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health care reform: overview of tax provisions

by Steven L. Goldberg, CPA

The 2010 Health Care Act, as amended by the 2010 Health Care Reconciliation Act, is a massive undertaking that will impact many lives. It required over a thousand pages to piece this legislation together and covers numerous areas, both tax and non-tax. The price tag on this piece of American history is just shy of \$1 trillion dollars over a 10 year period. The health care legislation is so massive that it has to be gradually phased in thru tax year 2018. This article briefly summarizes the tax provisions affecting individuals and businesses.

PROVISIONS EFFECTIVE IN 2010

Dependent Coverage. Beginning 3/30/10, self employed individuals can deduct insurance coverage for their children who are age 27 or younger at the end of the year. In addition, employees do not need to include in their taxable income the amount of health care insurance and expense reimbursements for their children that are under age 27.

Adoption Credit. The amount of the adoption credit is increased from \$12,170 to \$13,170.

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bhph benchmarks

by Jason Y. Cheung, CPA

Each year, Shilson, Goldberg, Cheung, & Associates, LLP, helps The National Alliance of Buy Here Pay Here Dealers, to prepare buy here, pay here ("BHPH") financial benchmarks from a database of more than 500 automotive dealers nationwide. The financial benchmarks are not an average of the entire database, but rather are a composite of the "best performing" operators. Also included in the BHPH benchmarks, is operating information supplied by NCM Twenty Groups, along with portfolio performance metrics supplied by Subprime Analytics.

Collectively, the BHPH benchmarks provide a comprehensive look at the financial and operating performance of the BHPH industry for the last three years.

To view the complete latest set of BHPH industry benchmarks, visit our website at www.sgcaccounting.com. If you are interested in having your own financial results compared against these benchmarks, call 713-290-8171 or send an email to jasonc@sgcaccounting.com, to learn more information.

Included below are some highlights from the latest BHPH industry benchmarks:

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hurricane ike: weathering the storm

by Misty M. Hays, CPA

Each year, taxpayers & tax professionals alike, face an ever-present & continuous awareness of tax deadlines. There are a handful of deadlines that ring synonymous in the minds of all individuals & businesses. March 15th & April 15th are just two examples.

Well, September 15th is no exception; this date is the deadline for filing those corporate tax returns that were originally extended. And during the weeks leading up to this date, it is typically safe to assume that our firm is fixed & focused on the approaching deadline ahead. But in 2008, this was anything but the case.

Around September 11th of 2008, residents & businesses of Houston had started to evacuate the city in preparation of Hurricane Ike's landfall. On Friday, the 12th, we followed suit and closed our office early (with the expectation that we were only losing a few precious tax return preparation hours). We could not have anticipated what the storm would have in store for us.

By the weekend, Hurricane Ike had made landfall & headlines across the country. The storm came hard & the effects stayed long. And being among the millions that were left without electricity, we soon realized that Mother Nature took superiority to Uncle Sam. Nevertheless, when September 15th came, we shuffled to make a plan...

Conversing over crackling cell phones, we learned that one of our staff had regained electricity at her home; and with our office headquarters out of order, we didn't waste a minute. We began setting up shop, piecing together a makeshift office in a one-bedroom apartment. We were optimistic to say the least, but optimism is what pulled us through.

For an entire week we ran a full-service CPA firm out of her apartment...phone, fax, and servers included. Among the cramped quarters, we prepared & filed tax returns, focused on the lapsed deadline. Now as accountants, our occupational hazards don't typically extend past paper-cuts & headaches, but we like to think, that for just one week, we endured all odds (and a natural disaster) to serve our clients. Dedication at its finest. ■



tax facts

1

americans hire over 1 million accountants each year for tax help

2

we spend \$27.7 billion a year preparing taxes

3

new york city has the highest corporate income tax in the world

4

the number of pages in the tax code has increased 16,775% in the past century

5

americans spend 7.6 billion hours each year doing their taxes

6

in the news: in 1997, wesley snipes reported his adjusted income as \$0, when according to the government his income was over \$7 million.

source: www.businessinsider.com

Small employer health insurance tax credit. Between 2010 and 2013, a new credit is available to small employers that purchase health insurance for their employees. To qualify as a small employer, you must meet the following three conditions: (1) employ 25 or fewer full time equivalent (FTE) employees, (2) annual wages of FTE employees must be \$50,000 or less, and (3) employer must provide a qualified health insurance plan under which employer pays at least 50% of the premiums for employees who enroll in the plan.

Generally, the amount of the credit is 35% of the health insurance premiums paid by employer for employee. No credit is allowed for health insurance premiums paid on behalf of partners, sole proprietors, shareholders who own more than 2% of an S-Corporation, 5% owners of the employer or dependents of these individuals.

[PROVISIONS EFFECTIVE IN 2011](#)

More information to be reported on W-2 (wages). Employers must begin listing the value of health insurance coverage provided to employees on the employee's Form W-2 wage statement.

Over the counter medicine no longer reimbursable by health plans. Under the new rules, only insulin and doctor prescriptions qualify for tax free reimbursement from these types of health plans.

Larger penalties for health saving accounts and Archer MSA distributions. If you own a health savings account and take withdrawals before you turn age 65 (not used for qualified medical expense), the penalty will increase from 10% to 20%.

Simple Cafeteria plans become available to small employers 2011 brings a new type of cafeteria plan know as a Simple Cafeteria Plan; available only to employers with an average of 100 or fewer employees during either of the two preceding years.

[PROVISIONS EFFECTIVE IN 2012](#)

Expanded 1099 Reporting requirements This is one of the least favorite items of the new health care reform legislation for business owners. Businesses that pay \$600 or more during tax year 2012 to *purchase services or goods* must issue an information report (likely to be the form 1099-MISC) to the IRS and the provider.

[PROVISIONS EFFECTIVE IN 2013](#)

Medical Expense Deduction limitations If you are under age 65, the threshold for the itemized deduction for qualified medical expenses increases from 7.5% of adjusted gross income to 10% of adjusted gross income. Hence, you will receive less deduction for medical expenses on your return.

[PROVISIONS EFFECTIVE IN 2014](#)

Penalties assessed for not having health insurance coverage. US citizens and legal residents will be required to obtain health care coverage or pay a penalty. The purpose is to encourage individuals to purchase health insurance.

Penalties assessed for employers not offering health insurance coverage

Employers that have an average of at least 50 full time employees during the preceding calendar year will be required to offer health insurance coverage for all their full time employees or be subject to a penalty.

[PROVISIONS EFFECTIVE IN 2018](#)

Excise Tax on certain health plans The last portion of the legislation to be phased in is an excise tax on Cadillac plans (generally defined as health plans with annual premiums exceeding \$10,200 for single coverage and \$27,500 for family coverage)

As I mentioned earlier, the Health Care legislation is over a thousand pages. This is merely a brief overview of the provisions affecting individuals and small business. Please give us a call if you have any questions or require additional information. ■



SGC'S ONLINE CLIENT PORTAL: LAUNCHES FALL 2010

You may have noticed recent changes to our company's website. This is just one of the many steps we are taking toward virtualizing the way we do business in our continuous quest to improve the accounting services we provide to those that matter most...our clients!

We are proud to announce that construction of our online Client Portal is underway! The Client Portal will provide a secure location for record storage & file transfer, creating a simpler & more effective way for our clients to interact with their accountants.

Our online Client Portal is anticipated to launch during fall 2010. During the next few months, clients will receive an email notification when their personal online account has been set-up. The email will contain instructions for login & password creation, along with additional information to help them understand all that the Client Portal has to offer.

Client Login

Email:

Password:

By using this client login, you agree to the terms and conditions of our ["Terms of Use & Disclaimer"](#) and of our ["Privacy Policy"](#).

[Forgot your password?](#)



Robert Jilley is a Staff Accountant with SGC and has been with the firm since 2009. He functions primarily as a part of the firm's compilation and audit & review departments.

Q: How long have you lived in the Houston area?

A: I've lived in the Houston area for just over 10 years now. Prior to moving to Houston, I was born and raised in Portsmouth in the United Kingdom.

Q: What is your education background?

A: I attended the University of Houston as an undergraduate and received my Bachelor of Business Administration in Accounting in December 2009. I am currently continuing with graduate school at the University of Houston and expect to receive my Master of Science in Accountancy in December 2010. I plan to begin sitting for the CPA exam in February 2011.

Q: What do you like to do in your free time?

A: I enjoy spending time outdoors when the Houston weather is cooperating, and I also enjoy running, hiking, traveling, and spending time with my family and friends.

Q: Of course, being an Accountant is your first love (that goes without saying, right?), but if accounting didn't exist, what would be your *other* dream job?

A: My *other* dream job would be a research meteorologist. The wildly variable weather we experience in Houston is definitely the inspiration behind this dream job. ■

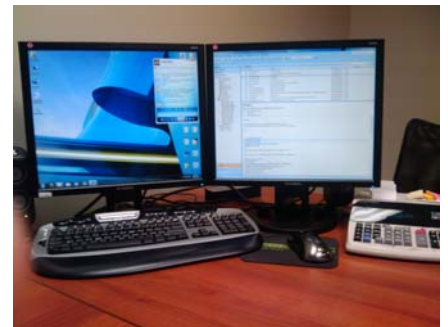


inexpensive technologies to improve your operations

by Steven A. Carstens, CPA

With the ever-changing pace of technology, there are so many inexpensive ways to improve your employees' efficiency and productivity. Here are just a few technologies that our firm has implemented.

Dual computer screens are not a new concept, but with hardware prices being as low as they are now, it may be the perfect time to implement such a setup. With more and more documents being scanned to PDF and only available through the computer, having dual screens makes sense. Being able to view your accounting software on one screen, and your scanned PDF documents or an Excel spreadsheet on the other screen, will vastly improve your efficiency and your ability to multitask. All you need to implement dual screens is a second computer screen (approx. \$100) and a graphics card with dual outputs (approx \$30). Dual screen support is built into Windows XP, Vista, and Windows 7, so no additional software is needed.



Multifunction printers have been available for years, but they have truly hit their mark in recent years. For instance, an Epson Workforce 520 (approx \$100) is not only a great inkjet printer, but it allows for all your computers in the office to print, fax, and scan wirelessly. You can scan all of your contracts, invoices, or any other important documents to PDF for safe storing and it allows users to send faxes right from their computer without ever having to get up and walk to the fax machine (and it maintains a digital archive of all sent faxes).

Remote desktop connection is a technology that allows you to access and work on your office computer from anywhere in the world on any computer. This software is already built into all professional or ultimate versions of Windows, and you only need to tweak a few settings on your router and computer to enable it. It really is a life saver when you're out of the office and need to get to that one document you forgot on your work computer. ■

BUY HERE, PAY HERE INDUSTRY BENCHMARKS

COMBINED INCOME STATEMENT

2007 - 2009

	BEST DEALER AVERAGE BENCHMARK 2009	BEST DEALER AVERAGE BENCHMARK 2008	BEST DEALER AVERAGE BENCHMARK 2007
	% OF VEHICLE SALES	% OF VEHICLE SALES	% OF VEHICLE SALES
VEHICLE SALES	100%	100%	100%
COST OF VEHICLES SALES	-59%	-60%	-64%
SUBTOTAL	41%	40%	36%
BAD DEBT EXPENSE	-20%	-21%	-19%
FINANCING INCOME	16%	18%	16%
GROSS PROFIT	37%	37%	33%

BUY HERE, PAY HERE INDUSTRY BENCHMARKS

FINANCIAL RATIO ANALYSIS

2007 - 2009

	BEST DEALER AVERAGE BENCHMARK 2009	BEST DEALER AVERAGE BENCHMARK 2008	BEST DEALER AVERAGE BENCHMARK 2007
COMBINED BALANCE SHEET RATIOS			
1 (Inventory x Days) / Cost of Vehicle Sales	64.11 days	68.57 days	56.21 days
2 Cost of Vehicle Sales / Average Inventory Dollars	5.98 x	5.96 x	8.51 x
3 Vehicle Sales / Average Inventory Dollars	11.16 x	9.98 x	13.59 x
4 Vehicle Sales / Total Assets	0.95 x	0.96 x	1.27 x
5 Total Assets / Total Liabilities	1.82 x	1.61 x	1.82 x
6 Allowance for Bad Debts / Finance Receivables*	21%	18%	14%
7 Finance Receivables* / Total Assets	93%	89%	85%
8 Total Liabilities / Total Assets	55%	62%	55%
COMBINED INCOME STATEMENT RATIOS			
9 Bad Debts / Vehicle Sales	20%	21%	19%
10 Cost of Vehicle Sales / Vehicle Sales	59%	60%	63%
11 Gross Profit** / Vehicle Sales	37%	37%	34%
12 Operating Expense / Vehicle Sales	21%	21%	19%
13 Interest Expense / Financing Income	18%	23%	20%
14 Operating Income / Vehicle Sales	16%	16%	15%
15 Financing Income / Vehicle Sales	16%	18%	16%
16 Compensation*** / Vehicle Sales	11%	11%	10%
17 Reconditioning Cost / Vehicle Sales	7%	4%	5%
* finance receivables are net of unearned finance charges			
** gross profit is net of bad debts and financing income			
*** compensation excludes those of the owners			
x = times			

information returns: plan ahead & file on-time

by Misty M. Hays, CPA

Are you engaged in a trade or business? If you answered yes, then I encourage you to take the time to familiarize yourself with the filing requirements of information returns. There are over 100 different transactions that the IRS requires to be reported, so there's a good chance you've been involved with at least a few reportable transactions of your own.

What are information returns?

An information return is a tax document that certain persons are required to file with the IRS to report certain business transactions. An information return is *not* an income tax return; it is used for reporting purposes only.

What's the purpose of information returns?

The information reported on the return is used both to assist taxpayers in preparing their tax return and to allow the IRS to match the information from the reported transaction to the taxpayer's tax return.

Who must file information returns?

Every person engaged in a trade or business, including a partnership and a nonprofit org., must file information returns for each calendar year for certain payments made during such year in the course of the payor's trade or business.

Which information returns do I file? **

Different types of transactions are reported on different information returns. There are over 25 different forms that are used to report the 100+ different reportable transactions. Here's just a few examples** of reportable transactions and the corresponding forms they are reported on:

<u>Form</u>	<u>Reportable Transactions</u>
1099-INT	payors file this form for each person to whom they paid: <ul style="list-style-type: none">• \$10 or more for interest payments
1099-MISC	payors file this form for each person to whom they paid: <ul style="list-style-type: none">• \$600 or more for rents• \$600 or more for services performed by people not treated as its employees

When are information returns due? **

There are two deadlines to keep in mind; after the end of the calendar year, information returns are generally** due to the *recipient (the payee)* by *January 31st* and to the *IRS* by *February 28th* (or March 31st if filed electronically).

**For a comprehensive list of the forms, reportable transactions, and due dates, the IRS includes a *Guide to Information Returns* on their website at <http://www.irs.gov/efile/article/0,,id=98114,00.html>. ■

THE JOURNAL ENTRY

written & published by:

Shilson, Goldberg, Cheung & Associates, LLP

Certified Public Accountants
2180 North Loop West, Suite 260
Houston, Texas 77018
713-290-8171
www.sgcaccounting.com

If you have any questions or comments regarding an article in this newsletter, please send us an email at: info@sgcaccounting.com.