Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

THE Rea REPORT

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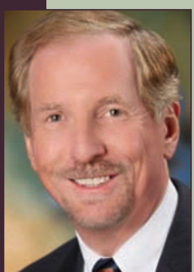


PRESIDENT'S REPORT

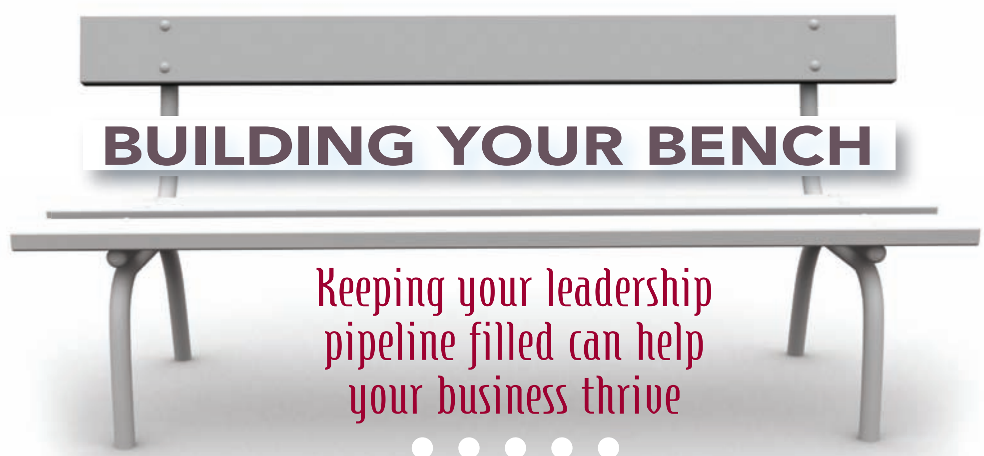
Many factors contribute to the success of your business, including preparing your team for greater responsibility and adapting to a changing environment.

In this issue of *The Rea Report*, we look at ways to help you prepare your company's future leaders for the challenges of tomorrow. We also talk with the leadership of RECO Equipment and learn how they used a unique management structure to adapt to the challenges of not only a changing environment but also to the retirement of the company's founder.

Another part of business success comes from listening to your customers – determining what they really need in the products and services you provide, and what you can do to improve them. One way we're listening to you is through the reader survey found in this issue. Please tell us what you like and don't like about our newsletter and help us provide you with the tools and information that is most valuable to you.

As I've often read, success is a continuous journey. Let's continue to pursue it together!

Leman G. Beall



BUILDING YOUR BENCH

Keeping your leadership pipeline filled can help your business thrive

You could have the best coach money can buy. You could have the spiffiest uniforms, most strategic game plan, best training equipment and newest stadium. But if you don't have a strong team in your locker room, you won't win a single game.

Could you point out the future leaders of your business? You might not think about it regularly, but a strong bench must be part of your business plan – otherwise, you'll lose game after game.

Let's face it: as the economy begins to recover, new and appealing opportunities outside your company are available to your team. And if they pursue those opportunities, you'll see lost productivity and gaps in service to your customers. Invest in your team members to keep them engaged and involved in your company's future plans.

The Leadership Pipeline

You need to plan for transition in your leadership. And you should also look for unique ways to challenge and test leaders. One way we helped build leadership internally was through a Lean Six Sigma Green Belt training program.

Through this training, several of our future leaders are learning how to facilitate greater efficiency and effectiveness by improving our processes. The skills they learn not only benefit our firm, but also clients. You should look for areas that will build better leaders and benefit your customers, as well.

More general leadership training could also help strengthen your bench. You can mold your team into the leaders you want them to be by covering a variety of topics, such as

- Thinking like an owner
- Delegating effectively
- Surpassing customer expectations
- Adapting to change
- Adopting strategic thinking

Be sure to communicate "the business of your business." Too often, team members view their role from a narrow perspective. They don't always understand why you make the decisions you do. The more you communicate the bigger picture, the more perspective your team can have about your decision-making process.

BY LEE BEALL (CEO, DUBLIN OFFICE)

CONTINUED ON PAGE 3

Dispelling Tax Law Myths

WHO PAYS TAXES AND WHO DOES NOT

In this world, nothing is certain but death and taxes. The one is pretty black and white. The other … well, it has a lot of grey area.

Between changing tax laws, media inaccuracies and confusing language, it's easy to take some widely known tax myths as gospel. Here are some of the ones we hear most often, as well as the truths behind the myths.

"Taxes are higher than ever."

It may seem like you're always being asked to pay more in federal taxes, but what you may not realize is that the federal income tax is actually at the lowest levels since World War II. When you look at federal tax revenue as a percent of Gross Domestic Product (GDP), we're at a historical low.

"Many people believe their taxes are ever increasing, but they don't take inflation and increased GDP into account," said Lee Beall, CEO, Dublin office.

"The wealthy don't pay any income taxes because of all the loopholes."

There's no such thing as loopholes, but there are tax deductions that are general in nature and others that are aimed at encouraging specific social and economic behaviors. Tax deductions are available to benefit anyone that chooses to use them.

"Actually, there are many tax deductions and credits that the wealthy can't take advantage of," said Robert Mapes, principal and director of tax, Wooster office. "From child care credits to earned income credits to tuition credits to higher education interest deductions and rental income loss deductions, their taxable income precludes them from taking many of the deductions currently available."

Many taxpayers are also subject to Alternative Minimum Tax. This tax severely limits their ability to take many of the standard itemized deductions such as state and local income taxes as well as the mortgage interest deduction.

"The Amish don't pay taxes."

This actually does have some basis in fact. The Amish pay income taxes, but they don't pay Social Security taxes. Their communities support them financially in their later years as they are opposed to accepting benefits of any insurance that makes payments for retirement or medical care.

"In order to receive an exemption from Social Security and Medicare taxes, a person must be a member of a recognized religious group," said Tom Jeffries, principal, Millersburg office. "The Amish are considered a recognized religious group by the Social Security Administration and the Internal Revenue Service."

Also, some Amish may actually choose to pay Social Security and Medicare taxes. This often occurs when their employer is required to pay these taxes based on the ownership and type of business office.

"I don't have to pay taxes once I reach a certain age."

You've paid taxes all your life, so you get to stop one day – right? Unfortunately, there is no age limit after which you stop paying taxes.

Whether or not you pay taxes is based on your taxable income. "The myth probably stems from the fact that Social Security income is not taxable unless the person has other income that puts them over a certain limit. But no matter how old you are – 4, 40 or 84 – if you have taxable income, Uncle Sam wants a piece of it," said Todd Mizer, principal, New Philadelphia office.

"Tax deductions are free."

Everyone wants to qualify for more tax deductions, but sometimes they end up costing you money. "Usually, you have to spend money in order to qualify for a deduction," said Mark McKinley, principal, Lima office. "You could end up spending more money than the tax deduction is worth, especially if you spent it on something you didn't really need to begin with."

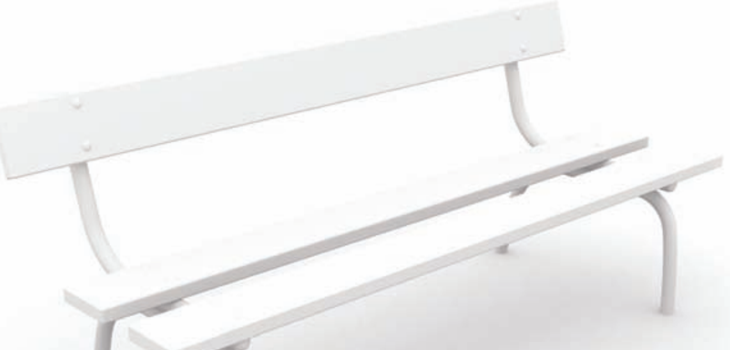
"Getting an extension means that I'm more likely to be audited."

Not true. But filing for an extension will give you and your accountant the extra time needed to file a complete and accurate return.

"If you need an extension, take it. That way you'll be confident that, even if you do get audited, you did everything properly," said Lisa Beamer, principal, New Philadelphia office.

"So everyone pays taxes?"

You'll be surprised to know that, according to the Tax Policy Center, about 45 percent of Americans don't pay income tax. Because of a combination of low-income and tax credits, almost half of Americans paid no income tax in 2010.



BUILDING YOUR BENCH

CONTINUED FROM COVER

With greater knowledge, team members work with greater confidence in the decisions and the direction of the company, which helps them service customers better, too.

Continuing Education

Be sure to educate your entire work force. People want hands-on training they can put to use tomorrow. That can include things to help them become more efficient and effective in doing their jobs. You can start by asking the employees what skills they feel they are deficient in.

However, training can be as simple as giving your team members greater exposure to your customers. When they sit in on high-level discussions in board meetings or planning meetings, they can learn how their work contributes to the process and in turn to the overall customer service.

Expose your team to competitors and vendors, too. When they get outside the everyday workplace, they gain a greater appreciation for their workplace – and they bring back ideas that can improve your systems.

They're Promoted. Now What?

When you give someone a new title, it's important that you don't just pat them on the back and congratulate them.

About 10 to 20 percent of promoted individuals already know what will be expected of them. The other 80 percent, however, will take the next two to three years to figure it out – unless you explain it to them.

When you change someone's title, explain what the promotion means and provide the team member with a detailed list of expectations and responsibilities. Help the team member understand what his or her evaluation will be based on and provide feedback throughout the transition.

Let Go a Little

Business owners – especially in the case of small businesses – often end up immersed in the nuts and bolts of their operations. But why? The job market is brimming with available talent. Tap into it and relieve your load yourself of some of these tasks. Not only will it free up time for you to focus on what really matters, but you can train these young (and therefore affordable) team members and mold them into the professionals you need for your business.

And if you have this bench strength already, you are doing your team – and your business – a disservice by underutilizing them and not allowing them to learn. Find out their interests and goals and train them in new areas. It will reignite their passion and show them that you are invested in their professional growth.

By consciously building the next generation of leaders within your business, you can ensure continuity in service to your customers, greater morale among your team and more confidence in the future of your business.

MEET YOUR FIDUCIARY RESPONSIBILITIES.

Retirement plan fiduciaries have to keep track of reasonable fees, complete and follow an investment policy and provide guidance to participants, to name a few. If not, they can be found liable by the Department of Labor and may face civil actions in court. Go to www.MyInvestmentPartner.com to see if you are making common mistakes.

GET AMNESTY FOR YOUR USE TAX LIABILITY

If your business didn't have a use tax account on June 1, but should be paying use tax, you can get a 100 percent abatement on penalties and interest. If you elect to participate in Ohio's Use Tax Amnesty Program, you cannot be assessed use tax prior to Jan, 1, 2008, either. Reduce your exposure. Talk to a use tax professional today.

THINK BEFORE BORROWING FROM YOUR 401(K)

After a "hardship" withdrawal is taken, you must suspend salary deferrals for six months. You'll forgo the ability to save, and miss out on any employer match, for six months. This means you'll not only need to replenish the funds you borrowed, but you'll need to save even more to make up for the lost compound interest.

PURCHASE MANUFACTURING EQUIPMENT NOW FOR TAX SAVINGS

If you purchase equipment in 2011, you can take advantage of greater depreciation bonus expensing. Some of the new rules apply only through Dec. 31, 2011, so make sure you allow enough lead time to place your equipment into use before the end of the year.

GReaT IDEAS

Josh Carlisle (New Philadelphia) and **Megan Pratt** (Wooster) joined the firm as staff accountants.

Maggie O'Toole joined the administration office in New Philadelphia as a marketing coordinator.

Leslie Boutell joined the Dublin office as a client service specialist.

Jim Hensler (Marietta) was selected to sit on the Ohio Society of CPAs' peer review acceptance committee.

Brian Kempf (Millersburg) graduated from Leadership Holmes County.
Dan Allman (Dublin) graduated from Leadership Dublin.

Jeff Martin (Medina) received an MBA from Youngstown State University.

Katie Tolin (administration, New Philadelphia) is the new vice president of the Association for Accounting Marketing.

Lee Beall (Dublin) received the Gold Medal for Meritorious Service to the Profession. This is the Ohio Society of CPAs' highest honor.

SERVICE MILESTONES:

15 YEARS

Rod Littleton (maintenance, New Philadelphia)

Dianna Friedrich (Millersburg)

10 YEARS

Dana Launder (Cambridge)

Molly Farley (Wooster)

5 YEARS

Paula Schlosser (Cambridge)

Jeff Martin (Medina)

Erich Holmes (Medina)

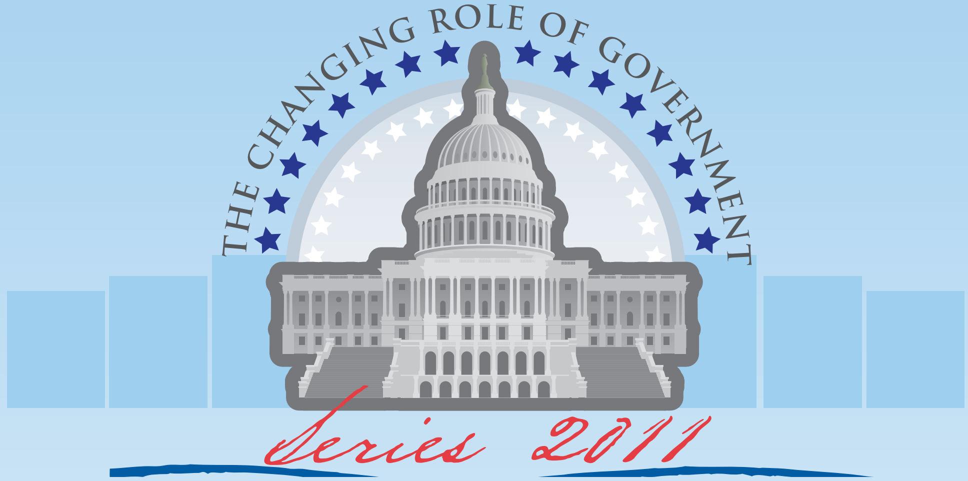
Anita Kotalik (Medina)

Dan Miller (IT, New Philadelphia)

David Shallenberger (Wooster)

Derek Conrad (New Philadelphia)

Courtney Shalosky (New Philadelphia)



THE CHANGING ROLE OF GOVERNMENT AND HOW IT IMPACTS YOU

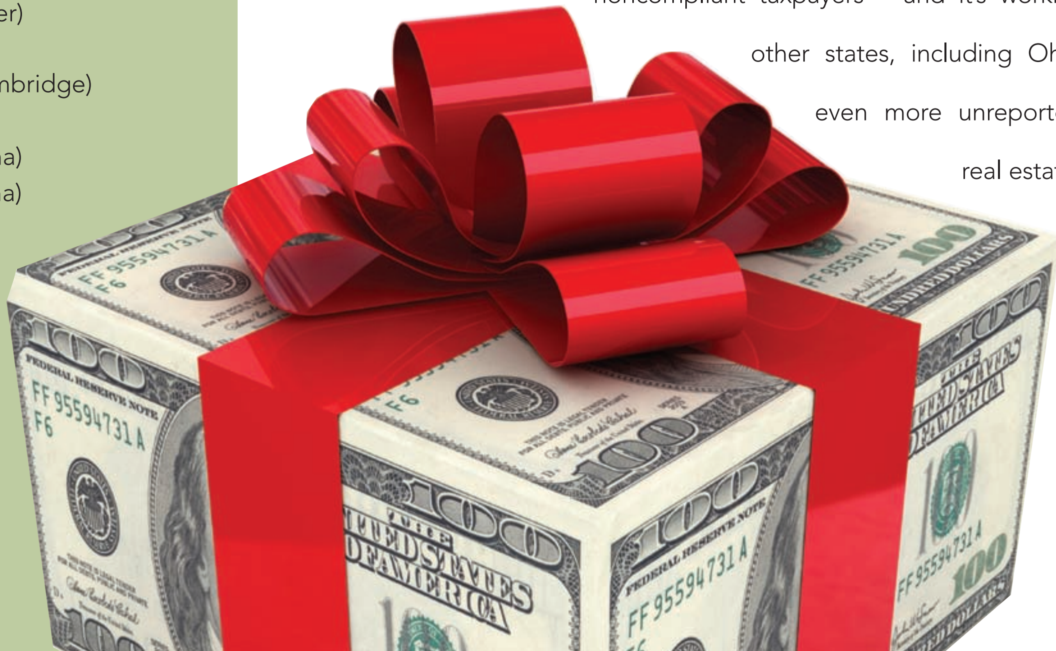
part three:

ARE YOU REPORTING REAL ESTATE TRANSFERS AS GIFTS?

THE IRS IS WATCHING!

The trend in government right now is to go after revenue because of budget shortfalls. They're targeting businesses, but don't think you're safe as an individual taxpayer – especially in Ohio.

When Grandma Edna transfers real estate to her grandson Tommy for little or no cash, the IRS contends that she should file a gift tax return. In fact, the agency just requested permission to obtain listings of real estate transfers from the state of California to begin a review of noncompliant taxpayers – and it's working with 13 other states, including Ohio, to find even more unreported gifts of real estate.



This is the third part in a four-part series about how governments' increasing regulations affect individuals and businesses.

BY INEZ BOWIE, CPA, CSEP (SENIOR MANAGER, MARIETTA OFFICE)

HOW GIFT TAX WORKS

The gift tax rules are complex and continually changing. Currently, the annual gift exclusion amount for gifts to any one person is $13,000 per individual or $26,000 per couple.

If gifts to any person exceed the exclusion amount during the calendar year, then you should file a gift tax return with the IRS. For example, if you give your daughter $5,000 cash for her birthday in April and $10,000 cash for Christmas in December, you exceeded the $13,000 amount and need to file a gift tax return.

In addition, there's a lifetime gift exclusion amount, currently $5 million. So gifts of more than the $13,000 annual exclusion amount may or may not be taxable, depending on your remaining lifetime exclusion amount.

The IRS is targeting undisclosed real estate transfers to family members. Basically, if you make any gift of real estate, you should file a Form 709 gift tax return. Even if that particular gift doesn't trigger a gift tax, the transaction may reduce the lifetime gift tax exclusion amount so that gift or estate taxes could be owed on later gifts.

There are no exceptions to the rules for gifts to family members. If the property transferred is more than $13,000, you must file a gift tax return. The annual filing limit was set at $10,000 in 1981 and has been adjusted for inflation annually ever since.

Another important reason for filing a gift tax return is to start the three-year statute of limitations for the IRS to accept or dispute the value of the gift and gift tax liability. After three years, the IRS can't dispute the value of the transfer. The three-year statute of limitation doesn't start until you file the gift tax return.

CONSEQUENCES FOR NOT FILING

When you don't file a gift return and the IRS finds out, you could be liable for the tax, interest incurred since the transfer and additional penalties.

The IRS is already working with several state agencies to obtain electronic records of real estate transfers to family members. All they have to do is compare the names of taxpayers who filed Form 709 with names extracted from the transfer records to see who didn't file. As a result, it could be just a matter of time before former real estate owners in Ohio receive an IRS notice and face an IRS audit.

The IRS asked a federal court for permission to order the state of California to submit real estate transfer records for 2005 to 2010, and they will probably make similar requests to other state agencies.

It's expected that the IRS will concentrate on 2010 and before. The lifetime gift exclusion threshold was $1 million at that time, so more taxpayers would have been subject to gift tax liability during those years.

Boston-based IRS Estate and Gift Tax Program Official Josephine Bonaffini estimates between 60 and 90 percent of all transferred real property between family members fails to have a gift tax return filed. In fact, in the records she obtained from the state of Ohio, 0 percent of related-party transfers in the state filed a gift tax return, meaning many Ohio families could face an IRS gift tax audit.

WHAT TO DO IF YOU DIDN'T FILE

If you were party to a real estate transfer and didn't file a gift tax return, you can still file Form 709 after the fact.

As with any past due or delinquent return, take caution and contact your tax professional to help you. In many cases, there may be no gift tax liability because of the lifetime exclusion amount, and in that case, there would also be no penalties or interest incurred either.

If you do owe gift tax, be proactive and file your return before you're under audit. You'll most likely pay the tax liability and interest, but you may be able to reduce or abate the amount of penalties.

If the IRS contacts you about your gift tax liability first, however, you will more likely be assessed additional penalties.

WHY NOW IS A GREAT TIME TO GIFT

One silver lining in the issue of real estate transfers and the gift tax is that the lifetime exclusion amount has been raised to $5 million for 2011 and 2012. That's up from the $1 million limit in place through 2010. Barring any changes to the current law, the exclusion amount is expected to return to $1 million in 2013. This means that right now is the best time to make gifts, including real estate, to members of your family.

Just be sure to file Form 709 to document your gift. The IRS will soon notice if you don't.

there are

NO EXCEPTIONS TO THE RULES FOR GIFTS TO FAMILY MEMBERS.

TAKE A GLIMPSE

WHAT'S HAPPENING IN INDUSTRY

Industry profiles from First Research, Inc. were used to compile this information.

Here are some interesting trends that are happening in various industries. How do these affect ***your*** organization?

CONSTRUCTION

Shipments of non-metalic mineral products, like concrete, are up 4.5 percent in the first three months of 2011 over 2010. This may signify an increase in demand for concrete. While a major highway project is not expected, with almost 47,000 of highways, regular repairs are always needed.

MANUFACTURING

Compared to 2010, shipments by manufacturers are up 10.4 percent in the first three months of this year. This could be due to increased automation, particularly the use of computers. While hours worked by employees fell 0.1 percent from 2009 to 2010, output increased by 7 percent per hour. Increased automation may account for this disparity.

MEDICAL

According to *CNN Money*, more medical students are choosing to become family practice physicians. In 2011, more than 1,300 students chose family care residencies, a 10 percent increase over the prior year. Health care reform may have had an impact on students' choices as it created new opportunities for loan forgiveness for family practice physicians and increased Medicaid payments.

DENTAL

The American Dental Association reports that there could be a shortage of dentists in the future. Dentists in private practice are aging, with a current average age of 49. Also, there are fewer dental schools, and fewer students entering those schools, than there were in the 1980s. Research by Pew Trusts suggests that training additional dental practitioners could help to close this gap.

NOT-FOR-PROFITS

The Chronicle of Philanthropy reports that 2010 contributions from the 50 largest donors in the U.S. are at their lowest levels since 2000, when they began tracking the statistic. Large donors are still giving, but the donations are smaller. This decline has lead not-for-profits to seek to expand their donor bases.

ADAPTING TO THE ENVIRONMENT

RECO EQUIPMENT, INC. TAKES NONTRADITIONAL PATH TO SUCCESS

Rea CLIENT FOCUS

At first glance, a company founded to supply equipment to the coal and mining industry might seem destined to become a fossil in today's eco-friendly world. Not RECO Equipment, Inc.

By finding new products and new markets that parallel its roots, this company proves it's possible to not only survive, but thrive, in a constantly changing world.

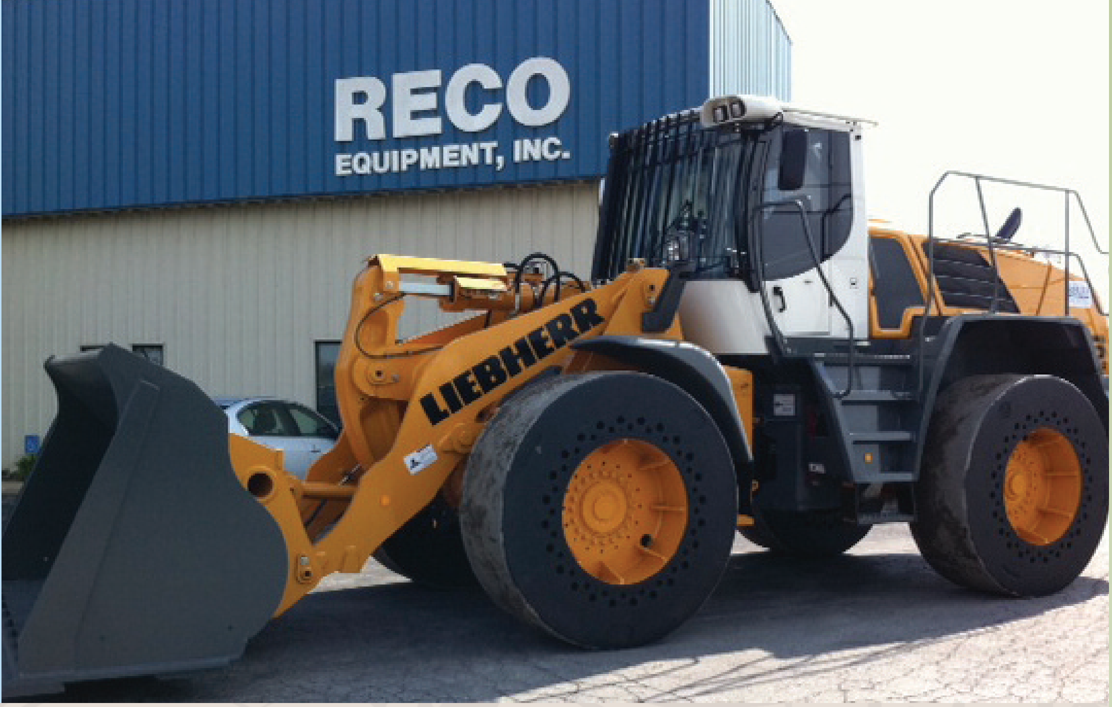
When Robert E. Hathaway formed in RECO in 1983, 28 employees worked at the company's Morristown, Ohio, headquarters. The company now has 125 team members at 11 locations in Ohio, Pennsylvania, Indiana and Michigan. Many of those original 28 employees are still on the job, and RECO's president, Reed Mahany, considers them one of the company's biggest assets.

"We have such a dedicated, professional team of people. They know exactly what they need to do, and they do it well. We get up every day and have something to do. And we don't have a lot of turnover," he said.

RECO can also thank its three-man management team for its success. Long-time employees Paul DiTullio and Mahany began a stock purchase of the company in 2008, which they completed in 2010. They recruited Joshua Gasber, who worked for RECO and left the company to do consulting work, to return as vice president of product support and administration.

"We have unique expertise and areas of responsibility," said Gasber. "We communicate and rely on each other to take care of certain areas, but we also look over each other's shoulders and ask questions and provide input."

DiTullio, who manages the Bobcat business line, credits Hathaway with setting a good foundation for the business. "I think Bob was ahead of the curve because he saw ways to diversify our business with the purchase of our Bobcat division and our expansion into the scrap and material handling industry,"



he said. "That industry was expanding at the same time that the coal and strip mining industry started to decline. Our scrap and material handling division now accounts for 60 percent of our business."

By focusing on what the company does well and the logistics of serving its customers, RECO successfully expanded its sales and service area. "After we analyzed our freight, mileage and travel time, we knew we could move equipment, parts and people to locations in a two-hour radius, so if you drew a circle around each of our locations, they're all contiguous," Mahany said.

DiTullio said that while the management team takes a conservative, controlled approach to expansion and growth, they aren't afraid to take advantage of good opportunities when they become available.

"Our Indianapolis facility was a distressed business that we hadn't planned to purchase, but the business lines worked really well with the equipment we sell," DiTullio said. "On the other hand, our Detroit store was more of a planned expansion into an area where there was no existing company."

"Too many companies get caught up chasing what I call the shiny margin, usually doing something that isn't who they are or what they do," said Mahany. "We look for ways to complement the equipment we offer, the services we provide and what we know our team can do."

RECO was certainly impacted by the Great Recession, and Mahany said its lingering effects remain his biggest management challenge. "It's tough to watch finance companies and the general public not have confidence that the recession is really over," he said. "The recession wasn't fun. But we're here and we're moving ahead, and we're very optimistic about the future."

To learn more about RECO, visit www.recoequip.com.

"WE HAVE SUCH A DEDICATED, PROFESSIONAL TEAM OF PEOPLE. **THEY KNOW EXACTLY WHAT THEY NEED TO DO, AND THEY DO IT WELL."**

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DOCUMENTATION **YOU CAN'T AVOID**

OHIO'S CLOSE CORPORATION AGREEMENT DOESN'T ELIMINATE NEED FOR BASIC OPERATIONAL RECORDS

By Robert Mapes (Director of Tax, Wooster office)

Sometimes things aren't as easy as they seem. Many smaller businesses have adopted an Ohio corporate governance structure that appears to make record-keeping much easier. But the structure can hurt you if you stop documenting loans or buy-sell agreements through corporate minutes.

Once a C or S corporation adopts the structure, it can bypass many of the governance formalities required for regular corporations. For example, the company with a Close Corporation Agreement is no longer required to have officers, board meetings, corporate minutes or annual shareholder meetings, among other things.

While Ohio law permits this form of governance, the IRS believes certain formalities and governance still need to have formal approval of either the owners or their representatives, such as a board of directors.

The complications can occur if, for example, your company loans money to a shareholder, an owner loans money to the company, or the owner takes a distribution out of the business without documentation.

Normally, you would document loan or borrowing agreements in the share-holder meeting minutes. But if you don't hold shareholder meetings anymore, you don't have minutes. Business owners often forget to execute the proper documentation for the transactions, and that can be a real problem during an IRS audit.

If this sounds like your situation, you should prepare and execute a formal note to document your loan. The note should spell out the provisions that you will follow, including the loan amount, collateral, interest rate, payment structure and the length of the loan.

Most businesses and their owners use the Applicable Federal Rate, or AFR, for the interest rate. The IRS posts the AFR monthly at http://www.irs.gov/ (type AFR in the search box) and provides interest rates for three lengths of time:

short-term for loans of three years or less

mid-term for loans of more than three years up to nine years

long-term rates for loans with terms longer than nine years

When you don't properly document a loan to a shareholder or business owner, the IRS can assert that it is not a loan, but rather a capital contribution or withdrawal, which can result in tax implications for both regular and S corporations.

This situation quickly becomes a complicated process to determine how much tax is owed. Luckily, if you have proper documentation and you comply with the provisions of the loan document, you can avoid this situation.

There are other items that you should document when your business exercises a Close Corporation Agreement. For example, the business should document its authorization by shareholders to make its pension contribution or officers' compensation, if it is a material amount.

Company buy-sell agreements are also usually documented in corporate minutes. Normally, shareholders in the business would review and document the business' value in their buy-sell agreements every one to two years, but those businesses operating under Close Corporation Agreements may forget to review and update them or fail to create the needed documentation.

If your company already operates under a Close Corporation Agreement or is considering executing one, know that there are many advantages. Just keep in mind that the agreement doesn't get your business out of documenting its basic operational agreements.