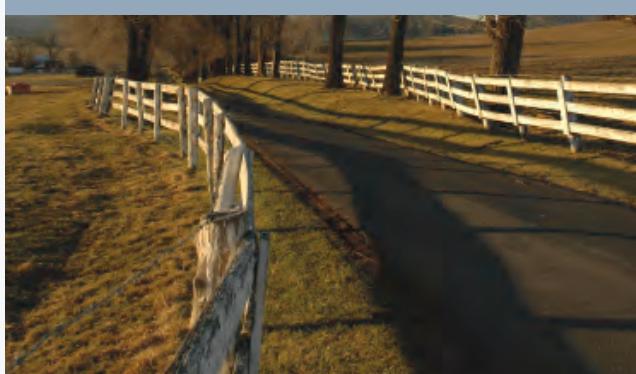
types, grantor-trust status for income tax purposes, valuation discounts and defined value clauses, could yield millions in savings for high-net-worth clients.

For clients of more modest means, it could mean the difference between a sizeable tax bill at death, or passing an entire estate free of federal tax. Maximizing the utility of such trusts in a jurisdiction that allows for dynasty trusts and does not impose a fiduciary income tax, such as South Dakota, could shield a family's assets from transfer taxation for generations. Opportunity is there, but it is fleeting. Take advantage. You don't want to explain to your clients that the opportunity is gone. 

OUR ADVANTAGES

Covenant provides expert fiduciary services, including personal trust services (administration of Revocable Living Trusts, Life Insurance Trusts, Testamentary Trusts, Asset Protection Trusts, and Charitable Trusts, among others), estate administration (both probate and as trustee of a will-substitute trust), and consultation on planning issues. Among Covenant's Advantages are the following:

- Covenant Trust is a local company, dedicated to serving the needs of clients locally. We are not managed from a corporate office in a big city, so we will continue to serve our community here in East Tennessee.
- Because of its heritage and oversight, Covenant, though new, has access to decades of experience and expertise in the field. As a result, Covenant is able to handle traditional trust assets with care and skill, and is also positioned to administer non-traditional assets in trust as well.
- The advantages of Covenant's South Dakota charter are described further on page 4.
- Covenant is committed to providing service that is excellent as well as cost-effective. Our clients benefit from this in the form of highly competitive fee structures. 



COVENANT TRUST



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SOUTH DAKOTA ADVANTAGE

Covenant's South Dakota charter provides clients with access to favorable trust law. Among the advantages of South Dakota are the availability of perpetual trusts; no state tax burden; favorable asset protection laws; strict privacy laws; ability to delegate functions (such as authority over distributions or investments) normally filled by a trustee to family or another advisor; and flexible trust laws enabling trust reform and modification.



A TEAM APPROACH

Clients often have long-standing relationships with various professionals such as bankers and financial advisors. Covenant has chosen not to take an active role in investing assets. We strive for excellence in the area of fiduciary service, and we enjoy working with others who do excellent work in their respective fields. This puts us in a unique position to work together with our clients' bankers, wealth managers and others and create win-win scenarios for the client and all members of the professional team.





DJ Berry

D.J. is a supervisor in the Tax Department in the Johnson City office. He is licensed as a CPA in Tennessee, North Carolina and Virginia. DJ is also an attorney admitted to the North Carolina Bar and a Certified Specialist in Estate Planning. In addition to his Law degree from Appalachian School of Law and a Master of Laws in Taxation from the University of Alabama, he holds a Bachelor's and a Master's degree in Accounting from Western Carolina University.



Congrats to David and Hannah Greene on the birth of their son, Charles David Greene, II on January 22. He weighed 7 lbs., 10 oz. and was 19" long. Charlie joins big sister Kate.



Donna Ernest

Donna is a member of the Administrative Department. She has a Business degree from Auburn University.

Donna and her husband Mark and their children Emma and Brennan attend Celebration Church.



Lorri Humphrey

Lorri is a new administrative assistant on the front desk in the Johnson

City office. She has over 10 years of administrative experience. Lorri and her husband Gary attend Grace Fellowship Church.



Kristen Cooke

Kristen is a new intern in the Tax Department. She will graduate



Logan Greer

Logan is a new intern in the Tax Department. He will graduate in May of 2012

from Milligan College with a triple major in Accounting, Computer Information Systems and Business with an emphasis in Management. Logan attends Grandview Christian Church.

Congratulations Graduates!



Gina Lemons

Bachelor of Business Administration, with distinction, King College



Teresa Adams

Master of Business Administration, King College



Tyler Williams

Bachelor of Business Administration in Accounting, *Summa Cum Laude*, ETSU



Sherri Dugger

Bachelor of Science in Business Management *Magna Cum Laude*, Milligan College



Own a Foreign Financial Account?

by Jake Hutchison

The Internal Revenue Service has reopened the Offshore Voluntary Disclosure Program (OVDP) for the third time following the 2011 and 2009 programs. OVDP allows a taxpayer to disclose all foreign accounts and other assets with the IRS to avoid criminal prosecution of international tax evasion. The previous two OVDP programs have produced approximately 33,000 voluntary disclosures. The following are the foreign disclosure requirements.

A foreign account is a financial account held outside of the United States. Any United States person that has a financial interest in or signature authority over a foreign financial account where the aggregate value of the account exceeds \$10,000 at anytime during the calendar year is subject to the OVDP program. The following are some examples of how the IRS defines the term United States person: US Citizens; US Residents; corporations; partnerships; limited liability companies created or organized in the United States; and trusts or estates formed under the laws of the United States. The term signature authority means the authority of an individual to control the disposition of assets held in the foreign account by direct communication to the bank or other financial institution. Some examples of foreign accounts are securities, brokerage accounts, savings accounts, checking accounts, time deposits, insurance policies with cash value (i.e. whole life insurance policy), annuity policies with a cash value, shares in a mutual fund or pooled fund, or any other account maintained with a financial institution.

The new OVDP program is similar to the previous two programs, but there are two main differences. The new OVDP program does not have a set deadline. Although, the IRS suggests that the terms of the program could

change at any time and deadlines may be enforced in the near future. Also, the IRS explains that the penalties in this new program could increase at anytime going forward. Therefore, the ideal time to act on this new OVDP program is now. The second difference is the penalty has increased to 27.5% from the previous 25% in the 2011 program.

The taxpayer's first step in complying with new OVDP program is to submit a Pre-Clearance Letter which does not guarantee a taxpayer acceptance into the OVDP, but again is required. Next, the taxpayer is required to complete a series of forms which will include all original and amended tax returns dating back eight years prior to the disclosure that includes payment for back-taxes, interest, delinquency penalties, and may be subject to accuracy-related penalties. On top of that, the taxpayer could be subject to a 27.5% penalty on the highest aggregate foreign account balance or value of foreign assets during the eight years prior to the disclosure. Some taxpayers who have smaller offshore accounts may be eligible for the 5% or 12.5% penalty.

Information on the additional foreign annual requirements will be posted to the BCS Blog.

If you have any questions about the new OVDP program, please contact our office. As always, we will try to keep you up to date on any changes related to foreign disclosure requirements along with all other tax matters.

**Check the BCS Blog at
www.bcs CPA.com/category/news/
for more information and other
current issues affecting you.**

Important Dates

April 1, 2012

Annual Reports are due.

April 17, 2012

Individual, Partnership, Trust and Estate Income Tax Returns are due. Also first installment of 2012 estimated tax payments are due.

April 30, 2012

First Quarter Payroll Tax Returns are due.

Jenny Bowman has graduated from the Greene County Partnership's 2012 Leadership Program. Below is the 2012 class at the Capitol Building in Nashville with State Representatives David Hawk and Jeremy Faison, and Governor Bill Haslam. Jenny is third from left on the bottom row.



Save the Date

Attend Our Government & Nonprofit CPE

By Karen McMurray



Mark your calendars for June 14th this year! We will be conducting a seminar that day at Meadowview Conference Center in Kingsport co-sponsored with ETSU. The seminar, which will provide 8 hours of continuing education for accountants, will cover topics of interest impacting Governmental and Not-For-Profit Entities. We will begin the morning with a general session for elected officials with Phil Roe as our guest speaker, addressing "Current Federal Legislature Affecting You". After the main session that morning, we will have breakout sessions that deal with general and specific issues. After lunch, we will have an expert panel comprised of some of our clients who have had unique issues to deal with and how they have handled them. Whether you are responsible for the accounting, or serve as a board member or elected official or serve in a management capacity for a government, college or not-for-profit entity, this seminar will provide you with useful and timely information.

Easy Ways to Register

- Call Kathy Owens or Kendra Hopson at (423) 282-4511
- Click on the CPE link on our homepage, www.BCScpa.com



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Government & Nonprofit CPE - June 14

Presented by Blackburn, Childers & Steagall, CPAs, in partnership with East Tennessee State University.

Earn up to 8 hours of CPE credit

Learn valuable insights from professionals covering hot topics such as:

- Common Findings
- Best Practices
- Fraud - Key Indicators
- Government & Nonprofit Updates

Plus a panel of regional experts in governments and nonprofits.

Special Breakfast from 7:30-8:45
Update for Elected Officials & Board Members
Karen McMurray, CPA, CFE, CICA
Guest Speaker:
US Congressman Phil Roe, MD

Easy Registration:

- Call Kathy Owens or Kendra Hopson at (423) 282-4511
- Click on the CPE link on www.BCScpa.com



Meadowview Convention
Center in Kingsport