

■ SMALL BUSINESS STOCK

Recent tax code changes provide taxpayers with some great incentives to invest in small businesses. Let's take a look at one option: the tax incentive to purchase "small business" (i.e. Section 1244) stock under the new regulations.

A capital gain or loss may occur when stock is sold or exchanged. If the selling price is greater than the purchase price, the transaction results in a gain. If the selling price is lower than the purchase price, a loss occurs. The Internal Revenue Code permits an individual to deduct, as an ordinary loss, the loss from the sale, exchange, or worthlessness of small business stock issued by a qualifying small business corporation.

To qualify as stock entitled to an ordinary loss deduction (Section 1244 stock), stock must be issued by a domestic corporation that is a small business corporation at the beginning of the tax year in which the stock is issued. A corporation is a small business corporation if the total amount of cash and other property received by the corporation for stock, as a contribution to capital and as paid-in surplus, does not exceed \$1 million. If this \$1 million threshold is exceeded, only a portion of the corporation's stock can qualify as Section 1244 stock.

For stock acquired after September 27, 2010 and before January 1, 2012, individual investors now can exclude 100% of the gain they realize on the disposition of qualified small business stock as provided in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. The stock must be held for more than five years. The amount taken into account under this exclusion is limited to the greater of \$10 million or ten times the taxpayer's basis in the stock. The amount of gain eligible for the partial exclusion is subject to limits computed on a per-issuer basis. The exclusion is available to taxpayers who own stock in a qualified C corporation that actively engages in a qualified trade or business and that has assets that do not exceed \$50 million.

The rules for Section 1244 stock are complicated, but the benefits of qualifying for these special provisions may prove significant. Please contact us for further assistance with how investments in small business stock might benefit your particular situation.

■ CONSIDER A SEP

At this point in 2011 there are very few ways to reduce the 2010 taxable income of your small business. Consider a contribution to a SEP in order to meet this objective. A Simplified Employee Pension (SEP) can be a relatively easy, low-cost way to provide retirement benefits to your employees. SEP contributions are tax deductible and can be made for the prior year, up until the date your business tax return for the prior year is due.

A SEP is essentially a form of IRA arrangement since you, as employer, make contributions to your own IRA and to the IRAs of your employees. However, the maximum tax-deductible contribution that can be made to each account is much higher than the maximum that can be contributed to a regular IRA.

Start-up costs for a SEP generally are low because you don't have to create a plan from scratch. Reporting requirements also are minimal. Other advantages: participants choose their own investments, and you, as the plan sponsor, don't have to commit to making contributions every year. If you don't feel you can make a contribution in any particular year, you aren't required to do so.

■ CONSIDER A SEP (continued)

If you do decide to make a contribution for a 2010, you must make one for all qualifying employees, based on a written allocation that does not discriminate in your favor or in favor of your family members or highly compensated employees. Generally, you must contribute the same percentage of compensation for other employees as you do for yourself. If you set up a SEP, it must cover all employees who earn more than \$650 a year, are at least 21 years old, and have worked for you anytime during at least three of the past five years.

A possibly negative SEP feature is that participants are fully vested in their contributions as soon as you make them. Some employers view this as a disadvantage. Gradual vesting, that is available with regular qualified retirement plans, may give employees more incentive to remain with the employer and to save for their retirement.

If you would like to explore a SEP or other retirement plan option more fully, please contact us.

■ CATCHING UP WITH JEAN S. BIAS, CPA



Two things you probably don't know about Jean Bias are: a) she belongs to that small group of Lakelanders who meet at the Yacht Club before 5:00 a.m. to jog around Lake Hollingsworth, and b) she's been the President of Paint Your Heart Out (PYHO) Lakeland for the past two years. PYHO is a nonprofit organization that mobilizes teams of community volunteers to paint homes of low-income elderly or disabled homeowners. Last year over 1,000 volunteers painted 28 homes, provided property clean-up services, and performed minor repairs. Paint Day 2011 will take place on Saturday, March 12, 2011 and is sure to be a great success.

Jean graduated from Xavier University with an Accounting degree and began her public accounting career as an auditor with Peat Marwick Mitchell in Cincinnati, Ohio. She later returned to school to earn her M.B.A., with an emphasis in Finance, from The Ohio State University. After teaching accounting classes at the University of Toledo and Florida Southern College, she decided to return to public accounting, this time as a tax professional.

Jean joined our Firm over five years ago and prepares tax returns for individuals, trusts, tax-exempt organizations, partnerships, and corporations. She enjoys working at Baylis & Company because, "it's the perfect size firm. Large enough to have the expertise to deliver a high quality product, and small enough to get to know our clients as individuals." Her favorite phone calls from clients start with, "Let me tell you what I'm thinking about doing," instead of, "Let me tell you what I did." The difference between the two is a tax planning opportunity!

Visit <http://www.bayliscpas.com/professionals/jsb.php> to learn more about Jean.

■ CLOSING THOUGHTS

We enjoy serving as trusted advisors to our clients. No matter your position in life, proper tax planning can make all the difference. Here's a fun quote from "the King":

I have no use for bodyguards,
but I have very specific use for two highly trained certified public accountants.
~Elvis Presley

Please visit our website at www.bayliscpas.com

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