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Client Information Bulletin

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Tax Twists to Capital Gains and Losses

Maximizing tax benefits of security sales

When you sell securities or some other capital asset, you must report the resulting capital gain or loss on your personal tax return. Don't capital gains and losses simply cancel each other out? Actually, it's more complicated than that. In fact, even experienced investors are often perplexed by these tax rules. Furthermore, you should be aware of a significant tax break looming on the horizon.

For simplicity, we will limit this discussion to capital gains and losses arising from sales of securities, assuming you have no other capital asset transactions.

(Other special rules apply to sales of collectibles and property that is subject to depreciation recapture.)

Starting point: There are different rules for long-term gains and losses versus short-term gains and losses. A gain or loss is long-term if you have held the security for more than one year before the sale occurs. For example, if you bought stock on July 1, 2006, and sell it at a profit on June 30, 2007, the gain is treated as a short-term gain. However, holding the stock for just two more days -- until July 2 -- qualifies the transaction as a favorable long-term capital gain.

To net your gains and losses, first put your long-term gains and long-term losses in one basket. This gives you either a net long-term gain or a net long-term loss. Next, put your short-term gains and short-term losses in another basket. This results in either a net short-term gain or a net short-term loss. Finally, combine the net long-term gain or loss with the net short-term gain or loss to arrive at an overall net capital gain or loss.

If your capital gains for 2007 exceed your capital losses, any net long-term gain is taxed at a maximum tax rate of 15%. For a taxpayer in one of the two lowest regular tax brackets -- either the 10% or 15% tax bracket -- the maximum tax rate on long-term capital gain is only 5%.

Future tax break: The long-term capital gains rate is zero percent for lower-income taxpayers in 2008. This tax break was recently extended through 2010 by the Tax Increase Prevention and Reconciliation Act (TIPRA) passed last year. However, as this issue goes to press, Congress is debating legislation that would bar the zero percent tax rate for certain dependents.

Conversely, if your capital losses exceed your gains, the net loss can be used to offset up to \$3,000 of ordinary income

such as salary. Any excess is carried over to future years.

Once you understand the netting rules, analyze your current tax situation and act accordingly. For example:

- ❖ If you are currently showing a net loss, you can realize capital losses before the end of the year. The capital gains are effectively tax-free up to the amount of your losses.
- ❖ If you are currently showing a net gain, you can realize capital losses before the end of the year. The losses effectively absorb the tax you would have had to pay on the gains. If the situation dictates it, you can realize an excess loss that may be used to offset up to \$3,000 of ordinary income.

Caution: If you sell a stock and buy back the same stock within 30 days, you cannot deduct the loss on your tax return. This is called the “wash sale” rule. To avoid this harsh tax result, wait at least 31 days before you reacquire the stock.

Alternatively, if you believe the stock is poised to rebound, you can “double up” your shares and sell the original shares more than 30 days later. This strategy enables you to lock in the current price without forfeiting the tax loss.

Five Steps for a Wellness Program

Guiding your company through a health care crisis

Increasingly, employers are turning to “wellness programs” as a means for reducing the ever-escalating cost of health care. Not only can such programs result in fewer health insurance claims, it may also reduce turnover and improve employee morale. The company may also benefit from lower-than-usual health insurance premiums.

It makes sense to develop a plan that provides maximum results with a minimum outlay. Here are five steps that may be beneficial to a company using a wellness program.

1. Reward employees for wellness participation. Typically, a company may offer employees a reduction in health insurance premiums based on participation in various health-related initiatives. In the end, this may result in a healthier workforce, thereby reducing overall costs.

2. Hold “nonsmoking workshops” for employees. This may help employees to curtail smoking activities or end them completely. Employees who attempt to quit smoking are usually on the honor system, but having others to talk to may help. Smoking on the business premises should be banned (if not already prohibited by state law).

3. Encourage employees to be physically active. It can be as simple as starting a “walking club” at lunch. Similarly, a company can provide discounts or some other enticement for using a nearby fitness center, assuming the company does not have one on the premises.

4. Stock vending machines with nutritious foods. If your supplier won’t go along with this, you might consider finding another source. This will show employees that you are truly committed to the cause.

5. Perform regular health screenings. You might conduct the screenings one to four times a year. Have a qualified health care professional check each participating employee’s weight, blood pressure, body fat, flexibility, etc. Then have the results reviewed by the appointed wellness program manager. Set individual goals based on your findings.

How much will a wellness program cost your company? It can vary widely, but a small company with a limited budget may be able to start off with a program costing less than \$50 per employee. Thus, for a company with 100 employees, the cost might be less than \$5,000.

Consult with your business advisers concerning a wellness program that will fit into your budget.

Tax Incentives for Computer Donations

Good news: Your company may be able to take advantage of an “improved” tax break for donations of computer equipment.

Generally speaking, a company’s deduction for tangible business property donated to charity is limited to the property’s basis. However, a C corporation may write off the basis plus half the difference between basis and fair-market value of donated computers and peripheral equipment, software and fiber-optic cable. The recipient must be an educational institution or a charitable organization set up primarily to support elementary and secondary education.

The new Tax Relief and Health Care Act of 2006 -- signed into law late last year -- extends this special tax break through 2007. **Icing on the cake:** The deduction has been expanded to include equipment assembled by the donating company. This enhanced tax break applies to donations made after 2005.

Six Pillars of a Fire-safe Building

Build a solid foundation for future safety

If you are in the process of renovating a business building, or putting up a new one, there are literally hundreds of details to worry about. However, sometimes one of the most important considerations does not receive all the attention it deserves. It is the need for fire safety as part of the building’s construction.

If you have not done so already, make this a top priority in any commercial construction project. There are at least six principal areas that company management should concentrate on for maximum safety. The following is a brief rundown.

1. Egress: Ensure that a continuous and unobstructed path of travel to the outside of the building has been established. Make sure that emergency exits are similarly open.

2. Maintenance: The fire alarm system and automatic sprinklers must be up to code and maintained in good working order. Also, be certain that access to these systems is unencumbered.

3. Evacuation planning: It’s not enough to have a written evacuation plan in place. Test it regularly to determine that your employees truly understand their responsibilities in the event of a fire. Don’t make assumptions that all of the bases have been covered.

4. Material storage: This can be a bit tricky, because you normally won’t have enough storage space needed for all items. But the building cannot allow storage concerns to impede egress from the building.

5. Fire barriers: Fire and smoke barriers can be an important element of fire safety. If proper accommodations have been made, these barriers may contain, or at least curtail, the spread of fire and smoke. This could be a life saver if occupants need to flee the building in a hurry.

6. Regular checks: Whenever a renovation or other work to a building takes place, be sure to recheck all of the fire safety areas to make certain the original plan still works. Don't let the plan collect dust without being reviewed periodically.

Despite recent efforts to inform the public, business owners have often ignored warnings about fire safety, fire escapes and related hazards. Information about fire-safe buildings is readily available, so there is no excuse for this oversight.

***Reminder:** It is up to management to develop a plan that takes all of these critical six areas into account. Coordinate all activities with the assistance of the contractors and your business advisers.*

Facts and Figures

Timely points of particular interest

➤ **Special Schools** -- In some cases, the cost of a special school may qualify for medical expense deductions. New ruling: The parents enrolled their learning-disabled child in a special school following the recommendation of a neurologist. Unlike the special program at the child's public school, the school focused on auditory strengths, rather than physical presentations. Result: Enrollment in the special school was based on a physician's advice, so the cost could be deducted as a medical expense, subject to the usual limits.

➤ **Job Flexibility** -- Just because your workers have not requested flexible work hours doesn't mean they don't want them. According to a recent survey by a consulting firm specializing in such work options, 59% of the employees said they were reluctant to ask about flexible working arrangements because they feared it could negatively affect their careers. Of the same group, 66% indicated that they were interested in permanent part-time work while 49% were actively looking for jobs that offered flexible work schedules.