Johnston Investment Counsel

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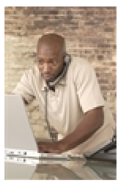
Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

Changes Affecting Small Businesses



Recent legislation includes changes that will affect small businesses in 2011. Here are some of the changes worth noting.

Depreciation

If you're a business owner, you probably know that you're allowed to deduct the cost of capital assets that you purchase for your business. Typically, part of the cost is deducted each year based on the useful life of the property, according to a depreciation schedule. Special rules allowed an accelerated "bonus" 50% first-year depreciation deduction for qualifying property placed in service during 2008, 2009, and 2010. This accelerated depreciation deduction is allowed for purposes of the alternative minimum tax (AMT) calculation, as well as for calculating regular tax.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 increased the bonus depreciation percentage allowed to 100% for qualifying property acquired and placed in service after September 8, 2010, and before January 1, 2012. This change enables business owners to significantly accelerate the deductions that result from new capital expenditures. (Note: one of the requirements for the accelerated depreciation deduction is that the "original use" of the property must commence in the specified time period--i.e., previously used property doesn't qualify.)

IRC Section 179 expensing

Internal Revenue Code (IRC) Section 179 allows you to elect to deduct (or "expense") the cost of depreciable tangible personal property that you acquired for use in your business in the year that you purchase it, rather than over time through depreciation deductions. As a result of legislation passed in September 2010, the maximum amount that can be expensed under IRC Section 179 for 2010 and 2011 increased to $500,000 (reduced when the total cost of qualifying property placed in service during the year exceeds $2 million). This legislation also temporarily expands the definition of property that qualifies for a deduction under IRC Section 179 to include some real property, including certain improvements made to nonresidential buildings and retail property, as well as qualified restaurant property. However, the maximum Section 179 expense limit that applies to real property is $250,000.

Other considerations

- Health care reform legislation passed in early 2010 established a tax credit for small businesses that offer health insurance coverage to their employees. For 2011, the maximum credit is 35% of employer premium expenses. To be eligible for the credit, you must have the equivalent of fewer than 25 full-time employees for the year; average annual wages must be less than $50,000; and you must contribute at least 50% of the premium cost of the qualifying health plan you offer to employees. (Note: The full 35% credit is available only if you have 10 or fewer full-time employees with average annual wages of $25,000 or less.)
- New "simple cafeteria plans," created by the 2010 health care reform legislation, can be established starting in 2011 by businesses that have employed an average of 100 or fewer employees during the prior two years. If you're eligible, such a plan can allow you to offer valuable benefits to employees (e.g., group term life insurance, dependent care assistance program) while automatically meeting nondiscrimination rules that normally apply to cafeteria plans.
- Beginning this year, many employers will begin reporting the cost of employer-provided health-care coverage on employees' W-2s for informational purposes only (this is optional in 2011, mandatory in 2012). While the amount reported is not included in employees' income, and will not affect their tax liability, you'll want to be prepared to answer employee questions.

Important Questions to Ask Aging Parents

Remember "the talk" your parents initiated (maybe) with you many years ago? Well, now it's your turn to sit on the opposite side of the table. If you're the adult child of aging parents, it's important to open up a conversation about their future needs and wishes. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

The reality, though, is that many adult children would rather avoid such a discussion, because it can create feelings of fear and loss on both sides, and adult children want to avoid getting too personal by asking about financial or other matters. Here are some questions in the areas of finances, health, living situation, and memorial wishes that can help you start a conversation.

The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.

Finances

- What institutions hold your assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers and online user names and passwords, if applicable. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you currently work with any financial, legal, or tax advisors? If so, get a list of names with contact information.
- How often do you meet with your financial advisor? Do you think it would be helpful to do so soon? Would you like me to come?
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills?
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if he or she becomes disabled or incompetent.
- Do you have a will? If so, find out where it's located and who is named as executor. If it's more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now (e.g., Aunt Agnes should get the china set).

- Are your beneficiary designations up-to-date? Designated beneficiaries on insurance policies, pensions, IRAs, and investments trump any instructions in your parents' wills.
- Do you have an overall estate plan? A trust? A living trust can help manage an estate while your parents are still living.

Health

- What doctors do you currently see? Do they have experience treating seniors? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking?
- What health insurance do you have? In addition to Medicare, which kicks in at age 65, find out if your parents have or should consider Medigap insurance--a private policy that covers many costs and services not covered by Medicare--and long-term care insurance, which covers the need for extended medical care.
- Do you have an advanced medical directive? This document includes your parents' wishes regarding life-support measures and the name of the person who will communicate on their behalf with health-care professionals. If your parents do not want heroic life-saving measures to be taken on their behalf, this document is a must.

Living situation

- Do you plan to stay in your current home, or have you thought about downsizing to a condominium or townhouse?
- Is there anything I can do now to make your home more comfortable? This might include smaller projects like installing hand rails and night lights in the bathroom to bigger projects like moving the washing machine out of the basement, installing a stair climber, or moving a bedroom to the first floor.
- Do you employ certain people or companies for home maintenance projects (i.e., heating contractor, plumber, electrician, fall cleanup)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific music or reading requests, or other wishes for your memorial service?

Are There Gaps in Your Insurance Coverage?

Buying insurance is about sharing risk. For example, health insurance will cover some of the cost of getting and staying healthy. Homeowners insurance will assume the risk of loss in case your home is damaged or destroyed. But oftentimes, we think we're covered for losses by insurance when, in fact, we're not. Here are some common coverage gaps to remember when reviewing your own insurance coverage.

Life insurance

In general, when coupled with savings and income, you want to have enough insurance that will allow your family to continue to live the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Your coverage may have decreased, or the type of insurance may have changed. Where your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage. Changing circumstances may require more insurance. Your financial professional can help you determine if you have enough coverage to meet your family's future income needs.

Homeowners insurance

Homeowners insurance can be tricky as to what perils are covered and how much damage will be paid for. Clearly, it's important to know what your homeowners policy covers and, more importantly, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases, separate insurance altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and for how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your agent. A face-to-face meeting is always best with the policy right there in front of both of you. Also, take heed of notices you may receive. While it looks like boilerplate language, it could actually be changing your coverage significantly. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

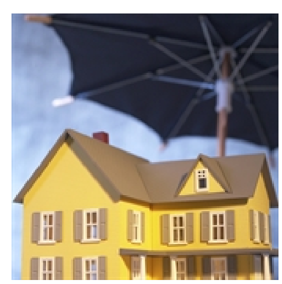
Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you. So your child who is living in a college dorm is probably covered, but living in an off-campus apartment might exclude your child from coverage. If you and your spouse divorce, which policy insures your children who are living with each parent at different times during the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices (e.g., MP3 players). Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars also poses many gaps in coverage. For instance, your own collision coverage may apply to the rental car you're driving, but it may not cover all of the damages alleged by the rental company, such as loss of use charges. If you're leasing a car long-term, your policy may only cover the replacement cost if the car is a total loss or is stolen. But that amount may not cover the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always well defined, and you may not understand what's covered until it's time to file a claim. So review your insurance coverages with your financial professional to be sure you've filled all the gaps in your coverage.

If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics (e.g., televisions, radios), interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the master deed, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.



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Ask the Experts

What health-care changes become effective in 2011?

The Patient Protection and Affordable Care Act (PPACA), signed into law in 2010, makes significant changes to our health-care delivery system. Here are some of the most important changes scheduled to take effect in 2011.

The cost of over-the-counter drugs not prescribed by a doctor can no longer be reimbursed through a health reimbursement account or a health flexible spending account, nor can these costs be reimbursed on a tax-free basis through a health savings account (HSA) or Archer medical savings account. Also, the tax on distributions from HSAs and Archer MSAs that are not used for qualified medical expenses increases to 20% (up from 10% and 15% for HSAs and Archer MSAs respectively).

Medicare Part D participants will receive a 50% discount on brand-name prescriptions filled in the coverage gap (i.e., the "donut hole") from pharmaceutical manufacturers, and federal subsidies for generic prescriptions filled in the coverage gap will start to be phased in.

Also, certain preventive services covered by Medicare are no longer subject to cost-sharing (co-payments), the deductible is waived for Medicare-covered colorectal cancer screening tests, and Medicare now covers personalized prevention plans including a comprehensive health risk assessment.

Medicare Advantage (MA) plans can no longer impose higher cost-sharing for some Medicare-covered benefits than would be imposed by traditional Medicare insurance. Also, MA plans cannot exceed a mandatory maximum out-of-pocket amount for most Medicare services. The maximum amount in 2011 is $6,700, but MA plans can voluntarily offer lower out-of-pocket amounts. Also, the annual enrollment period for MA plans is changed to October 15 through December 7.

The requirement that employers report the total value of employer-sponsored health benefits on employees' W-2s was to begin in 2011. However, the IRS has deferred this requirement until 2012.

Are some preventive care services free?

Generally yes. Under the Patient Protection and Affordable Care Act (PPACA), qualifying health insurance plans must offer certain preventive care services to you and your family at no cost.

If your health insurance plan is subject to these new requirements, you and your family may be able to receive important preventive health-care services without having a co-payment, deductible, or co-insurance. Many of the covered services are based on your gender, health status, and age. Some of these services include:

• Blood pressure, diabetes, and cholesterol screenings

• Mammograms, colonoscopies, and many other cancer screenings

• Routine vaccinations against diseases such as measles, polio, and meningitis, as well as flu and pneumonia shots

• Wellness counseling for such issues as quitting smoking and losing weight

• Screenings for depression and alcohol abuse

A current list of preventive care services can be found on the government website: www.healthcare.gov.

To be eligible, you must be enrolled in a health plan through your employer or have individual health insurance put in place after March 23, 2010. The preventive care services will then be effective on the next policy anniversary occurring on or after September 23, 2010, or as of January 1, 2011, for calendar-year plans. If your health plan is "grandfathered" (in place on or before March 23, 2010, and has not been materially changed), these benefits may not be available to you.

Free preventive services may only be available for in-network providers (you may have to pay for preventive services received from an out-of-network provider). Also, if your doctor provides preventive services, such as cholesterol screening, and other diagnostic or therapeutic services during the same office visit, you may have to pay for part of the office visit and the other services given by your doctor, but not the preventive services.