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Client Information Bulletin

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Seven Steps for Delegating Work

How to run your business more efficiently

Do you own a small business? You may feel that the success—or the failure—of the business rests entirely on your shoulders. So you try to be in all places at all times. However, in most cases, this will result in problems for the operation and decreased productivity by other workers.

Solution: Practice the fine art of delegation. (It is an art, not a science.) If you parcel out certain jobs among other staff members, you can devote more of your time to areas with greater profit potential. Furthermore, this will enable you to develop a workforce of thinkers, not just doers.

Of course, you will still have to fight your natural tendencies. The following are seven practical suggestions for getting started:

1. Explain the concept clearly. At first, your employees may be hesitant to change the way they do things, particularly if they have been on the job for a long time. Begin by covering all the ground rules. This includes which employees will perform which jobs, what their goals will be, when assignments are due, how the work will be evaluated, etc. If everyone starts on the same page, the process should go more smoothly.

2. Match jobs to talents. Not all employees thrive under a delegation sys-

tem. The best approach is to begin with employees who have demonstrated the ability to think on their feet. Otherwise, you might end up with an endless stream of people coming to you for help—a sure sign that the delegation process is not working out too well.

3. Give up some control. In order for delegation to work well, you must empower your employees to make their own decisions. Do not make “delegation” just another word for doing things the same old way. Be receptive to change.

4. Obtain a commitment. In return for receiving greater authority, your employees must understand that they will now be held more accountable for their decisions. To get this point across, spell out the rewards for those employees who succeed and the repercussions for those who fail.

5. Monitor the work flow. In the beginning, you should keep a close watch on how well your staff is handling the delegation process. This is a tricky area. If you do too much monitoring, you are back to doing things on your own; too little, and you can lose track of what your staff is doing.

6. Review the work. Once a project is completed, set aside time to evaluate the employee’s work. Has everything been done to satisfaction and

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on time? If not, explain where the person went wrong and what you expect the next time. Try to offer specific and constructive criticism so the person can learn from the experience.

7. Leave other matters to the experts. For instance, you would not expect an attorney, accountant or business consultant to know everything about running your busi-

ness—why would you assume that you know theirs? Obtain professional advice on matters such as taxes and employment discrimination when it is appropriate.

If you follow these seven basic suggestions, you should be on the path to greater productivity and profitability. Best of all: This process could provide benefits for years to come.

Prescription for the New Health Care Credit

IRS explains rules for a qualified “small business”

The new health care legislation signed on March 23, 2010—the Patient Protection and Affordable Care Act—will dramatically alter the landscape for small-business owners in the coming years. **One critical change:** Beginning in 2010, a business may qualify for a special tax credit that can partially offset rising health insurance costs.

The new health care credit is limited to small businesses that meet certain strict requirements. Nevertheless, your business may still be eligible for this tax break, due to certain exceptions. The IRS recently provided some valuable clarification in this area.

Background: To qualify for a partial health care credit as a “small business,” your business cannot employ 25 or more full-time employees with average annual wages of \$50,000 or more. Your contributions to the health plan must be made on a nonelective basis on behalf of enrolled employees.

The maximum annual credit is 35% of qualified health insurance contributions made by your business for 2010 through 2013 (25% for a tax-exempt organization). However, for 2014 and 2015, the credit increases to 50% (35% for a tax-exempt organization) for a two-year period if your small business participates in a state-run insurance exchange and meets certain other requirements.

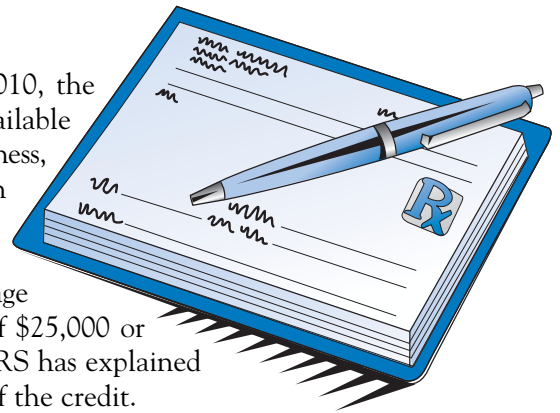
Beginning in 2010, the full credit is available to a small business, if it employs ten or fewer full-time employees with average annual wages of \$25,000 or less. Now the IRS has explained the reduction of the credit.

Under the new IRS guidance, the maximum health insurance credit is reduced by 6.667% for each full-time employee over ten employees. The credit is also reduced by 4% for each \$1,000 of average annual wages paid to employees exceeding \$25,000.

Many small businesses will not qualify because of the limits on the number of workers or their average annual wages or both. But note the following exceptions:

- ◆ These limits only apply to full-time workers. If your business employs a large number of part-timers or seasonal workers, it still may qualify for a credit.
- ◆ Frequently, the wages paid to the business owner will skew the amount of the average annual wages. However, the IRS has clarified that the calculation does not include wages of a sole proprietor, a partner, a 2%-or-more S corporation shareholder or any other employee owning more than 5% of another business.
- ◆ Other relatives of the business owners are also generally excluded. Therefore, the average annual wages will not be tainted if the child you are grooming to replace you is paid a high salary.

The calculations for certain small businesses are complex. Be sure to obtain professional assistance.



Give Us A Call!

Do you have any questions or comments about this newsletter or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.

Locking in a Partial Home-sale Exclusion

Special exceptions to tax law requirements

Despite the recent nationwide real estate slump, you may realize a significant gain if you sell your home, particularly if you bought the place before prices soared in prior years. What about the tax consequences? Generally, the amount of the proceeds is subject to tax at capital gain rates. Currently, the maximum tax rate on net long-term capital gain is 15%, but rates are scheduled to increase in future years.

Fortunately, you may be able to take advantage of a big break in the tax law. If you have owned and used the home as your principal residence for at least two of the five years prior to the sale, you can exclude the tax on the first \$250,000 of gain. The home-sale exclusion is doubled to \$500,000 for joint filers.

This tax break does not apply if you sold another qualified principal residence within the last two years. Technically, it is possible to qualify for a home-sale exclusion every two years.

The maximum \$500,000 exclusion for joint filers may be applied if either spouse meets the two-year ownership test, each spouse meets the two-year use test or neither spouse has elected the exclusion within the last two years. These rules might be especially important if you are getting married or have recently divorced. **Note:** Recent tax law developments provide more flexibility to divorcing couples.

What happens if you are forced to sell the home before you have met the two-year requirement? In this case, you may qualify for a partial exclusion if the sale is made due to a change in employment, health reasons or some other unforeseen circumstance. Under each of these safe-harbor methods, the maximum exclusion is prorated, based on the time spent in the home.

Furthermore, the IRS has been relatively lenient in applying the safe-harbor rules. For instance, it may approve a partial exclusion due to one of the following:

- ◆ An involuntary conversion of the residence.

- ◆ Natural or man-made disasters, acts of war and acts of terrorism that result in a casualty to the residence.

- ◆ Death, divorce or legal separation of a qualified individual.

- ◆ Loss of employment where a qualified individual is eligible for unemployment compensation or if change in employment status renders the individual unable to pay housing costs and reasonable basic living expenses.

- ◆ Multiple births resulting from the same pregnancy.

Other factors in a home sale may cause tax implications. For instance, if you have used a room in the home as a business office, you may have to "recapture" some of the tax benefit of

depreciation deductions claimed in the past. Make sure you have all the tax information you need to make decisions relating to a home sale.



Rising Costs of Child-raising

How much does it cost to raise a child? The latest figures can be daunting.

According to a new government report, it will cost \$222,360 to raise a child born in 2009 to maturity, up about 1% from 2008—not even counting college. Expenses for child care, education and health care increased the most, while the cost of transportation for a child actually decreased. Annual expenses for an average middle-income, two-parent family with two children ranged from \$11,650 to \$13,530, depending on the children's ages.

What it means: If you are still in the child-rearing phase, be sensible about spending and saving your money.



Should You Take the SIMPLE Approach?

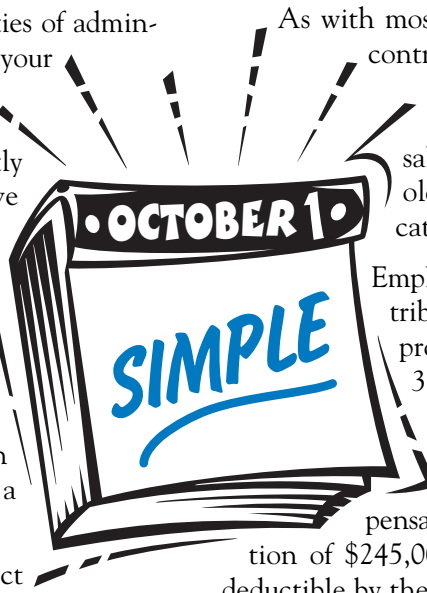
Meet October 1 deadline for new plans

If you are concerned about the complexities of administering a qualified retirement plan for your small business, there is a relatively “simple” alternative to consider: the Savings Incentive Match Plan for Employees—aptly called the SIMPLE, for short. SIMPLEs have been around for almost 15 years, but are not as well known as 401(k) plans.

Be aware that an important deadline for SIMPLEs is fast approaching. The plan must be established by October 1 in order to be valid for the current calendar year. Therefore, you should put your plans in motion now if you intend to establish a SIMPLE for 2010.

Basic premise: SIMPLE plans are not subject to many of the tough reporting rules and strict nondiscrimination requirements that apply to other qualified retirement plans. But a SIMPLE is only available to employers with 100 or fewer employees. For purposes of this rule, you must count all employees who earned at least \$5,000 in the previous year.

Any employee who has been paid at least \$5,000 in compensation for any two previous years and expects to receive at least that amount in the current year is eligible to participate. Self-employed individuals may also participate in a SIMPLE plan that they set up for themselves.



As with most other qualified retirement plans, the contributions are adjusted annually for inflation. For 2010, eligible employees can elect to contribute up to \$11,500 of salary to the plan. Plus, if you are age 50 or older, you can defer an extra \$2,500 as a catch-up contribution.

Employers may also provide “matching” contributions. Generally, the employer may provide elective contributions of up to 3% of compensation (but not less than 1% in no more than two out of five years) or nonelective contributions of 2% of each eligible employee’s compensation (based on a maximum compensation of \$245,000 for 2010). These contributions are deductible by the employer.

Like other qualified plan distributions, distributions from a SIMPLE are taxed at ordinary income rates when withdrawn. Furthermore, a 25% penalty applies to distributions within the first two years of participation in the plan. Otherwise, the usual 10% tax penalty for early withdrawals made prior to age 59½ applies.

The SIMPLE is a viable option for small-business owners. Alternatively, you might use a Simplified Employee Pension (SEP), which also emphasizes ease of administration. Consult a benefits specialist for more details.

Facts and Figures

Timely points of particular interest

➔ **Homebuyer Credits**—A new law extends the closing date deadline for the homebuyer credit. Under the Homebuyer Assistance and Improvement Act of 2010, a qualified homebuyer can claim the credit on a pre-May 1, 2010, contract if the purchase is finalized by September 30, 2010. Previously, the closing date deadline for the credit was June 30, 2010.

➔ **Health Insurance**—Under the new health care legislation (see page 2), health insurance plans cannot deny coverage to an employee’s child under age 27. The children do not have to be the employee’s dependents to qualify for the extended coverage. This new law provision takes effect for plan years beginning after September 22, 2010.

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