







# Strothman & Company PSC

## Financial News & Views

1600 Waterfront Plaza • 325 W. Main Street • Louisville, Kentucky • 502.585.1600 • <http://www.strothman.com>

### March 2011

#### Contents:

- [The Strothman Spotlight](#)
- [Upcoming Strothman Seminar](#)
- [General Business News](#)
- [Tax News](#)
- [Tax Tip of the Month](#)
- [Stock Market News](#)
- [Technology News](#)

### j The Strothman Spotlight



#### *From London to Louisville...*

**Jeanna Jones**  
**Senior Audit Manager**  
[jjones@strothman.com](mailto:jjones@strothman.com)  
**502-585-1600**

Jeanna began her career with Strothman and Company in 1996 as a staff accountant. As a Senior Manager in the firm's Assurance Department, her responsibilities include coordinating the in-house accounting and auditing library, mentoring the assurance department staff, managing multiple assurance engagements simultaneously, and overseeing the completion of tax returns.

In addition to managing audits, Jeanna works closely with owners and managers of various businesses and nonprofit entities helping them to improve their financial operations. She also works with many individuals in regards to year-end tax planning and compliance.

Jeanna was born in London, England when her father was stationed there while serving with the United States Air Force. She and her family lived in several states while he was in the service. Her parents, originally from Indiana, settled there with the family in 1986 after his retirement from the military.

Jeanna currently resides in Salem with her husband, their two adopted teenage boys, and their two miniature schnauzers. Jeanna spends as much time as possible with her family, but in her free time, she enjoys bowling in a mixed league, playing softball for her church team and camping with her family. She is very active in our community and was recently elected to the Board of Directors for Goodwill Industries of Kentucky. She serves on both the Audit and Finance Committees for Goodwill and is the Chair of the Audit Committee. Jeanna is also a member of the Finance Committee for Big Brothers Big Sisters of Kentuckiana and is very involved with her church where she serves as the Assistant Treasurer.

Have a question or want a second opinion – Call Jeanna at 502-585-1600.

[Back to top of page](#)

.....

## 2011 Seminar Series

### Innovative Technologies *A Pain in the “Blank” or Money in the Bank?*

Presented by



**Thursday**  
**March 17, 2011**

**Owl Creek Country Club**  
Registration 7:30 AM  
Seminar 8:00 AM – 10:00 AM  
Refreshments Provided

#### Featured Speakers

**Brian Jackson**  
*Strothman Technology Solutions*  
Innovative Technologies: A Pain in the “Blank” or Money in the Bank

**Jeff Propps**  
*Software Information Systems*  
Adoption of Virtualization

**Jason Kemelgor**  
*US Voice & Data*  
Teleefficiency – The Art of Leveraging Communications

Please join us to hear how the use of technology can be less of a pain in the “blank” and more money in the bank. The following three experts in the field will be showing us how to use technology to grow and make your business more efficient and profitable.

**Brian Jackson**, Technology Partner with Strothman & Company, has over 14 years of experience in the Technology field. Brian frequently performs security reviews and penetration testing for our clients to identify network vulnerabilities. Once the testing is complete, he recommends how to improve their security and offers suggestions for improvement that relate to their technology environment. Brian will be helping you to understand how cloud computing, virtualization, terminal services, voice over IP and mobility can help make your technology less of a pain in the “blank” and can put more money in your bank!

**Jeff Propps** has been in the IT Industry for over 25 years, holding positions of IT Administrator, IT Manager, CIO, and VP of IT before joining Software Information Systems (SIS) in 1996. SIS has been helping clients leverage technology to solve business problems for over 26 years. Serving over 900 customers, SIS is headquartered in Lexington, with KY facilities in Louisville and London, as well as offices in Ohio, Indiana, West Virginia, Virginia, and Michigan. Jeff's current responsibilities are as the Manager for Server and Virtualization Technologies, and he brings his knowledge and experience together in architecting solutions around these core technologies on a daily basis. Virtualization is hot. Whether your motivation is to save money, increase up-time, decrease your carbon footprint, add flexibility, be more proactive, increase performance, or provide a sound disaster recovery (D/R) plan - you need to virtualize! Jeff will explain how leveraging virtualization and add-on technologies can provide a cost-effective, world-class systems recovery solution.

**Jason Kemelgor** a Senior Communication Consultant with U.S. Voice & Data, a subsidiary of BluePrint Technologies, Inc., is a dynamic, progressive business communications company providing the most reliable and feature-rich telecommunication technologies and business telecom products, services, and applications available to companies today, including... VoIP for Business, Unified Communications, Data Networking, Voice Mail, Video Conferencing, Web Conferencing, Surveillance, and all manners of Unified Technologies.

Please invite friends and associates to attend this **FREE** seminar. This Strothman & Company seminar qualifies for two hours of Continuing Professional Education (CPE) for CPAs.

Please make your reservations by **Tuesday, March 15, 2011** in one of the following ways:

Call Jenna at 502.585.1600  
Email [rsvp@strothman.com](mailto:rsvp@strothman.com)

If you have any questions, please call us at 502.585.1600 or email [info@strothman.com](mailto:info@strothman.com)

[Back to top of page](#)

.....

## General Business News

### How to Retain Your Best Employees

#### Help Employees Fall in Love with Their Jobs

The best way to retain your most qualified and valuable employees is to ensure they never want to leave. While life circumstances might necessitate occasional employee relocations (or leaving for a higher salary), try to keep your top employees from ever leaving due to job dissatisfaction.

#### Allow Creative Expression to Reign

Most workers do not leave their jobs because of money; they leave because they are bored. Do not be guilty of micro-managing. Allowing employees to creatively express themselves in their job fulfills a deep inner need for self-worth. Completing a project that was dictated to you in detail is not the same as finishing one you put your own blood, sweat and tears into. Employees yearn for the kind of work that makes them sigh at the end of the day; not because they are tired, but because they accomplished their goal.

### **Have Some Fun**

Work is serious business, so goals and project deadlines must be completed in a timely and professional manner. While performance is job one, do your employees have anything to look forward to besides work? Sometimes, it really is the little things that mean the most in being satisfied with your work. Good times shared at an anniversary picnic between fellow employees can become priceless memories. What about putting pictures of such events in an employee newsletter? A newsletter is also a good way to recognize significant life events such as the birth of a child or reaching a milestone like receiving a degree. How about planning an ice cream party for the office after making a monthly goal? Who says work cannot be fun?

### **Make Work Stations Comfortable**

It might sound like a small thing, but being comfortable in the workstation will increase productivity levels. It should have adequate lighting and room to move around easily (if at all possible, try to avoid the cubicle farm). The office temperature should remain constant and have only a moderate level of noise. Excessive noise levels in a workplace can contribute to stress and might negatively affect the health of an employee. Computer workstations should be placed where one can answer calls and work on the keyboard without straining or having neck or arms in an awkward position. A comfortable chair can also help prevent back strain. Taking note of complaints and making adjustments to correct these types of problems will greatly increase the morale in your company.

### **Keep Motivation Levels High**

Dissatisfaction among employees runs rampant when there is no motivation to perform job duties well. Think about yourself as an employee: you were probably not always a top-level executive. What motivated you to stay dedicated to that job through it all? It's likely that someone in the organization believed in you and your ability to perform a job skillfully and to a top level of satisfaction. It's also probable that a person in the company recognized your efforts through financial incentives or some other form of recognition. Motivation can be a fire that, once ignited, lights a path to increased productivity and employee satisfaction throughout your organization.

### **It's About Achieving Dreams**

Employee satisfaction, and *employer* satisfaction for that matter, is all about achieving dreams and goals. An employer dreams of a business concept and envisions himself atop his chosen field. The employee dreams of being that special someone who helps boost the organization to the top. Being aware that employees are human beings with dreams of their own, isn't it feasible for your company to help them achieve some of those dreams? One that might be important to many workers is to complete their education. Sponsoring an employee and paying for a portion of their educational expenses will not only benefit them, but it will also enhance the quality of your own workforce in the process. You should always encourage your employees to be all they can be. Will they outgrow you and go on to bigger and better things? Perhaps so, but if you retain an atmosphere of motivation with a desire to strive for improvement, your organization can be a place where good employees want to be and one they will be reluctant to leave.

[Back to top of page](#)



## **Tax News**

### **Medical Expenses – What Can You Deduct?**

This is the time of year when many of us begin the frantic search for tax deductions. While most of

the deductions allowed were set in stone on Dec. 31, 2010, there might still be some gems to uncover in your 2010 costs. One of them could be found in your medical expenses.

### **Limitations**

As an overview, medical expenses are deductible to the extent they exceed 7.5 percent of your adjusted gross income. If your AGI (Line 38 of Form 1040) is \$100,000 and you have medical expenses totaling \$10,000, your deduction on Schedule A would be \$2,500, or \$10,000 - (7.5 percent of \$100,000).

One item that can be included in medical expenses is health insurance costs. If you are self-employed and are not covered under your spouse's employer-sponsored group plan, the premiums you pay are deductible on Form 1040 rather than Schedule A. Additionally, contributions to Medical Savings Accounts and Health Savings Accounts are deductible on Form 1040 and not Schedule A. The remainder of this article assumes that you are not eligible for the self-employed health insurance deduction.

### **Insurance Premiums**

Assuming you do not qualify for a self-employed health insurance deduction, insurance premiums you pay for health coverage are deductible as medical expenses.

Payments for long-term care insurance can also be included as medical expenses. There is, however, a limitation on the deductible amount based on your age at the close of the taxable year. For 2010, the deduction ranges from \$330 for those under age 40 to \$4,110 for those older than 71.

### **Out-Of-Pocket Medical Costs**

Out-of-pocket medical costs include:

1. Unreimbursed doctors' fees, including co-pays and other amounts paid to a physician's office
2. Unreimbursed dental fees
3. Unreimbursed expenses paid to hospitals for hospital stays, including emergency room visits
4. Unreimbursed medical transportation costs, including ambulance, and 16.5 cents per mile for using your car for medical visits
5. Prescription drugs and medicines
6. Medical equipment
7. Other medical costs

Let's look at a little more detail on a few of the above items:

With respect to medically necessary procedures by physicians and dentists, those expenditures are deductible. However, cosmetic procedures that are not designed to ameliorate deformities (from congenital birth defects or other injuries or diseases) are not deductible. For example, let's say you have surgery on your nose. If the surgery was done because you were in an accident and it is reconstructive in nature, the cost is deductible; however, surgery to change your nose size or shape to improve your appearance is likely not. Similarly, the cost of whitening teeth is not deductible as a medical expense.

What is included in medical transportation costs? Payments for an ambulance or similar

transportation services are deductible. Likewise, costs for driving you or a loved one to the emergency room or a doctor's visit are deductible. But what about out-of-town transportation? The general answer is that any transportation costs incurred for medical purposes are deductible. Thus, the cost of traveling to another town, whether by air or car, to see a specialist is deductible. Not only the travel cost, but lodging in connection with treatment at a hospital or other qualified medical facility is deductible, though lodging costs are limited to \$50 a day per person.

Here is an example of medical travel. Your son requires a bone marrow transplant and the local medical facilities do not have qualified personnel to perform the procedure. Both parents and the child travel to the city where the transplant will be performed. The cost for plane tickets is \$550 each and the hotel cost while undergoing necessary work-up procedures is \$110 per day. The full cost of the plane tickets will be deductible and the deduction for lodging will be \$110 per day. If the nightly cost for the hotel room was \$160, the deduction would be limited to \$50 per day per person or \$150. Meals are not deductible.

Medical travel can also include travel to foreign countries and other tourist areas as long as the travel is essential to and primarily for medical care and not for a significant element of personal enjoyment.

Other medical costs have the potential to add up to big savings. For example, air conditioners designed to assist in allergy relief or cystic fibrosis relief might be deductible. If you or someone you know is blind, the cost of a seeing-eye dog or a portion of the costs of Braille books could be deductible. The cost of a clarinet and lessons to alleviate severe malocclusion of teeth can qualify as a medical deduction, as can health club dues in certain circumstances. Even the cost of a medicine man might be a deductible medical expense.

This discussion is not intended to be a complete list of medical deductions because those items that qualify as such could go on for pages. The above information is meant to help prod your thinking about the possibilities. Give us a call if you have some questions and let's discuss what deductions you may be entitled to.



### **New Tax Rules Make 529 College Savings Plans More Attractive**

Prior to December 17, 2010, Americans faced uncertainty about whether the Bush tax cuts would expire at the end of the year as scheduled. But the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 halted the speculation and brought some stability to taxpayers, financial planners and investors – at least, for now.

After the financial crisis of 2008 that resulted in substantial losses for 529 college savings accounts (many of which are traditionally stock heavy), contributions dropped sharply. Other potential 529 limitations, such as comparative performance weakness, high fees and yearly investment changes, have also discouraged use of the vehicle despite its tax advantages. (Please note that 529 plan rules vary by state.)

Given some key features of the 2010 tax act, it could be time to reconsider the 529 college savings accounts as an education savings vehicle – especially for wealthier families. The next two years are an open window through which new money could start pouring into 529 plan accounts, which allow tax-free growth and federally exempt distributions for approved college expenses.

### **Lifetime Gift Tax Exemption Increased**

The tax advantages were made permanent in 2002, so the importance of the new legislation for 529 plans lies largely in the lifetime gift tax exemption, which now mirrors that of the federal estate

tax exemption. The annual gift tax exclusion remains at \$13,000 (\$26,000 per couple).

- The annual gift tax exclusion means you can give away up to \$13,000 per year (\$26,000 for couples) to any number of beneficiaries without having to pay gift taxes on that amount.
- The lifetime estate tax exemption is the amount you can give to all beneficiaries during your lifetime without decreasing the amount from your estate that can be given away tax-free after your death.

For 2011 and 2012, the estate tax is back (after a 2010 hiatus) for estates exceeding \$5 million, but the 2010 bill also increases the lifetime gift tax exemption from \$1 million to \$5 million per individual taxpayer, or \$10 million per couple.

- Let's say a wealthy uncle decides to contribute \$65,000 to his niece's 529 plan in 2011. By spreading the annual gift tax exclusion over a five-year period, the uncle can avoid cutting into his \$5 million lifetime gift tax exemption.
- If the wealthy uncle's contributions do exceed the gift tax exclusion amount in any given year, he can either choose to pay the gift tax due on the excess or he can opt to use part of his \$5 million lifetime exemption, which means that his federal estate tax exemption will be reduced by the same amount when the estate tax is due to be paid.

### **A Window of Opportunity**

The new law is temporary, so the new benefits may be short-lived. The increased lifetime gift tax exemption numbers are only good for 2011 and 2012, with no certainty of an extension. If you are considering contributing to a 529 plan and you can afford to do it, the next two years might be a good time to make a large contribution. Given the massive federal budget deficit and the increasing pressure lawmakers are feeling to cut spending, raise taxes or both, Congress could tighten the rules to boost revenue, making 529 plans less attractive in the future.

### **Talk to an Expert**

Gift and estate taxes are complicated and often misunderstood, and 529 plan fees and other features vary widely from state to state. There are several other options to consider as well, so give us a call to find out what will work best for your unique situation.

[Back to top of page](#)



## **Tax Tip of the Month**

### **Leverage All Your Tax Deductions and Credits**

This is the time of year when you gather your business records, personal receipts and notes before discussing what you might owe Uncle Sam with your professional tax consultant. It seems as if the tax code gets lengthier and more complex every year, and this year is no different. It's easy to overlook an eligible deduction; so before you gather your data, take a moment to consider these often-overlooked deductions and tax breaks:

#### **Business-Related Deductions**

- Moving expenses, advertising and training and education expenses are often valid deductions for business owners. The rules governing them are complicated, so be prepared to give your tax professional detailed information on any such items to determine if these might reduce your taxable income.

- Small business owners or sole practitioners can take 100 percent of the costs of travel and entertainment and 50 percent of the costs of meals involving clients (or prospective clients). The tip and tax are part of the meal total. Make sure you have a record of the business discussed at the meal, who was present (names, titles and business affiliations), and the name and location of the restaurant in case the deduction is questioned. The IRS guidelines for travel and entertainment expenses are lengthy and off-putting, but it's financially worthwhile for business owners to do what's necessary to avoid missing deductions – and to avoid an audit.
- If you volunteer or provide business services free-of-charge to charitable organizations, don't forget to deduct your mileage and other out-of-pocket costs that might include child care. Likewise, your dues for not-for-profit organizations like chambers of commerce and professional associations usually are considered eligible deductions.
- If you are a business traveler, the IRS doesn't insist that you take the cheapest seat in order to deduct the cost of business transportation, but the form of transportation should be appropriate – in other words, a transatlantic cruise won't qualify as a legitimate deduction while a business or first-class plane ticket to Europe might.
- If a taxpayer has business financial losses that exceed his/her personal income for that year, such losses may be deducted from the individual's overall income. In some instances, these losses may also be used to offset taxable income in future years.

### **Home and Family**

- If you've made home improvements that are energy-efficient, you could be eligible for green energy tax credits – up to \$1,500 for qualifying improvements. Projects that qualify include the installation of doors or windows and the replacement of water heaters, furnaces or air-conditioning units.
- If you support aging parents to the tune of at least 50 percent of their expenses (which might include medical bills), and these expenses represent more than 7.5 percent of your adjusted gross income, you could qualify for a deduction.
- If you bought a new primary residence in 2010, make sure you know what mortgage origination fees or discount points you paid. These items are considered prepaid mortgage interest and as such should be eligible deductions.

Remember that general guidelines like the above are no substitute for advice from a tax professional. Be sure to set aside the time to meet with your tax consultant well in advance of the April deadline.

[Back to top of page](#)



## **Stock Market News**

### **Oil Worries Moderate; Bullish Rally Gets Mixed Reviews**

Traders' attention was diverted from the usual data and financials when political turmoil in Egypt captured the world's attention in February. Just when the crisis in Egypt appeared to be ending, a surge of unrest in the Middle East from outposts like the tiny Gulf island kingdom of Bahrain and the much larger Libya sent oil prices up and stock prices down. With more upbeat news – that

problems were not expected to extend into Saudi Arabia – trading calmed down and analysts in the U.S. turned their attention back to quarterly earnings and other prognostications.

Some experts, previously reluctant to show optimism regarding the market's progress over the past year, have been expressing concern that investors may have become too bullish. On the other hand, some see positive drivers (e.g. the recent spate of positive earning reports) and note that U.S. stocks are increasingly attractive to investors as emerging markets continue to struggle. Here are some of the current talking points creating buzz around the investment world:

- Though market experts believe that the U.S economic recovery is under way, some are nervous because individual investors have jumped back into the market in such a big way. The flow of cash into the stock market has been notable since January 2011 and has reached levels that rival those well before the market crash. As a result, some analysts believe that investors might have become too exuberant too quickly, and they fear a market correction might be imminent.
- How can a return to investor confidence be a problem? It isn't, as long as stock prices don't outpace earnings growth. Some brokers worry that the markets could have trouble keeping their valuation whenever there is such a surge of investor buying. Analysts look to price-to-earnings ratios as a basic indicator of any given stock's value. Currently at 1.5 percent, the overall market P/E yield is low – meaning stocks could be overvalued. Some experts believe low yields could persist, and that if they do, stocks might not generate much profit, leading to investor disenchantment and a major pullback.
- Other experts are more upbeat and forecast that the economy is in the process of shifting its emphasis from housing and finance to other sectors – like technology and commodities – which will be the new market drivers. In this scenario, investors are expected to demonstrate continued willingness to embrace more risk – eschewing the dividend-paying blue chips for growth companies.
- Others worry that overly bullish investors might be forgetting that the recovery is only 2 years old, and that the after-effects of the housing and financial crises have not disappeared yet. For stock prices to continue to climb, the economic rebound will need to pick up the pace. If it doesn't, investors who set their expectations too high might be disappointed. However, not all investment experts foresee a major market correction if investors pull back – suggesting that a short-term correction might be on the horizon instead.

The comments above are general observations and are not intended to take the place of expert counsel from investment and tax experts.

[Back to top of page](#)



## Technology News

### Turning Online Prospects into Clients

If visitors to your website far outnumber actual sales of goods and services, it might be time to take steps to improve conversion rates. E-commerce has changed all the rules when it comes to sales cycles and customers' buying options and habits. Estimates suggest that more than 80 percent of online shoppers (goods and services) who start a transaction abandon it before actually buying. Comparison shopping on the web is relatively easy due to the increased sophistication of search engines; as a result, many online shoppers will visit four to five comparable sites within a

30- to 40-minute period when looking to make a purchase.

What can you do to improve your ability to turn prospects into clients? Here are a few ideas on how to start:

- Know as much as you can about the prospects who visit your site. Google and other providers offer analytical data that shows you how visitors found their way to your site. Make use of it. Most will also show you the content that visitors click most, and where they spend the most time. This will help you decide if you need to eliminate some web content to make the site friendlier for browsers. Are the forms you ask visitors to complete too long? Do potential customers abandon filling them in halfway through? Does the data suggest that visitors are more interested in information-gathering than making a purchase? Answers to these questions will help determine whether you need to revise your website content. If a high percentage of the people visiting your site are not part of your customer demographics, you might want to take a look at your search engine optimization strategy for marketing and promotional materials and revise the information or the descriptions you are using.
- Enlist some business associates to act as secret shoppers. Ask them to visit and negotiate your website as well as those of your competitors, leaving sufficient information for a follow-up call from the businesses. Get their feedback and critical assessment of how well your website – and your sales follow-up team – work. It's important you encourage the secret shoppers to be totally honest in their assessments with you.
- The pace of business has increased phenomenally. When you are made aware of a visitor's interest – perhaps you receive emails or inquiry forms – it's vital to respond immediately. Remember that the prospect probably is already looking at a competitor's website and might have browsed others before clicking on yours. If you don't have enough staff onsite to respond to inquiries, consider hiring an outsourced lead management service who will call prospects back in a couple of minutes. If the lead management personnel determine that this is a real prospect, they can put you in direct contact with the potential customer. Fast follow-up and personal attention can make all the difference when a new customer is ready to buy.
- Don't forget the value of personal contact in our digital age. Schedule and make follow-up calls to prospects who don't respond to your initial contact. Lead management companies suggest it might take as many as six calls to turn a qualified prospect who has visited your site into a client. Your follow-up efforts don't have to all be by phone. E-mails offering a promotional deal or relevant information can also help capture a prospect's attention.

The fast paced demands of our information age can be a special challenge for small companies without staff to monitor ongoing web traffic. E-commerce is an important part of success for many types of businesses, and with attention to the basics outlined above, entrepreneurs can be strong competitors online, too.

[Back to top of page](#)



---

**your first choice...for a second opinion**

Wouldn't you want to know for sure that you are paying the least amount of tax that you should be paying? Call us and we'll give you a FREE second opinion of your company and personal tax returns – Typically we will find significant tax savings. **Find out more by calling us at (502) 585-1600 or visit [www.strothman.com](http://www.strothman.com)**



**Strothman & Company PSC**  
Certified Public Accountants & Advisors

1600 Waterfront Plaza . 325 West Main Street . Louisville, Kentucky 40202 . [info@strothman.com](mailto:info@strothman.com) . [www.strothman.com](http://www.strothman.com)

These emails are provided to you by Strothman & Company.  
Please reply to this message to change your notification preferences.