

# IT'S YOUR MONEY!

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CPAs & FINANCIAL ADVISORS

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## *Recovery Act Continues Its Aim to Boost Economy*

By Michael P. Dell, CPA, CVA  
*Shareholder / Director of Tax*

On February 17, 2009 President Obama signed into law the "American Recovery and Reinvestment Act of 2009" (the Recovery Act). The stated purpose(s) of the Recovery Act are: to preserve and create jobs, to promote economic recovery, to assist those most impacted by the recession, to provide investment for technology, to invest in transportation/environmental protection/infrastructure, and to promote long-term economic benefits.

The well-intended legislation provided tax benefits for individuals and business alike.

### *FOR INDIVIDUALS:*

#### **First-Time Homebuyer Credit**

This credit was given a makeover. Originally enacted in 2008, the First-Time Homebuyer Credit was lackluster. The credit amounted to no more than a zero interest loan from the government with a credit recapture if you failed to occupy the home as your principal residence for 15 years.

As amended, the credit is much more palatable. If you qualify, you may purchase a home and receive a 10% *refundable* tax credit (you receive the tax credit even if you did not owe any tax) up to \$8,000 (\$4,000 for married filing separate).

Further, you have no obligation to pay any of the credit back if you live in your newly acquired residence for at least three years. The taxpayer must close on the home before December 1, 2009 to claim the credit. There is an election to claim the credit on timely filed 2008 or 2009 tax returns or a taxpayer can amend their 2008 return if the return has already been filed.

#### **Sales or Excise Tax Deduction on New Vehicles**

A deduction is available for the state and local sales or excise tax paid on the purchase of new cars, light trucks, motor homes, and motorcycles and other qualified vehicles after February 16, 2009 and before January 1, 2010. The deduction is available on the sales or excise tax attributed to the first \$49,500 of any single vehicle and there is no limit on the number of vehicles that you purchase. The deduction can be claimed whether or not a taxpayer itemizes and is phased out for taxpayers with higher income levels.

#### **Energy-Efficient Home Improvements**

The credits are back for 2009 and 2010 equaling 30% of the total expenditure up to a \$1,500 credit. Solar, wind, and geothermal expenditures are eligible for higher credits (up to \$4,000).

#### **Education Credits**

The education credits were enhanced with higher credit amounts and

made available to a broader range of taxpayers, including many with higher incomes. Tuition, related fees, books and other required course materials generally qualify. The maximum annual credit is \$2,500 for the Hope Credit and 20% of the first \$10,000 for the Lifetime Learning Credit.

#### **Work Pay Credit**

The Work Pay Credit is equal to 6.2% of the taxpayer's earned income up to a maximum of \$400 (\$800 for a joint return) for the years 2009 and 2010. Similar to the stimulus payment of 2007 but paid proportionally over the year through lower tax withholding rather than when a taxpayer's return is filed. This was designed to provide immediate cash flow to taxpayers.

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# 'Recovery Act' continued

Taxpayers should be aware that the modified withholding tables can cause unintended results particularly for two income families with multiple, concurrent jobs. The tables may cause a reduction in withholding amounts to overshoot the credit amount, resulting in taxpayers having reduced refunds or having to pay in at the end of the year.

Taxpayers are advised to review their withholding and make any necessary adjustments.

## FOR BUSINESSES:

### Depreciation

Qualified property (generally most types of *new* property other than buildings) is eligible for an additional depreciation deduction equal to 50% of the adjusted basis of the property. The modification surfaces where Section 179 is involved.

Section 179 expensing is limited to \$250,000 for assets placed into service beginning in 2009. Prior to the Recovery Act, if Section 179 was claimed, it was taken "off the top" before the additional 50% first year depreciation. This resulted in the true first year additional depreciation being less than 50%.

Under the Recovery Act, a taxpayer is eligible to claim the additional 50% on the full adjusted basis of the assets and then expense Section 179 (up to \$250,000), and finally taking regular depreciation on the remaining basis.

### S-Corp Built-In Gains

The Built-In Gains holding period shortened for 2009 and 2010. For those of you that have been counting down the ten years on the built-in gains tax, relief is available for some, but not all. The rule states that; if the S corporation's seventh year of its ten year recognition period ended prior to January 1, 2009 then the built-in gains tax will not be imposed during 2009 and 2010.

For example, if an S corporation's recognition period began during 2002, the built-in gains tax will be suspended for 2009 and 2010 and will resume during 2011. If an S corporation's recognition period began during 2003, the corporation will be exempt from built-in gains during 2010 only. As observed, the rule does not apply to a broad range of corporations and years, but does allow great tax planning for those that it does apply.

### Net Operating Losses

Certain small businesses (those with an average gross receipts of \$15 million or less) may be eligible for an extended carry back period for 2008 operating losses. The carry back period for NOLs is generally two years with any remaining loss carried to the future years. This allows qualifying businesses to apply for a refund of taxes paid during the carry back period.

*For more information on the Recovery Act, contact your CPA at (605) 348-1930 or (307) 682-4795.*

## dates to remember

### October

15	941 Deposit Due; Individual Form 1040 and Trust Form 1041 Final Due Date!
20	Sales/Excise Tax Due; Open House at Gillette office, 4-7 p.m.
31	Quarterly SUTA Report Due

### November

1	CP&A's 32nd Anniversary
2	Third Quarter Payroll & 941 Reports Due
16	941 Deposit Due; Non-profit Form 990 Final Due Date!
20	Sales/Excise Tax Due
26-27	CP&A Office Closed

### December

4	Christmas Open House at Rapid City office, 3-7 p.m.
15	941 Deposit Due
21	Sales/Excise Tax Due
25	CP&A Office Closed

### January

1	CP&A Office Closed
15	941 Deposit Due; Fourth 1040-ES Payment Due
20	Sales/Excise Tax Due

### February

1	Quarterly SUTA Report Due; Fourth Quarter Payroll Reports, 941, FUTA, 943 (Farmers), 944 Due, W-2's due to employees and 1099's to recipients
15	941 Deposit Due
20	Sales/Excise Tax Due

### March

1	Farm & Ranch 1040 Due; Employer copy of W-3/W-2's, 1096/1099's must be mailed to the gov't
15	941 Deposit Due, Form 1120 & 1120S Corps Due or Extension 7004
20	Sales/Excise Tax Due
31	Electronic Filing Deadline for W-3, W-2, 1096/1099's

### ***We're Back to the Print Format!***

If you'd like to receive "It's Your Money!" via email, contact courtneym@caseypeterson.com. This newsletter will be available twice a year.

# Getting Back on the Road to Retirement Planning

by Ann McCorkindale, CFA, CFP®  
Chief Investment Officer, Honkamp  
Krueger Financial Services

The housing/credit/stock market crash of 2008 decimated all but the most conservative retirement accounts, and if you were still in the saving stage of retirement planning, you probably weren't in the most conservative allocation. So you got killed.

Hoping the stock market recovery will rebuild your retirement account is part of the American Way of retirement planning. But now clients are concerned that "the American Way" of saving and investing is a thing of the past, and their retirement hopes are gone forever.

As advisors, it is interesting to hear some clients voice this concern, because the ones expressing this fear are the very clients that we were never able to actually get focused on creating "A Plan".

Their "plan" was to keep everything in the stock market until they retired, "then we'll look at changing it". Folks: That's not a plan. That's the same as saying, "I'll drive 85 mph in a 55 zone until I see a cop." We all know how that ends: by the time you "see" the cop, you're already in trouble. The stock market is the same way.

So what happened to "The Plan" for investors who were all in stocks in 2008? Let's look at an example. Ann and Steve, both age 50, had \$400,000 in savings in January 2008. Their plan was to save \$20,000 per year, retiring with a big party at age 65. They figured if they earned 7% per year and took out \$50,000 a year (increasing it 3% per year for

inflation), they would live a happy retired life until simultaneously dying penniless at age 100.

Fast forward to January 2009. Because of the craftiness of their investment advisor, they *only* lost 30% of their assets in 2008, so now they have a balance of \$280,000. What is the plan now? They have several options:

- **Work longer:** Instead of retiring at age 65, don't retire until age 68 ½. (They really don't work that hard now, so this is a viable option.)

- **Die sooner:** Instead of dying penniless at age 100, they could keep all the original assumptions, but would run out of money at age 86. Given both their family longevity histories and love for desserts and dessert wine, this might also be a more realistic scenario.

- **Save more:** Increase their savings from \$20,000 per year to \$33,000 per year. As their kids finally get out of college and the mortgage gets paid off, they think that this might not be that difficult.

- **Increase their estimated rate of return and/or lower their annual inflation adjustment:** Their current projection assumes a 7% return and an annual 3% inflation COLA. If they nudged the return up just a bit to 8%, they are back on track. However, given they were already all in stocks, and had some worries about future market returns, they didn't think this was a good solution.

Their new plan is to start saving a little more each month now, and recalculate "The Plan" next year and every year thereafter to see how they are doing.

Folks: Taking this planning and reviewing step takes advantage of the hand dealt you by the stock market crash of 2008. It puts the process back in your control, and gives you the feeling of having taken action. It also may put more money to work in a market that arguably has potential for greater returns as the economy and markets recover.

Now to the top ten reasons you won't do this:

### Reason #10: "I'm too busy"

So many people want to plan for a better retirement, but they don't have time. They think they'll take care of it tomorrow, or the day after that and before they know it, several years have gone by. They have wasted years and years of savings.

Stop procrastinating and start planning today. It doesn't take that long.

### Reason #9: "It's too soon"

I don't know how this happened, but many people have adopted the notion that you don't have to start planning for your retirement until you're almost there. This is totally incorrect. The truth is, the sooner you start planning, the better chance you stand of having the kind of retirement you want. It's never too soon. And while you are at it, tell your kids to start saving now.

### Reason #8: "It's too late"

If you're already near or past your retirement eligibility date, you may think that whatever you've got is what you're stuck with and it's too late to do anything about it. Think again. If you're unsure of what your options are, speak to a professional. Even if you've already retired, it's important to consider how you're receiving income and how long it will

# 'Road to Retirement' continued

last. It's never too late to revise your income distribution strategy.

## **Reason #7: "I don't need to"**

Many people think that because they've been diligent about contributing to a savings account, they're all set. While saving for retirement is good, you also need a plan for distribution once you enter retirement. Are you certain that what you're saving will be enough? What about taxes? What about inflation? And are you sure your money will be properly invested? There may be other, better options for you and it may prove worthwhile to look into them.

## **Reason #6: "I don't have enough money to get started"**

This is like saying you don't have enough money to have kids. You can't wait until you *have* money to start saving. Unless your bills are exactly equal to or greater than your net income, you *do* have enough to get started. Starting small is better than not starting at all, and if you plan well, you'll eventually have more to work with.

## **Reason #5: "My finances are a mess"**

This is all the more reason to seek out an advisor who can help you sort through and understand your assets. Perhaps you have a 401(k) from a former employer that has not been rolled over, a couple of savings accounts, or some inheritances. Consider speaking with an advisor who can look at your complete financial picture, help you to understand it, and help you to develop a plan to make your "financial mess" work better for you.

## **Reason #4: "The Government will take care of me"**

Pulleeze. We'll leave the political diatribes at the door, but the bottom

line is this: depending on your age, there is a good chance Social Security may not be there for you to a great degree when you retire, so don't plan on it. That way, if you do qualify for some benefits, it will just make your retirement that much better.

## **Reason #3: "Between my savings and my 401(k), I'll be fine"**

Saving for retirement without a distribution plan is a mistake. It's like driving in the dark without your headlights on. How can you see where you are going, or whether you have arrived? And while you may think you'll have everything you're going to need, have you considered inflation? Taxes? And furthermore, some people are living past 90. Will your assets last that long? Do your children really want you moving in with them?

## **Reason #2: "I don't want to think about it"**

Many people procrastinate simply because the thought of discussing financial matters (or growing old) is unappealing. But consider this: If you bite the bullet now and put a firm plan in motion, you may not have to think about it again for quite some time.

## **Reason #1: "I don't know how"**

This reason doesn't stop people from doing their taxes, so it shouldn't stop you from doing your financial plan.

If you don't want to do it yourself, speak to a professional. And we just happen to know where some are located!

These are just some of the reasons (aka "excuses") why people don't plan for retirement or other aspects of their and their family's total financial plan, including insurance and estate planning.

So if the stock market crash of 2008 put your retirement plan in the ditch, stop now, take out the map, and find out what adjustments you need to make to get yourself back on the right road. And if you don't know how to do this, ask for directions! The sooner the better.

## *The CPA Connection*

*In 2000, CP Financial Services, LLP was established to facilitate the delivery of financial services to the clients of Casey Peterson & Associates, Ltd. We are engaged with Honkamp Krueger Financial Services (HKFS) of Dubuque, Iowa, to provide investment advisory services and to work with our own Certified Financial Planners in serving your financial needs.*

*Think your retirement plan is in the ditch? Contact HKFS Senior Financial Advisor, Cara Miller, at (605) 348-1930 for a complimentary review.*

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## Casey's Ethics Corner

### Winners Never Cheat



It has been two years since my last Ethics Corner column. I have missed it, and many of you have told me the same thing. So, with a little rust and WD-40, here it goes:

I have been continuing to read, study, and contemplate morals and ethics. It seems the dearth of morals and ethics has increased as world events accelerate. A book that I have read recently is John Huntsman's Winners Never Cheat.

Huntsman is a self-made man who came from nothing to great wealth; however, he has not done it through cheating. From this short read, I have tried to glean his extraordinary thoughts and guidance.

Huntsman believes in reverting to the pure lessons we learned as children. In his youth he believed and attained the American Dream, but he wonders now if people believe it is unobtainable without moral mischief and malfeasance. The rationalization that everyone fudges or cheats to be competitive is a luring story but leads to a downhill run to ruin. As he says, "Gray is not a substitute for black and white." Morals are not moldable into a form that fits society. What is fair is fair, and you can win and still be fair. Fair is defined by Webster as "just and honest, impartial and unprejudiced". The word implies the treating of both or all sides alike, without reference to one's feelings or interests.

Huntsman says the temptations are the same as years ago, but our defenses have weakened. The traditional values learned as a youth in school will lead us not into temptation, but to long-term success. He states: "Decent, honorable people finish races--their lives--in grand style and with respect." John says to check your moral compass, as we know darn well what is right and wrong.

Misbehavior is considered as wrong today as it was 100 years ago, we just have more creative and sophisticated ways to dismiss or justify it. Following the law does not always lead to what is right and proper. Being decent, generous, and helpful has no legal mandate. Pure ethics are optional. People who maintain values will generally achieve their goals, be happy at work and home, and find a greater calling in life than accumulating wealth.

Machiavelli has a saying that really hits on our slanted societal view of winning. "Because just as good morals, if they are to be maintained, have need of the laws, so the laws, if they are to be observed, have need of good morals."

Theodore Roosevelt said, "The things that will destroy America are prosperity-at-any-price....the love of soft living and the get-rich-quick theory of life."

John Huntsman summarizes a key point when he says, "Children observe their elders so they know how to act. Employees watch supervisors. Citizens eye civic and political leaders. If these leaders and role models set bad examples, those following frequently follow suit. It is that simple. There are no moral shortcuts in the game of business or life. There are, basically, three kinds of people: the unsuccessful, the temporarily successful, and those who become and remain successful. The difference is character."

So live your life with honor and character. "Let your "yes" be "yes" and your "no" be "no." --James 5:12. You will finish well and be a winner!

*Casey*

## Business Owners: Think Twice Before Buying Gift Cards

By Dawn Baker  
*Accounting Team*

Gift cards have become the most convenient gift of the 21<sup>st</sup> century. They can be used as holiday gifts to your employees. You can personalize them by matching your employee's interests to the store. They aren't cash or a check so they shouldn't be taxable, right? Wrong. The IRS says that "cash or cash equivalents (i.e., savings bond, gift certificates [gift cards]) are never excludable from income". Therefore you, as the employer, are required to treat them as taxable wages and report them accordingly.

For example, let's say an employer went through an audit and the auditor asked about specific payments to department stores. The employer said they were gift cards of \$5, \$10, and \$15 and were given as Christmas presents for each of their employees.

Unfortunately, even though the value of the cards was small, the fact they were gift cards will deem them as taxable wages. This employer will have to file a corrected quarterly wage report for the quarter the gift cards were given. This could also mean that W-2's and 941 reports need to be corrected.

So the next time you decide to give your employee a "gift" or "incentive" be sure to check whether it's considered wages or not. For more information on other taxable fringe benefits, please call our offices at (605) 348-1930 or (307) 682-4795.



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# *Announcement!*

## **WE'VE ADDED AN OFFICE IN GILLETTE!**

We are pleased to announce our recent acquisition of Gillette CPA firm, Morgan & Associates, CPA PC as of August 18, 2009. This addition will allow the firm to further expand its market in the northeastern Wyoming trade area.

Morgan & Associates serves individuals and businesses in the areas of accounting, tax and financial planning. In addition to these services, we will be able to offer resources to serve clients in need of an audit, compilation, review, business valuation, management consulting, medical billing, and cost segregation of buildings, etc.

"Morgan & Associates shares our philosophy on client service. We wish to maintain that level of service as well as provide additional resources to the community of Gillette," said Casey Peterson, President. "We are adding two new people in the Gillette office to work with owner DeAnn Morgan and staff in the transition."

For more information on this announcement, visit our website at [www.caseypeterson.com](http://www.caseypeterson.com).

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We publish "It's Your Money!" to present general information on financial and business matters.

We take no responsibility for changes in the tax laws subsequent to the printing of this newsletter.

You should seek professional assistance before taking specific action. Do not hesitate to call us at (605) 348-1930 or (307) 682-4795.

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