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Schramm & Company, PC

"Professionals who Care"

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October Filing Deadlines

Here are rapidly approaching due dates to keep in mind.

Retirement plans

If you're a sole proprietor who extended your tax return, the last day to establish and fund a SEP is October 15. For 2010, the maximum contribution to these simplified employee pension plans is \$49,000.

Tip: You can fund a SEP even if you participate in another plan.

IRAs. October 15 is the deadline for recharacterizing a 2009 Roth conversion.

You may want to consider "undoing" a Roth conversion if you made a mistake by converting last year, or if the value of your account is

lower than when you originally made the conversion.

October 15 is also the last date to withdraw excess contributions from your IRAs and certain other retirement accounts. Putting too much money into these plans can result in an excise tax of 6%, assessed each year on the excess amount.

Individual income tax returns. The automatic six-month extension of time to file your 2009 federal income tax return ends on **October 15.**

End of Year Tax Planning. Remember we are here to help you. Right now is a great time to look at your overall tax situation. Without knowing what your

numbers are it makes it hard to take advantage of any tax savings available.

Call our CPA's George, Bill, or Randi if you have questions.

Also, remember to visit our website and click on the "The Reference Section." There you will find useful tax saving tips for you or your business.

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Schramm & Company, PC on the Web

- These articles and more.
- Tax savings tips for individuals and businesses.
- Research financial strategies in our reference section.
- View current and pending tax legislation and much more.

Check it out at

www.schrammcpa.com

Basic Financial Statements Provide Important Information for Your Business

Three basic financial statements — the balance sheet, income statement, and statement of cash flows — can provide a wealth of information to help business owners track the stuff they own, bills they owe, and ongoing cash flows. These financial statements also provide insight when

business owners are weighing financing options, managing day-to-day payroll and inventory, and looking for motivation when the orders aren't flooding in.

Motivation? Sure. If you're down in the dumps because the economy's beating up on your business, take a

step back and develop some comparative balance sheets. A balance sheet (also known as a statement of financial position) provides a snapshot of your firm's assets and liabilities at a point in time. Take several of these snapshots over several years, and you just might find that your financial position is improving, – Cont. Pg. 2

Basic Financial Statements Provide Important Information for Your Business Cont'

(Continued from pg. 1) especially if you have assets that have appreciated or business debts you're paying off. Such an analysis can also spotlight operational problems — such as increasing receivables due to lax collection policies — that need attention.

The income statement (also known as the profit and loss statement) uses the same basic accounting data, but serves a different purpose. It tells the story of your business over a period of time, such as a calendar year. The income statement highlights revenues and expenses from routine business activities and

extraordinary events, such as windfalls or casualty losses. Again, comparing these statements from quarter to quarter and year to year can pinpoint areas for improvement. For example, are your fixed costs growing over time? You may need to re-examine your location, utility contracts, or financing practices. Are your revenues stagnant? Maybe it's time to rethink your business model or venture into new markets.

The cash flow statement can be a real eye opener as well. Certain transactions and events may not affect your income statement right now, but may result in a cash

crunch if not addressed. Cash flow analysis can shine a spotlight on how much you're shelling out for financing, payroll, and payments to contractors and suppliers. Proceeds from asset sales, loans, and notes also stand front and center on the cash flow statement. In addition, a well-constructed statement of cash flows can serve as the basis for realistic cash flow projections — a must for many banks.

If you'd like help developing and analyzing your firm's financial statements, give us a call.

"Are your revenues stagnant? Maybe it's time to rethink your business model or venture into new markets."

Roth IRA: 2010 Rule Change

On the Chinese calendar, 2010 is the Year of the Tiger. On the U.S. tax calendar, 2010 may be the Year of the Roth. Why? Because Roth IRAs become more accessible this year. The previous \$100,000 income limit restricting the conversion from a traditional IRA to a Roth is repealed. Effective January 1, 2010, you may convert to a Roth no matter what your income is.

The change comes from the *Tax Increase Prevention and Reconciliation Act (TIPRA)*, a law signed in 2006. TIPRA also eliminates the prohibition against converting to a Roth for those married taxpayers who file separate returns. Those individuals will be able to take advantage of the new rules too.

■The first question to ask
Is converting a good idea? If

it made sense before and you were unable to do so only because of the income limitation, the answer is probably yes. Switching gives you access to the benefits of Roth accounts. Those benefits include tax- and penalty-free distributions, both of which generally kick in once you're 59½ and have met the five-year holding requirement.

In addition, Roths offer estate planning advantages. For example, unlike traditional IRAs, you're not required to withdraw specified amounts from a Roth each year once you reach age 70½. The same is true when your spouse inherits the account as your designated beneficiary. Other heirs must take distributions, but the account balance can typically be withdrawn over a number of years.

The conversion to a Roth does have a cost. When you have no

basis in your traditional IRA — for instance, you deducted your original contributions on prior tax returns — you'll have to add the entire amount converted to your taxable income. The increase in income could have tax and nontax implications, such as reducing itemized deductions or affecting college financial aid.

Fortunately, TIPRA provides a one-time incentive to do a traditional to Roth IRA conversion in 2010.

■The incentive works this way
If you want to do a conversion, here's a reason to consider doing it in 2010. You do not have to include the taxable portion of the conversion in your 2010 income. Instead you are allowed to report half of the income on your 2011 tax return and the remaining half on your 2012 tax return.

The deferral gives you a multi-year period to plan for, and pay, the tax. Just be aware that taking distributions from converted funds

may have tax consequences.

You can also choose to pay more quickly by making an election to report all of the conversion on your 2010 return. While prepaying seems counterintuitive, remember that present federal tax rates are set to expire December 31, 2010. Postponing income into future years could mean a bigger tax bill.

■Your plans for retirement
There's another way tax rates can affect your decision about converting. Say you intend to retire and relocate to a state with low or no income tax, and you expect the move to reduce your overall tax rate. In that case, you may decide to delay or forgo making a conversion.

Converting involves other variables too, and it's important to weigh the pros and cons in your individual situation. Please give us a call if you would like to discuss the best strategy for you.