

# Newsletter

**JULY 2009**

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## **Tax filing reminder**

- July 31 – Deadline for filing 2008 retirement or employee benefit returns (5500 series) for plans on a calendar year.

## **What employers and employees need to know about the new COBRA subsidy**

Job loss brings many challenges to families, and that often includes obtaining affordable health insurance coverage. Under a 1985 federal law referred to as “COBRA,” many employees who are discharged can keep health insurance coverage provided by their former employer for as many as 18 months. But to do so, the employee has to pay 100% of the COBRA premiums.

### **Employees’ subsidy**

The economic stimulus law enacted last February significantly reduces the cost of COBRA health coverage for those who lose their jobs.

Qualified individuals who timely elect COBRA coverage are required to pay only 35% (instead of 100%) of these premiums. The remaining 65% of premiums are paid by the employer, but reimbursed by the federal government through tax credits. This subsidy is available for up to nine months after the job loss.

Those qualified for the subsidy include terminated employees and their family members who are eligible for COBRA coverage at any time from September 1, 2008, to December 31, 2009. Employees who voluntarily terminate employment or who are qualified to participate in another group health coverage plan (such as a spouse’s employer’s plan or Medicare) are not eligible for the subsidy.

The subsidy is phased out for higher-income taxpayers. For singles, the phase-out starts once modified adjusted gross income (AGI) exceeds \$125,000. It is fully phased out at \$145,000. The phase-out for married taxpayers filing jointly begins with modified AGI of \$250,000 and is complete at \$290,000. Any part of the subsidy paid to an individual that is subject to phase-out because of these income limitations must be repaid as an additional tax on the employee’s federal income tax return.

### **Employers’ credit**

COBRA coverage is only required for employers with 20 or more full- and part-time employees, but many states sponsor plans similar to COBRA for small employers.

An employer that sponsored a health insurance plan that included COBRA coverage is required to pay 65% of COBRA premium if the terminated employee pays the remaining 35%. The government reimburses the employer through tax credits on the employer’s quarterly payroll tax returns.

If you need more information about the COBRA subsidy, give us a call.

## Put midyear tax planning on your summer agenda

Summer's here, and probably the last thing on your mind is tax planning. The problem is that if you wait until December, there's little time for changes to take effect. But if you take the time to plan now, you still have six months for your actions to make a difference on your 2009 tax return. With the recent tax changes, planning for the reduction of your 2009 taxes is more important than ever. Here are some suggestions to get you started.

- Pull out your 2008 income tax return, and review your income and deductions. Did you lose any credits or deductions because your income was above a certain threshold amount? If so, what can you do to keep this year's income below the threshold?
- You might want to schedule home improvement projects to benefit from the tax credits available for energy-saving expenditures on your principal residence.
- Evaluate your investment portfolio. If you have been avoiding the disheartening news, now is the time to reassert control over your investments. Review your holdings to see if you should take some losses to offset other income. If you're considering investment purchases, analyze the type of income you'll be receiving from the assets you buy. Then stash the investment in the proper account (taxable, deferred, or nontaxable) to achieve maximum return and tax savings.
- Adjust your retirement plan contributions. Are you still making contributions based on last year's numbers? Maximum amounts have increased for some plans in 2009. You can contribute up to \$11,500 to a SIMPLE, up to \$16,500 to a 401(k), and up to \$5,000 to an IRA. Remember to add catch-up contributions if you'll be 50 by the end of December.
- Factor two recent tax changes into your planning for retirement fund withdrawals if you're 70½ or older. First, the option to make a direct nontaxable donation of up to \$100,000 from your IRA to a charity has been reinstated. Second, the requirement to take a minimum distribution from your retirement plan is waived for 2009. This applies to 401(k) plans, 403(b) plans, certain 457(b) plans, and IRAs.
- Now is the time to do tax planning for the upcoming fall college expenses. Check out the various tax breaks, including the new, enhanced Hope credit (renamed the American opportunity credit).
- Do some business tax planning, too. Plan your equipment purchases to benefit from the extension of 50% bonus depreciation for new equipment and up to \$250,000 first-year expensing for new or used equipment.
- Mix business with your summer vacation and you might be able to deduct some of your travel expenses on your 2009 tax return. To benefit, the primary reason for your trip has to be business.

Making time for 2009 tax planning now not only helps reduce your taxes, but also helps to put you in control of your entire financial situation. Tax planning should be a year-round process, but it's especially effective at midyear. Give us a call for guidance in implementing the best moves for your particular situation.