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The NOHRE REPORT

Nohre & Co., S.C.
4228 Southtowne Drive
Eau Claire, WI 54701

Certified Public Accountants & Consultants
Phone: (715) 834-2225 (800) 960-2225
Fax: (715) 833-6750
Website: <http://www.nohre.com>

HEALTH REIMBURSEMENT ARRANGEMENTS AND HEALTH SAVINGS ACCOUNTS

HRA's and HSA's are two acronyms employers are becoming more familiar with in the effort to control rising health care costs. There are distinct differences between the two but both offer employer and employee advantages in what are being described as consumer-driven health care plans and **Congress made significant rule changes beginning in calendar year 2007.**

HRA's (Health Reimbursement Arrangements) are self-insured Section 105 medical reimbursement plans or a defined contribution health insurance plan, similar to Flexible Spending Accounts. While they can stand alone they are most often combined with a lower cost, high deductible (\$1,000 single or \$2,000 family deductible, e.g.) plan. Dollars contributed to an HRA (typically one-half of the deductible) are paid solely by the employer (no employee contributions are allowed) and unused funds may or may not (depending upon plan design) be carried over into the next year, unlike flexible spending accounts which are "use it or lose it" type plans.

HRA's make the most sense when the premium savings on a high deductible plan offset the dollars the company has to make available to fund the HRA. Like health plans, HRA's are subject to COBRA continuation coverage by continuing the maximum reimbursement amount. HRA's and FSA's can co-exist; however, you will have to determine which pays first or structure the HRA so that it does not cover the same expenses as covered in your FSA. The potential benefit to employers is lower health insurance premiums. HRA's are worth analyzing as a potential transition to HDHP's and HSA's.

HSA's (Health Savings Accounts) require a High Deductible Health Plan (HDHP) with a minimum \$1,100 deductible for individuals and a \$2,200 deductible for family coverage for calendar year 2007. Unlike HRA's, HSA's allow both employers and employees to contribute (pre-tax) to the account up to 100% of the statutory maximum. HSA accounts are completely portable between employers, as funds contributed belong to the individual. HSA dollars may be used to pay COBRA premiums, retiree health care coverage, long term care policies, and Medicare premiums.

The goal in offering Health Reimbursement Arrangements or Health Savings Accounts is to reduce your health insurance premiums and turn your employees into better consumers of health care services. All major insurance carriers are currently offering HRA's and HSA's

NEW FOR 2007

In December 2006, Congress passed and the President signed the Tax Relief and Health Care Act of 2006. The new legislation made the following changes impacting FSA's, HRA's and HSA's:

Prior to 2007, HSA contributions were limited to the lesser of the annual deductible or the dollar limit under the statute. In late 2006, the rule was modified to allow the contribution of the full statutory maximum (\$2,850 for single and \$5,650 for family coverage) irrespective of the deductible amount.

HRA and HSA, continued on page 2

For example, an employee with a \$1,500 deductible plan can now contribute the full \$2,850.

Mid-year enrollees no longer have to prorate their maximum annual contribution subject to certain conditions.

New legislation also allows employees to enroll in HSA's even if covered by an FSA with a 2.5 month grace period. The new legislation also opens a five-year window during which employers/employees may transfer funds from FSA's or HRA's into HSA's.

Also, beginning in 2007, employers may make higher HSA contributions to non-highly compensated employees.

Finally, employees will be allowed to make a once-in-a-lifetime rollover from an IRA to an HSA.

Book Bits

In 300 B.C. Ptolemy of Egypt founded a great library in Alexandria which was filled with scrolls of papyrus. The library stood for over 400 years and was considered a cultural wonder of its time.

The world's first printed book was the Diamond Sutra. It was printed with wooden blocks and was published in China in 868 A.D.

The most valuable book in the world is the Gutenberg Bible which was first printed in 1455 in Germany. This Bible was the first book ever printed from moveable metal type. It has 1,282 sheepskin pages which open to the width of a card table. In 1978, one of the existing 47 copies was sold for \$2,400,000. Today, one copy is in the Library of Congress in the United States; one is in the British Museum in England, and one is in the Biblioteque Nationale in France.

The first bookmobile was a horse-drawn wagon filled with shelves to hold 250 books. The bookmobile was the idea of a Maryland librarian in 1905.

The first children's book printed in English was a book of rhymes entitled *A Book in Englyssh Metre of the Great Merchant Man Called Dives Pragmaticus*. It was printed by Alexander Lacy of England in 1563.

PAYING INDIVIDUAL ESTIMATED TAXES

The federal and state income tax systems are "pay as you go" systems. In general, you're required to pay tax over the course of the year rather than waiting until April 15.

Most people meet the requirement by withholding tax from their wages or retirement accounts. If you have significant amounts of investment income or other types of income that aren't subject to withholding, you may incur a penalty if you don't make quarterly payments of estimated tax or adjust your withholding allowances.

To avoid underpayment penalties the general rule is you must make estimated tax payments if your withholding doesn't cover 90% of your 2007 tax liability, with the following exceptions:

- 1) No estimates are required if the amount due after subtracting withholding and credits will be less than \$1,000 for federal and \$500 for Minnesota; or
- 2) No estimates are required if your withholding and credits are equal to your prior year's tax liability.

However, if your adjusted gross income (AGI) for 2006 was more than \$150,000 (\$75,000, if married filing separately), then your withholding and credits must be equal to 110% of your 2006 federal and state tax liability.

Estimated tax payments are to be made in four equal payments. If the total tax paid through withholding and estimated tax payments does not meet one of the exceptions, underpayment penalties will apply.

The current penalty rate is 8% for federal and 8% for Minnesota, and is calculated only on the amount that should have been paid to meet one of the exceptions.

Estimated payment due dates for 2007 taxes: April 17, 2007, June 15, 2007, September 17, 2007 and January 15, 2008.

If you have any questions about the estimated tax payment rules, please call your Account Manager at (715) 834-2225.

2006-2007 IRA and SEP PLAN LIMITS

	<u>2006</u>	<u>2007</u>
Traditional IRA and Roth IRA under age 50	\$ 4,000	\$ 4,000
Traditional IRA and Roth IRA age 50 and over	5,000	5,000
SEP 25% of earnings (20% of net self-employment income)		
Maximum Earnings	220,000	225,000
Maximum SEP Contribution	44,000	45,000

2006-2007 RETIREMENT PLAN LIMITS

	<u>2006</u>	<u>2007</u>
Maximum Salary	\$ 220,000	\$ 225,000
Maximum 401(k) Deferral	15,000	15,500
401(k) Age 50+ Catchup	5,000	5,000
Maximum 403(b) Deferral	15,000	15,500
403(b) Age 50+ Catchup	5,000	5,000
Maximum Defined Contribution Limit	44,000	45,000
Maximum Deferral to a SIMPLE	10,000	10,500
SIMPLE Age 50+ Catchup	2,500	2,500

TAKE THE TIME TO UPDATE YOUR PROPERTY INVENTORY

If you ever have a fire, theft, or natural disaster, you potentially could lose a lot of valuable property. Your insurance policy will cover your loss as long as you know what it is you lost.

Don't wait for a disaster to create a list of your possessions. The best time to take a property inventory is now, while everything is intact and in place.

Here are a few suggestions on where to start:

- **List property by room.** It is easier to organize your inventory this way.
- **Be specific.** Describe your property as clearly and concisely as possible. If you have sales receipts, attach them to your inventory. If you don't have receipts, try to estimate what you paid and what you think the items may be worth. Include any serial numbers you may have.
- **Keep visual records.** While a written list is important, you also may find it valuable to document your possessions through some type of visual format. You can use a traditional camera or a video recorder, or consider a digital camera and put the photos onto a disk or CD. Whatever way you choose to record your property is less important than the fact that you're getting some kind of visual record.
- **Store your completed inventory and visual record in a safe place.** Once you've finished your written inventory and visual record, store it in a safe place, such as a safe deposit box or a fireproof container.

You may never need to produce a property inventory, but it always pays to be prepared.

PAYROLL RATES AND EARNINGS

<u>PAYROLL RATES</u>	<u>2007</u>	<u>2006</u>
Social Security Rate - Employer	6.20%	6.20%
Social Security Rate - Employee	6.20%	6.20%
Social Security Wage Base	\$ 97,500.00	\$ 94,200.00
Maximum Social Security Tax - Employee	\$ 6,045.00	\$ 5,840.00
Medicare Rate - Employer	1.45%	1.45%
Medicare Rate - Employee	1.45%	1.45%
Medicare Wage Base	No Limit	No Limit
Maximum Medicare Tax - Employee	No Limit	No Limit
Self-Employment Social Security Rate	12.4%	12.4%
Self-Employment Social Security Wage Base	\$ 97,500.00	\$ 94,200.00
Maximum Self-Employment Social Security Tax	\$ 12,090.00	\$ 11,680.80
Self-Employment Medicare Rate	2.9%	2.9%
Self-Employment Medicare Wage Base	No Limit	No Limit
Maximum Self-Employment Medicare Tax	No Limit	No Limit
Federal Unemployment Rate	.8%	.8%
Federal Unemployment Wage Base	\$ 7,000.00	\$ 7,000.00
Maximum Federal Unemployment per Employee	\$ 56.00	\$ 56.00
Minnesota Unemployment Rates	.40-9.30% ⁽⁵⁾	.40-9.30% ⁽⁵⁾
Minnesota New Employer Rate (Non-Construction)	2.13% ⁽⁵⁾	2.32% ⁽⁵⁾
Minnesota Unemployment Wage Base	\$ 24,000.00	\$ 24,000.00
<u>401(K) EXCLUSION</u>		
Maximum Contribution	\$ 15,500.00	\$ 15,000.00
Catch-Up Contribution ⁽¹⁾	\$ 5,000.00	\$ 5,000.00
<u>IRA CONTRIBUTION</u>		
Maximum Contribution	\$ 4,000.00	\$ 4,000.00
Catch-Up Contribution ⁽¹⁾	\$ 1,000.00	\$ 1,000.00
<u>MINIMUM WAGE - HOURLY RATES</u>		
Federal Regular Wage	\$ 5.15	\$ 5.15
Federal Opportunity Wage ⁽²⁾	\$ 4.25	\$ 4.25
Minnesota Large Employers (gross at least \$625,000)	\$ 6.15	\$ 6.15
Minnesota Small Employers (gross less than \$625,000)	\$ 5.25	\$ 5.25
Minnesota Opportunity Wage ⁽²⁾	\$ 4.90	\$ 4.90
<u>PERCENTAGE WITHHOLDING FROM SUPPLEMENTAL WAGES</u>		
Federal (total up to \$1,000,000)	25% ⁽⁶⁾	25% ⁽⁶⁾
Minnesota	6.25%	6.25%
<u>FEDERAL BACKUP WITHHOLDING</u>	28%	28%
<u>MAXIMUM EARNINGS UNDER SOCIAL SECURITY BEFORE LOSS OF BENEFITS</u>		
Under Full Retirement Age ⁽⁴⁾ (\$1 lost for every \$2 over limit)	\$ 12,960.00	\$ 12,480.00
	\$ 1,080.00/mo ⁽³⁾	\$ 1,040.00/mo ⁽³⁾
Full Retirement Age ⁽⁴⁾ and Above	No Limit	No Limit

⁽¹⁾ Maximum additional exclusion for age 50 and over

⁽²⁾ Special "training wage" for first 90 days of employment for employees under 20 years of age

⁽³⁾ Applies in year of retirement

⁽⁴⁾ 65 years and 8 months in 2006

65 years and 10 months in 2007

⁽⁵⁾ Before additional assessments

⁽⁶⁾ 35% on excess of \$1,000,000 total supplemental wages

PENSION PROTECTION ACT OF 2006 (PPA) AFFECTS IRAs

Comprehensive pension plan reform was signed into law earlier this year. This legislation makes several important changes which affect IRAs.

Non-spousal beneficiaries may roll over qualified retirement plan benefits into an IRA

Before PPA, following the death of a participant in an employer-sponsored retirement plan, only a spouse was permitted to roll over distributions into an IRA. Other beneficiaries were often required to take distributions and pay tax immediately.

- Beginning in 2007, distributions from eligible retirement plans may be rolled over into an inherited IRA.
- The transfer must be accomplished by direct transfer from the plan to the IRA. If distributions are received by the beneficiary, the opportunity to make a rollover is lost.
- The inherited IRA is a separate IRA set up to receive the distribution. The IRA must be in the decedent's name payable to the designated beneficiary. For example, "John Smith IRA FBO Jack Smith".
- Beneficiaries affected by the new law include siblings, children, grandchildren, and unmarried domestic partners of the decedent.

Tax-free IRA distributions may be made **directly to charities**.

During 2006 and 2007, distributions up to \$100,000 per year may be made directly from an IRA to certain qualified charitable organizations by an individual who is 70½ years of age or older. The IRA distribution is excluded from the IRA owner's income.

Direct transfers to charities under this provision of the new law have several advantages over regular charitable contributions:

- There is no need to itemize.
- There is no percentage of income limitation for a tax deductible charitable contribution.
- The distribution does not increase your AGI for purposes of limiting itemized deductions or causing social security benefits to be taxable.

Items to consider before making a transfer from your IRA to charity:

- IRA distributions can only be excluded from taxable income if:
 - the distribution is made in 2006 or 2007;
 - the account owner is at least age 70½;

--the distribution is made as a direct transfer from the IRA Trustee to the charity; and
--nothing of value is received from the charity in exchange.

- Qualified charities do not include donor advised funds, supporting organizations, or certain private foundations.
- Make sure you coordinate your distribution with the charity so that you get a receipt for the payment before your income taxes are filed.
- Direct payments to charity are considered to come from deductible contributions and earnings first.

When choosing a particular IRA as a source of funds, the best choice may be an IRA account which includes non-deductible contributions. Later withdrawals will be subject to less tax.

FEDERAL MINIMUM WAGE TO INCREASE TO \$5.85 PER HOUR ON JULY 24, 2007

On May 25, 2007 President Bush signed legislation (H.R. 2206) that included increasing the federal minimum wage for the first time since 1997. The Act, referred to as the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 contains the Fair Minimum Wage Act of 2007 (Title VIII, Subtitle A) and the Small Business and Work Opportunity Tax Act of 2007 (Title VIII, Subtitle B).

The Fair Minimum Wage Act of 2007 increases the federal minimum wage rate to:

- \$5.85, effective 60 days after the date of enactment (i.e., July 24, 2007)
- \$6.55, effective 12 months after the 60th day (i.e., July 24, 2008)
- \$7.25, effective 24 months after that 60th day (i.e., July 24, 2009)

Numerous States Will Be Affected

Many states also have minimum wage laws. In cases where an employee is subject to both the state and federal minimum wage laws, the employee is entitled to the higher of the two minimum wages. The minimum wage rate in several states is tied to the federal rate in various ways so it is important to check how this federal minimum wage increase may affect the state(s) you do business in. Currently, there are five states that have no minimum wage law (Alabama, Louisiana, Mississippi, South Carolina, and Tennessee).

More information regarding wages and minimum wage can be found at the U.S. Department of Labor website.

Meet the Nohre Staff



Marty L. Goss, CPA

Phone: 715-783-6744
Toll Free: 800-785-8659
Fax: 715-833-6750
Email: marty@nohre.com

Marty earned his Bachelor of Science degree in Mathematics in 1990 and Bachelor of Business Administration degree in Accounting in 1993 both from the University of Wisconsin - Eau Claire, and is a Certified Public Accountant (CPA).

Marty's accounting practice started in 1993 with a local accounting firm where he specialized in audit and taxation. Marty now specializes in taxation, mergers and acquisitions, audit and accounting and general services.

Areas of Expertise

Tax Planning and Preparation
Appraisals and Valuations
Operational Analysis

Audit, Review and Compilation Services
General Business Consulting
Planning and Budgeting

Organizations

American Institute of Certified Public Accountants (AICPA)
Wisconsin Institute of Certified Public Accountants (WICPA)
Western Wisconsin Independent Insurance Agents (WWIA)
Eau Claire Chamber of Commerce

The NOHRE REPORT

NEWSLETTER POLICY

This newsletter is designed to present information on business and tax matters in general terms and is not intended to be used as a basis for specific action without obtaining further advice.

Editor: Andrea Nyseth

Please forward comments to newsletter@nohre.com