

The QUARTERLY

DIVIDEND
an e-newsletter for the financially savvy

January 2010

Welcome to the Quarterly Dividend

Welcome to the inaugural issue of The Quarterly Dividend... Each quarter we send out The Dividend to our clients and associates to deliver useful, timely information on protecting your wealth and planning your taxes. We hope you find the information we deliver useful and that it helps you to grow wealth and live life!

Regards,

Chad Cromwell & Melanie Ptacek

Measures 66 & 67 - What They're All About

There will be a special election in Oregon held on January 26th, 2010 to vote on Measures 66 & 67. If passed these measures are projected to increase state tax revenues by \$733 million through increasing corporate minimum tax, raising taxes on higher-income individuals and raising taxes on businesses. For more detailed information please visit: http://www.leg.state.or.us/comm/lro/research_report_301302.pdf

A brief synopsis of the tax change of the measures can be viewed below:

Measure 66 (Applies to Individuals only)

Yes Vote:

Single Tax Rate & Brackets			
Taxable Income	Pre Measure 66	Tax Years 2009-2011	Tax years 2012+
< \$3,050	5%	5%	5%
\$3,050 - \$7,600	7%	7%	7%
\$7,600 - \$125,000	9%	9%	9%
\$125,000 - \$250,000		10.80%	9.90%
> \$250,000		11.00%	

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Need to Know - Converting Your Traditional IRA into a Roth IRA

Starting January 1, 2010 taxpayers with an Adjusted Gross Income over 100,000 will be allowed to convert a Traditional IRA into a Roth IRA and the taxes due on the conversion can be paid over a two year period. Prior to this, a taxpayer had to have an AGI of less than \$100,000 to make the conversion.

Traditional IRAs are generally tax deferred when money is contributed, but are taxed when money is distributed. Roth IRAs contributions are made with after-tax dollars but are tax free on distributions. If you convert your Traditional IRA into a Roth there will be tax due at the time of the conversion on the balance of the amount that is transferred, but earnings and distributions from the Roth IRA will be tax-free moving forward.

This strategy is particularly beneficial for accounts that have dropped in value as there will be less tax due on the conversion. Other benefits of the conversion are:

- **Avoiding minimum distributions** – There are no required minimum distributions on Roth IRAs
- **Reducing Estate Taxes** – The conversion will be prepaying any taxes due from your retirement accounts. Your heirs won't be required to pay taxes on the Roth because the taxes have already been paid.
- **Tax Rate Shifting** – Depending on your current tax bracket it may make more sense to pay taxes at a 10-15% tax bracket now rather than paying at a 20% or more tax on withdrawals in the future.
- **Flexibility of withdrawal** – After you pay the tax the money is yours when you need it without paying a 10% penalty as you would with a traditional IRA

We are looking at this change as a major benefit for many of our clients. If you are interested in learning more please don't hesitate to call Cromwell & Company for more information.

Married Filing Joint Tax Rate & Brackets			
Taxable Income	Pre Measure 66	Tax Years 2009-2011	Tax years 2012+
< \$6,000	5%	5%	5%
\$6,000 - \$15,200	7%	7%	7%
\$15,200 - \$250,000	9%	9%	9%
\$250,000 - \$500,000		10.80%	9.90%
> \$500,000		11.00%	

Additionally, this measure will increase the excise tax that S-Corporations & Partnerships pay with their tax returns from \$10 to \$150. It will also increase the tax on Secretary of State filings from \$50 to \$100 for corporations based in Oregon.

No Vote:

Will maintain the current tax brackets as outlined in the column Pre Measure 66 listed above. All other entities and filings will remain at their current prices.

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This measure also eliminates income taxes on the first \$2,400 of unemployment benefits.

No Vote:

A no vote will maintain the current tax brackets as outlined in the column Pre Measure 66 listed above. Also, a no vote will reject the income tax exemption for first \$2,400 of unemployment benefits received in 2009.

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Measure 67 (Applies only to Corporations, LLCs, and Partnerships)

Yes Vote:

This measure is a bit more complicated than 66. The major change will come in a minimum tax to C-Corporations. The Measure will have two ways to calculate a tax and the corporation will pay the greater of the minimum tax or the tax as calculated below. If the C-Corporation makes a profit, the income tax will be calculated using the following tables:

Current & Proposed Corporate Tax Rates & Brackets				
Taxable Income	Pre Measure 67	Tax Years 2009-10	Tax Years 2011-12	Tax Years 2013+
< \$250,000	6.6%	6.6%	6.6%	6.6%
\$250,000 - \$10 mil		7.9%	7.6%	
> \$10 mil				7.6%

If the C-Corporation did not make a profit then a minimum tax calculation is done and it is based on Oregon revenues. The minimum tax ranges from \$150 to \$100,000 and is based on Oregon Sales.