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Wishing you a restful and relaxing summer season!

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What's New at Brinker, Simpson & Company

We are very proud to announce that Bob Simpson, Managing Partner of our firm, was named Small Business Person of the Year 2011 by the Delaware County Chamber of Commerce. Bob accepted his award on April 9th at Drexelbrook Country Club before a large group of small business owners and members of the Delaware County Chamber of Commerce.

We welcome Sean Ennis to our firm as a staff accountant. Sean interned with us over tax season and recently graduated from West Virginia University. We welcome Sean to the firm.

Congratulations to Katie Parry and Tom McGarrigle for the successful completion of the CPA exam! Great work.

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Brinker, Simpson & Company is very excited to be a major sponsor of the Philadelphia Soul Arena Football team. Our banner can be seen hanging in each end zone. We hosted a Family Fun night for staff on June 17th – Philadelphia Soul vs. the Tulsa Talons – and everyone enjoyed arena football.

On May 10, we co-hosted a Business After Hours with the Delaware County Chamber of Commerce here in our offices. It was great networking with over 70 people in attendance and a load of wonderful business connections made. Thanks to Difabios 9th Street Catering for the awesome food.

Mike Simpson was a presenter at the Delaware County Youth Leadership Academy, a 3 day educational program for outstanding Delaware County area high school students that examines important issues impacting the community and the future of our country. Topics included were Business Leadership,Working With the Media, Government/ Political, and Non-Profit Leadership. The program was held at Penn State Brandywine campus.

Bob Simpson served as Finance Chair for EO NERVE – 2011 conference recently held in New York City. NERVE brought together more than 350 business owners from the United States and Europe for two days of learning from some of the top business leaders in the country.

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Tax & Business Update

Summer 2011, Volume 5 Issue 2

More on Health Care Reform

More employers will opt for aggressive measures to cut health care costs, since premiums will continue to rise. Increases averaged 7.6% in 2011, and experts agree will top 8% again in 2012. Coverage for each worker will average $11,176 this year, up from $10,387 in 2010. Over the last 5 years, workers pay 45% more than they did, and the cost to employers is up 36%. Some firms may try the new wellness incentives, by tying employee costs to healthier behavior, meeting targets for blood pressure, lowering cholesterol, as companies hope to save on premiums with a healthier work force. Other companies will go with the penalty program... charging higher premiums to employees who use tobacco. Where the law allows, some firms are only hiring non-smokers, but there are 29 states that bar companies from doing this, or face discrimination suits.

Some things are certain…workers will pay more to cover dependents, there will be higher co-pays for brand name drugs, and the cost of coverage will continue to go up…no matter how the Supreme Court eventually rules on the Obama law.

The role of the IRS in Health Care is only going to get larger. In 2011, the IRS had to issue rules on the small company health care credit, which became so complicated, sometime the cost to compute it was higher than the credit itself. What else is the IRS involved in regarding Health Care:

- 10% excise tax on tanning salons
- Rules to exempt small employers (under 250 employees) from reporting health care premiums on W-2 forms
- Create a refundable income tax credit for 2014 when the insurance exchanges are up and running
- Penalty tax on individuals who remain uninsured after 2013. In 2014, the tax will be the greater of $95 or 1% of income over a threshold, not to exceed $285
- Collecting information to see who does not have coverage, so the penalty tax can be assessed
- An excise tax on companies with 50 or more full time employees but no health insurance. This tax will be due in 2014, if one or more employees gets the health tax credit
- The special 3.8% medicare tax on unearned income of high income taxpayers…currently incomes over $200,000 single, and $250,000 married. This tax will be applied to the lesser of net investment income, or excess over the thresholds. This income will include interest, dividends, capital gains, annuities, and passive rental income…not retirement accounts or tax free interest.
- An excise tax on high value health plans…starting in 2018. The tax will be 40% on the value of plans over $10,200 for individuals, and $27,500 for family coverage. Other costs and taxes will apply depending on job type and age.

A little more on health care…the annual caps on deductible contributions to HSA's will inch up to $6,250 for family and $3,100 for single coverage. Limits for deductibles will rise also to $12,100 for family, and $6,050 for single.

If you have not explored the HSA program with your health benefits professional, you should understand the benefits it brings in controlling premium costs. Contact us and we can direct you on this…we have one, and it works!

Tax Audits Are On The Rise

The latest statistics show the IRS audited 1.11% of individual tax returns last year, the highest level since 1997. One out of every twelve millionaires (8.3%) were audited. Three other classes of taxpayers 'enjoyed' exam rates more than twice the average: those with incomes between $200,000 and $1 million, Schedule C business filers (sole proprietors) with gross receipts of at least $25,000, and low income earners claiming the earned income credit. The 1.11% overall rate is somewhat misleading; most audits are done by mail, usually focusing on a single issue. And if you hear from the IRS soon, it will not be about your 2010 return, the IRS is still working on 2008 audits, and screeners are selecting 2009 returns for examination now.

Information Reporting for Real Estate Investors

Beginning in 2011, a person receiving rental income from real estate is now treated as engaged in the trade or business of renting property. As a result, recipients of rental income from real estate generally are subject to the same information reporting requirements as taxpayers engaged in a trade or business. In particular, rental income recipients making payments of $600 or more during the tax year to a service provider (such as a plumber, painter or accountant) in the course of earning rental income must provide an information return (typically Form 1099-Misc) to the IRS and the service provider. This reporting requirement applies to any person receiving rental income from real estate, with the following exceptions:

- Any individual who derives substantially all of his/her rental income from renting their principal residence on a temporary basis.
- Any individual who receives rental income of not more than a minimal amount (The IRS has yet to define what qualifies as a "minimal amount").
- Any individual for whom the reporting requirements would cause hardship (The IRS has yet to define what constitutes "hardship").

If the exception is not met, please take the following steps to ensure that you are in compliance with the new reporting requirements:

- Obtain an Employer Identification Number (EIN)
- Obtain information from service providers – each vendor should complete Form W-9
- Keep detailed accounting records during the year.

Stricter Rules Apply to Energy Saving Home Improvements

Individuals are allowed a nonrefundable personal credit for improvements to their principal residence that meet certain energy efficient standards. The eligible efficiency improvement applies to:

-Water Heaters, furnaces, boilers, heat pumps, central air conditioners, building insulation, windows, doors, roofing, circulating fans used in a qualifying furnace.

The maximum incentive for purchases made in 2011 is limited to $500. Taxpayers are **ineligible** for this tax credit if the credit has already been claimed by the taxpayer in an amount of $500 in any previous year.

Credits remain at 30% of costs for alternative energy programs that include geothermal, solar, and wind powered turbines.

The Cost of Lowering Tax Rates

If Congress moves to cut the top tax rates from 35% to 25% or less, which is currently being debated, look for some popular tax deductions to be cut as well. Many tax reform advocates are pushing for a more streamlined system of lower rates and fewer, or less beneficial deductions.
Of course, since deductions come off the top, lower rates will make those deductions less valuable automatically. Lawmakers will look to focus on where the money will come from, and will likely target the following areas:

- Value of employer provided health care taxable to the employee
- Tax breaks for retirement plans, tax now, not later
- Deductions for Mortgage Interest and Real Estate taxes to be limited
- Child Tax and Earned Income Credits
- Taxing the value of medicare coverage in excess of premiums paid

There is a strong push for overall lower rates, for personal and corporate taxes, and there needs to be revenue raising balances before they can be enacted.

We will keep you updated as these discussions progress.

Call It What You Want - It's INFLATION

Some prices are really surging….despite the dreariness of the economy. Prices usually rise in robust times…but look what we face now…Gasoline…forget about it…what other industries…

- Airlines…up 12% in the last year
- Used Cars…15%
- Beef...9%
- Hospital bills…5%
- Pork…16%
- Raw materials…chemicals, rubber, ore, grains all rising rapidly

Experts predict the "cost" of money will rise soon also, with the Federal Reserve raising rates starting in 2012, triggering a hike in the banks' lending rates. Also, the Fed is looking to dump $600 billion more into stimulus programs, further devaluing the dollar. Of course, this leads companies to pass on their costs to their customers, and you create the inflation ball rolling at top speed. Compare prices at the super market, at the retail store, you'll be amazed if you can match this year's costs to last year.

Home Sales

With the real estate market looking up in many areas, money is out there to be made. Sellers, it's time to take a close look at the exclusion rules and cost basis of your home to reduce your taxable gain.

The IRS home sale exclusion rule now allows an exclusion of **a gain** up to $250,000 for a single taxpayer or $500,000 for a married couple filing jointly. This exclusion can be used over and over during your lifetime, unlike the previous one-time exemption, as long as you meet the following Ownership and Use tests.

During the 5-year period ending on the date of the sale, you must have:

- Owned the house for at least two years - Ownership Test
- Lived in the house as your main home for at least two years - Use Test

If you own more than one home, you can exclude the gain only on your main home. The IRS uses several factors to determine which home is a principal residence: place of employment, location of family members' main home, mailing address on bills, correspondence, tax returns, driver's license, car registration, voter registration, location of banks you use, and location of recreational clubs and religious organizations you belong to.

Tip: As we said, the exclusion can be used repeatedly, every time you reestablish your primary residence. When you do change homes, let us know your new address so we can ensure the IRS has your current address on file.

Note: Only taxable gain on the sale of your home needs to be reported on your taxes. Further, loss on the sale of your main home cannot be deducted.

Ask us for details.

Client Spotlight

Ask Jim Halligan about his company, Tomorrow's Utilities, and you will learn that his extensive experiences fuel his ability to "manage today's energy with a view toward tomorrow." With over thirty years of knowledge working in the energy industry, from wholesale energy supplier to energy trading on Wall Street, Jim Halligan knows the energy market, inside and out. What that means for his commercial clients, and more recently in the past 6 months for residential clients, is the ability to assist customers with navigating the current deregulated energy markets with the purpose of maximizing energy savings.

Tomorrow's Utilities has agreements with multiple third party suppliers of natural gas and electric. They leverage their more than 30 years of experience in the service mechanical (HVAC) and fuel oil industries to help out clients in a wide range of areas. Tomorrow's Utilities is also a Pennsylvania PUC licensed company (Docket #: PA-A-2010-2192836).

Acting as a broker to provide the best price to clients, Tomorrow's Utilities, unlike many of their competitors, is not compensated by clients, so the savings they present are recouped 100%. They also introduce clients to suppliers and any contractual arrangement is between the client and the supplier. In contrast, many of their competitors have the clients sign a 3 or 5 year broker/consultant agreement which removes control from the client and onto the consultant.

To learn more about Tomorrow's Utilities, for your residence or business, visit: www.tomorrowsutilities.com. Jim can be reached directly at 484.412.8752

Backup and Disaster Recovery Planning

Data is one of the foundations of businesses in all industries and is relied upon as a vital component to operations. Your vital data is threatened daily by viruses, hardware failures, accidental or intentional deletion, fire, weather related disasters, etc. According to the U.S. Department of Labor, 93% of companies who experience a significant data loss will be out of business within 5 years.

Data backups must be a critical component in your organization's disaster recovery and business continuity plans. The critical thing to ask yourself is "how long can your business afford to be down in the event of a server failure or network outage?" The answer will dictate the strategy and budget of your backup and disaster recovery planning.

For example, if your business would suffer extensively either from monetary loss, client dissatisfaction, etc, in the event your server(s) were down for 24 hours, then a strategy needs to be implemented to ensure that in all disaster scenarios you can recover in less than 24 hours. Basic online backup, tape backup, or USB backups will not provide this type of rapid recovery.

With modern backup technology, there are solutions that can have your servers up and running in less than an hour at a price point that is affordable to small business. This technology was previously only available to large enterprises for hundreds of thousands of dollars but in the last 3 years, the pricing has dramatically decreased offering you affordable rapid recovery and peace of mind.

For more information please contact Bruce Rosen at NetData IT - 610.543.1500 ext 100 or email info@NetDataIT.com

Pennsylvania Educational Improvement Tax Credit (EITC)

Uses

Tax credits may be applied against the tax liability of a business for the tax year in which the contribution was made.

Funding

Tax credits equal to 75% of its contribution up to a maximum of $300,000 per taxable year; can be increased to 90% of the contribution, if business agrees to provide same amount for two consecutive tax years; for contributions to Pre-Kindergarten Scholarship Organizations a business may receive a tax credit equal to 100% of the first $10,000 contributed and up to 90% of the remaining amount contributed up to a maximum credit of $150,000 annually.

Eligibility

Businesses authorized to do business in Pennsylvania who are subject to one or more of the following taxes: Corporate Net Income Tax; Capital Stock Franchise Tax, Bank and Trust Company Shares Tax; Title Insurance Companies Shares Tax; Insurance Premiums Tax; Mutual Thrift Institution Tax; or ***Personal Income Tax of S corporation shareholders or Partnership partners.***

Terms

An approved company must provide proof to DCED within 90 days of the notification letter that the contribution was made within 60 days of the notification letter; Tax credits not used in the tax year the contribution was made ***may not be carried forward or carried back and are not refundable or transferable.***

Where to Apply

DCED Center for Business Financing, Tax Credit Division, 4th Floor, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120: (717)-787-7120 (717)-787-7120 or RA-EITC@state.pa.us. Applications are approved on a first-come-first-served basis by date received. All funds for FY10-11 have been fully exhausted. Applications for 11-12 will be accepted beginning July 1, 2011 (July 8 for pass through credits).

Contact us. We have more information on this program.

IRA's and Loans

Using an IRA as collateral for a loan is a prohibited transaction under IRS rules. The IRS notes that the portion of the IRA that is pledged as collateral would be considered a taxable distribution with possible early-withdrawal penalties. The money would be removed from the IRA permanently.

KEYSTONE INNOVATION ZONE
DELAWARE COUNTY

Brinker, Simpson & Company Joins Delaware County KIZ Operating Partner's Group

Effective March 25, 2011, Bob Simpson accepted the invitation to join the Delaware County KIZ Operating Partner's Group and will begin advising the Partners and the Zone's portfolio companies on matters related to our core specialties.

A Keystone Innovation Zone (KIZ) is a state designated zone that has been established in communities which host institutions of higher education - colleges, universities, junior colleges and technical schools. These zones are designed to foster innovation and create entrepreneurial opportunities. The primary financial incentive for qualified companies is the KIZ tax credit, which is sellable, used to grow businesses.

"The Delaware County Keystone Innovation Zone is thrilled to welcome Brinker Simpson to our Operating Partner's Group," said John Dixon, Coordinator for the Zone. "Brinker Simpson brings much needed accounting, tax, financial planning, and business advisory services and expertise to our partners and companies and truly helps us realize our goal of benefitting early stage companies – both as they develop out of the university research community and as they form by other means. Bob Simpson's outstanding reputation in Delaware County and throughout the Philadelphia region will be a true value-add for our Zone for years to come."

Designated in May 2006 to support the industry clusters of homeland security and defense, and a variety of related industries, the Delaware County Keystone Innovation Zone catalyzes and matches the knowledge and intellectual assets of regional academic institutions with the support of local partners to benefit entrepreneurial, early stage companies. Comprised of (14) portfolio companies and a range of for-and-non-profit partners with expertise from legal and strategic planning to real estate and accounting, the Zone is headquartered in Chester, PA. The Delaware County KIZ's vision is to become a local, regional and national leader in innovation led commercialization.

"We are very excited to join the Operating Partner's Group of the Delaware County KIZ, said Bob. "Assisting entrepreneurs in the development of their business is our way to give back to Delaware County."

Federal Mileage Rate

Look for an increase in the standard mileage rate, now at $.51…Congress is weighing a mid year boost due to rising fuel costs…we'll keep you updated.

Social Security Taxes

Look for a slightly higher wage base for cut off of social security taxes in 2012, probably rising to $110,700, an increase of $3,900 from the 2011 level.

Due to federal budget cutbacks, you will no longer receive your benefits statement by mail. You must go online at www.ssa.gov/estimator

Retirees who apply for social security benefits after May 1 will no longer be able to receive checks in the mail…payments will only be available by direct deposit, and those receiving benefits have until next May to make arrangements to receive electronic payments.

A Client Story…Leaving Instructions for Your Heirs

A client of ours passed away suddenly, at an early age in February. He had the necessary estate work done, and he had updated his wills, and life insurance in the last two years. One missing piece….he never left any instructions for his wife and children on where to find anything.

Drawing up a letter of instructions is often overlooked, and can spare your spouse and family a great deal of aggravation if you die suddenly. What should the letter include? How about some of these items:

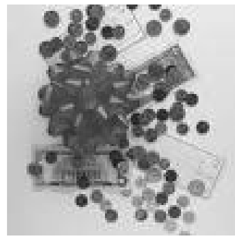
- Name of life insurance agent and contact information
- Details on 401k and IRA accounts
- Investment advisor contact
- Location of important documents
- Lawyer's name and phone number
- CPA will be an important part
- Passwords for computer access
- Loan information, and banking contact
- Military benefits
- Overseas accounts
- Buy/Sell agreements
- Names of all key contacts
- Who to rely on for help

For help with this…try www.familyloveletter.com a website created by an estate attorney.

See us for a list of other things you might include.

Small Business News

Women are outpacing men for the first time in earning college degrees, and they are starting more businesses than men. The number of small firms owned by women is growing 50% faster than the total number of small businesses. It's predicted by 2018 a third of all new jobs created will be by women owned firms. Fields that show swift growth are construction, real estate leasing, shipping and warehousing, waste services and educational services. The shift has some implications for competitors. Typically women business owners are more aware of differentiating themselves from rivals, and are more likely to take advantage of Small Business Administration, and other state and private resources.



Charitable Deductions for Good Deeds

We are often asked about the deductibility for the time and effort that taxpayers put forward for charitable activities. You can not deduct these costs…but that doesn't mean your good deeds will go for tax naught.

A strategy…track your out of pocket costs. Even though you can't deduct the value of your time, you can write off the actual expenses associated with your charitable endeavors.

What sort of expenses…here's a partial list:

- Transportation – if you use your car for charity..a flat rate deduction of 14 cents a mile, plus related parking fees and tolls. Similarly, you can deduct plane, train, and bus costs for traveling to charitable events.
- Telephone charges – the full cost of long distance calling made on behalf of a charity, faxes, installation of a line for a charity in your home.
- Home Entertainment – if you host fundraising or board meetings in your home, you can deduct 100% of the cost of the meals, and other direct expenses as a charitable cost.
- Fundraising dinner – you can deduct the cost of dinners, less the normal cost of that meal

Although these expenses may be small, collectively they could add up. Keep good records !