

McGOWEN, HURST, CLARK & SMITH, P.C.

Celebrating 65 Years... all because of You!

EXPIRATION OF THE "BUSH TAX RATES"

There has been a remarkable amount of discussion concerning the possible expiration and, as it turned out, the extension of the "Bush Tax Rates". You may be saying, "The tax rates were extended in December, why should I bother to worry about it anymore?" The concern arises from the fact that the changes, like so many other tax legislation items, were only temporarily extended for two additional years. They are now set to expire at the end of 2012. Therefore, the entire issue will most likely be discussed and debated numerous times over the next couple of years... and oh yeah, remember 2012 is an election year.

What Will Change

The term "Bush Tax Rates" was coined to refer to the changes to the tax code provided by the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) and *Jobs and Growth Tax Relief Reconciliation Act of 2003* (JGTRRA). These two acts, which contained a number of changes to the Tax Code, were intended to return budget surpluses to the people or to stimulate the economy, depending upon whom you ask. Some of the changes have been made permanent in the years following enactment, but a large number of provisions which were set to expire at the end of 2010, have been extended through 2012. For purposes of this article, I have elected to focus on only a few items which could potentially impact a large number of readers. With the current extensions in place:

- **Tax rates** for individuals remain at 10%, 15%, 25%, 28%, 33% and 35%. However in 2013, the rates will revert back to 15%, 28%, 31%, 36% and 39.6%. It is also important to note the number of tax brackets will decrease from six to five.

- **Capital Gains Maximum Tax Rate** will remain at 15%. However similar to marginal tax rates, the capital gains rate is set to increase to a maximum rate of 20%.

- **Qualified Dividend Income** is taxed at the same rates as capital gains (maximum rate of 15%). However in two years, dividends will be taxed at ordinary marginal tax rates. This means dividends could be taxed at a rate as high as 39.6%.

- **Itemized Deductions** will remain the same. For deductions such as real estate taxes and mortgage interest, there is a dollar-for-dollar reduction in taxable income. However in 2013, a phase-out of total itemized deductions is scheduled to be re-implemented. For taxpayers with adjusted gross income greater than \$169,550 for 2011 (this amount adjusts with inflation), there would be a reduction in the total amount of itemized deductions.

President's Position

Using the Obama Administration's 2012 revenue proposals outlined in its "*Green Book*", we obtain a clearer view of where the President sees tax rates headed. After 2012, the highest individual tax rate will increase to 39.6%. The maximum 15% capital gain tax rate will be permanently extended for the low and mid-tier taxpayers. However for the upper-tier taxpayers (36% and 39.6% brackets), the capital gain tax rate will increase to 20%. Tax rates for qualified dividends will remain the same for low and mid-tier taxpayers, but will return to ordinary income rates for the upper-tier. The phase-out of itemized deductions will resume, and the amount of tax that could be offset by itemized deductions will be limited to 28% of the value of the itemized deductions.

Republican Position

It has been publicized that the Republican Party supports the Bush Tax Rates for everyone, and is not in favor of the increase in taxes for the highest wage earners. This is in direct conflict with the Obama Administration's proposal for tax rates.

What to Expect

The topic of tax reform is fueled by a number of issues, and in recent times the budget deficit has been leading the charge. Both sides of the aisle are in agreement that changes must be made (although in differing ways). It appears, as it often does, the tax law will be one mechanism used to try and generate revenue.

It is very difficult to predict what tax reform will be enacted, if any, since the state of the economy will play an integral role in the 2012 elections. However, there are a number of indicators that lead me to believe the extended, lower tax rates will be allowed to expire after 2012.

First, it appears the economy is improving and will continue to improve over the next eighteen months.



Jay Henrich, CPA

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Client Profile

CALERIS, INC. - ONE OF IOWA'S BEST KEPT SECRETS

"Outsource to Iowa - Not India"

Has this ever happened to you? You purchase a product, maybe some new software, and realize you have some questions and need a little technical support. No big deal...until the person on the other end begins to speak and you realize your call was most likely directed over-seas, as you are having great difficulty understanding the customer service rep.

Caleris, Inc., a call-center company, is not only located in the US, but proudly calls Iowa "home". They pride themselves in hiring employees from the heartland, and MHC&S is honored to call Caleris our client.

Co-founders Rick Grewell and Sheldon Ohringer, a couple of grade-school friends, who reconnected 10 years ago, started the company in 2003 when they purchased a 30-person call center in western rural Iowa. Today they have 300 people in three call centers located in Manning, Jefferson and Newton, Iowa. Their location in Newton was actually the former residence of the Maytag/Hoover Vacuum customer service center, so seeing a new employer come to town was a win-win situation for all. All three centers, which are managed as if they were one, not only handle voice, but they also respond via IM and chat, allowing Caleris employees to maximize requests with minimal wait time.

Citing the low cost of operating a call center in rural Iowa, as opposed to the east or west coast of the United States or over-seas, Grewell shared Caleris is able to pass those savings on to clients. "Lower labor and utility costs, as well as less expensive office space are benefits of operating in these rural areas," said Grewell. But that is not the only reason they chose rural Iowa to set up their business. "It's the people," said Grewell. "It is hard to beat the hard-working, ethical standards and values of the people of Iowa."

Caleris provides services in several different areas including: technical support, customer service, corporate help desk, and a business processing center. In addition they provide user-generated content moderation for social media websites. With the flourish of social media this has become a rapidly growing division of their company, as they scan over 6 million images per day looking for pornography, hate material and illegal photos. "As people move more of their personal lives on-line, there's a greater chance that an individual's personal tastes in determining what videos or pictures are appropriate, doesn't mesh with their social site's policy," said Grewell.

Caleris serves clients in varying industries, ranging from high-end consumer electronic manufacturers to internet service providers to large insurance companies - with many being Fortune 100 companies. Although not able to share actual names of most clients, Grewell indicated that Sony has been, and continues to be, one of their major clients. "When customers are able to downsize their information technology departments and outsource their corporate help desk needs, many times they are able to cut their costs by 50% in this area," said Grewell. "Plus they like talking to people who they can easily understand."

But how does Caleris find so many people who are technically savvy and talented. "We actually look for employees who are good with people," Grewell said. Caleris looks for potential employees who have excellent people skills and come across the phone or computer screen as someone who genuinely cares and wants to help the customer. Once on board, the employee is then trained. Caleris actually requires their client to do the initial training on their product either in person or on-line. "I think of us as being in the people management business." Grewell said, "We work on recruiting, training and retaining our employees."

When asked what gives Grewell his greatest satisfaction, he was quick to respond, "I love to do business in rural Iowa. I like the fact we are providing good jobs for people. It is vital to the

"It is hard to beat the hard-working, ethical standards and values of the people of Iowa."

vibrancy of our communities." According to Grewell, Caleris continually works to make sure the salaries and the employee benefits of their people are in line with other state-of-the-art companies. As part of their retention program, Rick and his partner, Sheldon go to each office once a year and barbeque for their employees. Since the offices are open 24/7 sometimes the timing is tricky, but they make sure everyone has the opportunity to attend the events.

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MIKE McNICHOLS, MHC&S PARTNER, RECEIVES ISCPA AWARD

In May, the Iowa Society of Certified Public Accountants (ISCPA) presented Mike McNichols with the 2011 Outstanding Committee Chair Award. Mike has been an active member of the ISCPA for many years. He has chaired the ISCPA Peer Review Committee for three years and will continue in that role for the 2011-2012 fiscal year.

Mike joined MHC&S in 1987. As an audit partner, Mike oversees and assures all audit engagements meet professional standards, while being conducted in the most efficient and cost effective manner.

Congratulations, Mike! We are proud to have you on our MHC&S team, and proud of the many contributions you make to the accounting profession through the ISCPA. ■



Jeff Burnison, ISCPA Board President, presents Mike McNichols, CPA with the Outstanding Committee Chair for 2011 award.

BEST TIME EVER FOR A COST SEGREGATION STUDY?

As mentioned in prior issues of this newsletter, bonus depreciation was enhanced and extended by the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (2010 Tax Relief Act). The Act not only extended the 50% bonus depreciation for assets placed in service in 2010, it also provides for 100% bonus depreciation for qualifying assets placed in service during calendar year 2011.

Best terms ever for bonus depreciation. In general, an asset qualifies for the 100% bonus depreciation allowance if:

- It is property with a recovery period of 20 years or less, computer software, qualified leasehold improvement property, or certain water utility property.
- It is acquired and placed in service after September 8, 2010 and before January 1, 2012.
- Its original use commences with the taxpayer. (“new” assets).

We do not believe the 100% first-year write-off rules are likely to be extended beyond 2011. So, for most qualifying property, taxpayers will want to take advantage of this provision this year.

Background. A non-residential building (as well as its structural components) generally is depreciated over a 39-year recovery period using the straight-line method. Because of that long recovery period, it is not eligible for bonus depreciation.

Most types of tangible personal property, however, are eligible for first-year bonus depreciation, as are certain types of land improvements.

Enter cost segregation studies. Commercial building owners often conduct detailed cost segregation studies to distinguish items between tangible personal property and building costs. Following a number of pro-taxpayer court decisions, these studies have been very successful in aggressively classifying property as tangible personal property. Such studies will be extremely valuable tools for businesses or investors that build, renovate, or expand commercial properties this year.

Following are some of the more widely applicable types of assets classified as having shorter recovery periods by cost segregation studies and eligible for a 100% first-year write-off: canopies and awnings, decorative millwork, facades in interior of buildings, fire protection equipment, floor coverings, kiosks, landscaping and shrubbery (including irrigation systems), decorative interior light fixtures, exterior pole-mounted lighting, music and public address systems, parking lots, security equipment, signs, site grading and drainage, moveable walls, wall coverings, window accessories.

Cost segregation example. A taxpayer completes a new \$30 million distribution warehouse during a period ineligible for bonus depreciation. A cost segregation study for this facility enables the taxpayer to accelerate depreciation deductions and save approximately \$600,000 of federal income taxes in the first year the warehouse is placed in service. If this project had qualified for 100 percent bonus depreciation, the first year’s federal income tax savings after the cost segregation study would have exceeded \$4.5 million!

With the potential results shown in this example, we believe cost segregation studies will be a major tool for maximizing the 100% bonus depreciation rules this year. If you have any questions about how to maximize your tax write-offs using cost segregation studies, please do not hesitate to contact us at 515-288-3279. ■

CALERIS - CONTINUED

While the economic downturn has affected many businesses, Caleris has been able to ride out the recession fairly well, actually showing growth every year since 2003. Now as the economy continues to rebound and more prospective customers consider outsourcing their information/technology needs, Caleris is anticipating hiring approximately 200 more employees, most to be located in the Newton office.

With a sales staff of two, Caleris continues to do much of their prospecting for new clients on-line. However they also receive referrals from current clients as well and participate in telecommunications and technical tradeshow.

Rick Grewell has been a client of McGowen, Hurst, Clark & Smith, P.C. for over 20 years including previous entrepreneurial ventures and of course with his current business, Caleris. Grewell said, "I like working with Jim Smith and the Winterset staff. They are great and very proactive. Although competition continues to knock on my door, I am well satisfied with MHC&S."

Caleris' corporate headquarters is located at 1501 42nd Street in West Des Moines. If you would like more information, please visit them on the website at www.caleris.com or contact them at 515-331-0560. ■

*by Rose Breuss
Director of Marketing*

EXPIRATION OF THE "BUSH TAX RATES" - CONTINUED

In 2010, the biggest argument against allowing the tax rates to expire stemmed from the economy being in the infancy of recovery and still too fragile to endure a tax increase. This, most likely, will not be the case at the end of 2012. In addition, we must remember if nothing is done, the rates automatically revert back to the higher pre-2001 amounts.

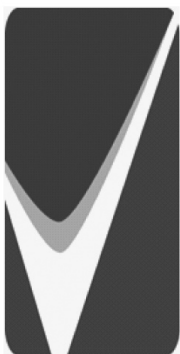
Future Tax Planning

If you believe the lower tax rates are going to expire, there are a number of tax planning strategies you can implement. For example, consider selling highly appreciated stock during 2012 to recognize the gains at the lower 15% maximum tax rate. Also, if you hold an interest in a closely-held corporation, consider taking a dividend before tax rates on dividends increase.

With regard to deductions, you should consider paying for qualifying itemized deductions prior to 2013. For example, you may consider adding the contributions you normally were planning to make in 2013 to your 2012 giving. Consider the same approach for major out-of-pocket medical costs for procedures you were electing to have done in 2013.

These are just a few planning approaches. Because each individual's circumstance differs, it is important to seek advice from a tax professional. At MHC&S, we can provide you with the latest tax information, helping you to make smart decisions and minimize your tax liabilities. Give us a call today. ■

Jay Henrich, CPA, is a Supervisor at McGowen, Hurst, Clark & Smith, P.C. and has over six years experience in public accounting. Jay specializes in providing tax planning and preparation services. For more information contact Jay at our West Des Moines office - 515-288-3279.



VISIONPOINT

Our strategic partner, Holmes Murphy Financial Services recently changed their name to VisionPoint. The new name reflects their commitment to provide financial expertise helping to define and address their client's vision and objectives across an ever increasingly complex financial landscape.

In conjunction with the name change, VisionPoint's West Des Moines location has moved into the MHC&S building located at 1601 West Lakes Parkway. We are delighted to have VisionPoint not only as our strategic partner, but also as our neighbor, as we move forward to better serve our clients.

VisionPoint, which is celebrating its 30th anniversary this year, continues to provide premier, private client services in the areas of Wealth Management, Investment Management, Risk Management and Financial Planning. In addition, VisionPoint will continue to serve the business community through their Qualified Plan Consulting, Non-Qualified Plan Consulting, Business Succession and Executive Compensation Strategies.

If you are interested in learning more about our alliance with VisionPoint, and how its financial advisors can assist you, please contact Kellie Masters, our financial services liaison, at our West Des Moines office (515-288-3279). ■



Kellie Masters
Financial Services Liaison