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The NOHRE REPORT

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COMPENSATION DEFERRAL PLANS - CHANGES EFFECTIVE JANUARY 1, 2008

Employer plans deferring compensation to future calendar years need to be amended. Affected plans and arrangements are given until December 31, 2008 to bring the written plan documents into conformity, but they need to be operated and administered in compliance with the final regulations starting January 1, 2008. This includes almost all nonqualified deferred compensation plans. Plans that are not in compliance with Internal Revenue Code Section 409A by January 1, 2008 will cause employees to be taxed on earnings they have not received and be subject to penalties and interest. This applies to all amounts deferred after December 31, 2004; amounts earned and vested before then are not included provided the plan was not modified. **Verbal plans will need to be put into writing**.

Many different types of plans are included: Deferred Compensation, Supplemental Executive Retirement Plan, Severance Arrangements, Stock Options, Stock Rights, Stock Appreciation Rights, Restricted Stock, Incentive Stock Options, Employee Stock Purchase Plan, Phantom Stock, Nonqualified Stock Options, Split-Dollar Life Insurance, and Salary or Bonus Arrangements could have been written to defer compensation into future years. Even teachers need to obtain a special ruling; some work a partial year and have their compensation spread over a 12 month period. The law also applies to former employees, directors, independent contractors and partners.

Plans where the employee has a legally binding right to receive compensation in the future are included. This includes plans where the compensation may be reduced or eliminated by the plan terms, and does not require compensation be already vested. Discretionary bonuses do not create a legally binding right.

Certain employer plans are excluded: Code Section 401(a) qualified plans, 403(a) annuity plans, 403(b) plans, SEPs, SIMPLE IRAs, Trusts under Code 501(c)18, 457(b) plans, 457(e)(11)(A)(ii) length of service award to a bona fide volunteer, and 415(m) plans. Also, certain welfare benefits are excluded: bona fide vacation leave, sick leave, compensatory time, disability pay, death benefit plans, and HSAs, HRAs, and Archer MSAs.

Independent contractors (service providers, SP) are excluded if the SP is actively engaged in the trade or business of providing services other than as an employee or as a director; SP provides significant services to two or more customers to which the SP is not related and the two customers are not related to each other, and less than 70% of revenues come from any one customer; and the SP is not related to the customer, deemed related if management services are provided.

Employers, as well as employees, will want their attorney to review their employment agreements and their nonqualified deferred compensation agreements to be sure the agreements are in compliance with Internal Revenue Code Section 409A by January 1, 2008 and in proper written format by December 31, 2008. As with most laws there are exceptions and guidelines to be followed.

Please contact Marty Goss at 715-833-6744 or marty@nohre.com.

MORE KIDDIE LAW CHANGES

In 2006, some individuals experienced an unexpected increase in the amount of taxes their children paid on unearned income. This increase was due to the Kiddie Tax being applicable to children under the age of 18, instead of under 14 years of age.

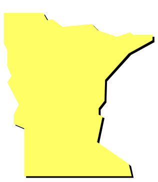
The Kiddie Tax was originally imposed to prevent parents from taking advantage of their children's lower tax rate. The tax only applies to unearned income which includes interest, dividends, net rent and capital gains income over an annual threshold ($1,700 in 2006). Any amount over that threshold is taxed at the parents' rate.

The Kiddie Tax laws were once again changed with the passing of the 2007 Small Business Act. Starting in 2008, the Kiddie Tax will apply to any child under the age of 19 or any child from the ages of 19-23 who is a full-time student.

There are some tax planning opportunities for 2007. If you have questions, please contact Marty Goss at 715-833-6744 or marty@nohre.com.

STATE BY STATE INFORMATION

MINNESOTA EMPLOYERS AND PERSONNEL FILE RIGHTS



Effective January 1, 2008 a new law requires employers with twenty or more employees to inform all new hires, in writing, of their right to access their personnel file. While the new law does not specify the method by which notice must be given, employers might very well provide the notice through either a policy in their employee handbook or as a part of new employee orientation materials. You are advised to ask new employees to sign an acknowledgement form stating that they have been provided with and have read the required notice.

The law does not specify exactly what must be included in the notice but you should at a minimum indicate that employees have the right to review personnel records once every six months and at least once per year following termination of employment. You should also include that the employee has a right to request removal of contested information in the file or to include a statement regarding the disputed information.

MINNESOTA DEPENDENT HEALTH INSURANCE CHANGE

The Minnesota Legislature has changed the definition of "dependent" for health insurance purposes beginning in calendar year 2008.

The new definition includes a spouse, a disabled child, and now an *unmarried child under the age of 25.* The old definition was an unmarried child under the age of 19 or "student under the age of 25". As a result, more dependents may be eligible for your health plan in 2008. It is also important to note that the IRS definition of a "child" remains unchanged. A "child" must be either under the age of 19 or a full-time student under age 24 to qualify for FSA, HSA or HRA medical expense reimbursements.

Also, to qualify for pre-tax health insurance premiums the child must meet the federal/IRS definition. For example, a 22-year old unmarried child may be included under Minnesota law as a dependent under your employer's health plan but if not a full-time student nor a qualifying dependent under the federal tax code, would not qualify for FSA, HSA, HRA reimbursements and the premium attributable for the dependent would not be allowed to be deducted on a pre-tax basis. The employer-paid premium to cover a child who is not a qualified tax dependent would then be treated as income to the employee. This new definition only applies to insured health plans.

If you have questions about this new definition of "dependent" for health insurance purposes, please contact Marty Goss at 715-833-6744 or marty@nohre.com.

2008 Tax Highlights

Savings Plans
Higher contributions
Medicare
Part B premium increase
Social Security
Wage base rise
Personal Taxes
New tax brackets
Adoption
Larger tax breaks
Business Taxes
Expensing hikes

Questions? Contact your Account Manager

COST OF HIGHER EDUCATION AT UPPER MIDWEST COLLEGES AND TECHNICAL SCHOOLS

College tuition and room and board costs are constantly on the rise. Do you have a good idea of what it will cost to send your child to an institution of higher learning located in the Upper Midwest? The table below lists the approximate cost of tuition and room and board for an incoming freshman for the 2007-2008 school year. Books, entertainment, transportation, and personal spending need to be added into the yearly totals. If these costs are a reason to cause you concern, contact your account manager for ideas on how to prepare for your child's future education costs.

School Name		Tuition	Rm & Bd	2007-08 Total	2006 Total	Change
Anoka-Hennepin Tech. (Anoka)		4,586	-	4,586	4,464	+122
Augsburg College (Mpls)		24,559	8,368	32,927	31,530	+1,397
Bethel College (St. Paul)		24,510	7,380	31,890	29,840	+2,050
Carleton College (Northfield)		36,156	9,489	45,645	42,864	+2,781
College St. Catherine (St. Paul)		25,946	6,790	32,736	30,820	+1,916
Concordia College (Moorhead)		22,350	5,700	28,050	26,070	+1,980
Gustavus Adolphus (St. Peter)		28,535	6,775	35,310	33,075	+2,235
Hamline University (St. Paul)		26,614	7,392	34,006	32,112	+1,894
Iowa State University (Ames)	(resident)	6,161	6,716	12,877	13,760	-883
	(non-resident)	16,919	6,716	23,635	24,254	-619
Mpls College Art & Design (Mpls)		27,200	4,160 (rm only)	31,360	30,810	+550
MN State Universities*		5,990	6,160	12,150	11,968	+182
Normandale Community (Bloomington)		4,512	-	4,512	4,320	+192
North Dakota State Univ. (Fargo)	(resident)	6,020	5,820	11,840	11,199	+641
	(non-resident)	6,350	5,820	12,170	11,567	+603
St. John's University (Collegeville)		26,350	6,870	33,220	31,621	+1,599
St. Mary's University (Winona)		22,398	6,130	28,528	26,639	+1,889
St. Olaf College (Northfield)		30,600	7,900	38,500	35,600	+2,900
University Minnesota (Duluth)		9,600	5,904	15,504	15,024	+480
University Minnesota (Twin Cities)	(resident)	9,885	7,062	16,947	16,935	+12
	(non-resident)	13,885	7,062	20,947	28,565	-7,618**
University St. Thomas (St.Paul)		25,808	7,312	33,120	31,740	+1,380
University South Dakota (Vermillion)		5,752	4,659	10,411	9,878	+533
University Wisconsin (Madison)	(resident)	7,000	7,574	14,574	13,650	+924
	(MN-resident)	8,600	7,574	16,174	15,238	+936
University Wisconsin (River Falls)	(resident)	6,038	4,924	10,962	10,314	+648
	(MN-resident)	6,660	4,924	11,584	10,906	+678

* includes Bemidji, Mankato, Moorhead, St. Cloud, Southwest and Winona Costs vary slightly between schools.

Student Loan Borrowing - How much can you safely borrow?

How do you decide how much debt you should incur? Obviously, the less borrowing you have to do, the better:

- If you're a student, your payments shouldn't exceed 10% of your expected monthly gross income once you graduate.
- If you're a parent, all your debts including mortgage payments, credit cards, car loans and education loans shouldn't eat up more than 35% of your gross pay.

Six factors cause 80 percent of all deaths in our country:

- Smoking
- High cholesterol
- High blood pressure
- Obesity
- Alcoholism
- Physical inactivity

Because American adults spend more days at work than any other modern country -- with no legally mandated vacation minimums -- it begs the question of how businesses can impact wellness.

Health care is generally the most expensive employee benefit, averaging approximately one-third of total benefit cost. Over the last decade businesses have experienced annual, sometimes double-digit increases in health insurance premiums. Some of the strategies they have implemented to control costs have included increasing employee contributions, restricting eligibility, going to tiered networks of providers or dropping coverage.

Many of these businesses will continue to see large increases in the future. But those that are investing in wellness as a business strategy are showing measurable ROI by focusing on the lifestyle of employees along with the structure of their benefits.

Seventy-five percent of larger companies offered a “health promotion” program in 2005 or 2006, up from 56 percent in 2003, according to survey results released in December 2005 by Watson Wyatt and the National Business Group on Health.

Nearly three out of four employers (72 percent) are sponsoring health-risk appraisals to measure individual employees’ health risks and behaviors. Forty percent are engaging “personal health coaches” for employees.

By focusing on programs and incentives that counteract the six factors above, businesses can reduce the lifestyle factors that result in about 40 percent of all health care expenditures. Fewer health care claims mean not only healthier and more productive employees, but also cost-effective benefits.

Typical costs associated with a basic wellness program focusing on nutrition, cancer prevention and weight management are, on average, $12.50/employee per month, according to St. Paul-based group benefits provider Cornell Insurance Services, Inc. If you have 500 employees, that comes out to $6,250 per month or $75,000 annually.

That $75,000 is just 1.5% of current average annual health costs for a company with 500 employees, according to Cornell.

On the flip side, researchers found that obesity alone boosts employers’ costs, including medical expenditures and absenteeism, by $460 to $2,500 per obese employee per year, according to a study published in the September/October 2005 issue of the American Journal of Health Promotion.

Businesses can use a variety of tactics as part of a wellness strategy:

- **Education -** Start a wellness program. This may include seminars, health fairs and screenings, or newsletters to educate employees on health matters.
- **Motivation -** Some employers provide non-monetary incentives for healthy behavior. Employers can sponsor exercise or weight loss groups. They can recognize achievements in company newsletters or provide inexpensive rewards (such as sweatshirts) for individuals achieving certain goals.
- **Compensation -** Give bonuses, subsidize the cost of special programs, or pay for the cost of preventative care not otherwise covered by the insurance plan.
- **Regulation -** Enforce some health-related behaviors (by prohibiting on-duty use of tobacco, alcohol, or illegal drugs). Employer mandates must be directly work-related, consistently communicated and applied, and in compliance with laws protecting employee privacy and disabilities.

Of the six factors noted above, doctors identify smoking as the most avoidable cause of death and disease and note its strong connection with heart disease and cancer. Smokers also consistently have higher health insurance claims than nonsmokers and take longer to recover from illness. But after just five years without smoking, heart disease and cancer risks return to almost normal levels.

In addition to managing health care costs, wellness programs can provide the following economic benefits:

- Reduction in absenteeism
- Reduction in job related injuries and workers’ compensation costs
- Reduction in disability costs

For more information about ways to implement cost-saving measures through an employee wellness strategy, please contact your account manager.

NEW CHARITABLE CONTRIBUTION RULES FOR 2007

Charitable contributions can be tax deductible, but the IRS has become stricter effective January 1, 2007 regarding the proper records to support your deduction. More documentation is now necessary.

To deduct a charitable cash donation, regardless of the amount, you must now have a bank record or a written communication from the charity showing the name of the charity and the date and amount of the contribution. Acceptable bank records would include canceled checks or bank or credit union statements containing the name of the charity, the date and the amount of the contribution.

Under the previous rules, records such as personal bank registers, diaries or notes made around the time of the donation could often be used as evidence of cash donations. Personal records like this are no longer sufficient.

Keep in mind the following rules for deducting your charitable contributions on your 2007 federal tax return.

- Charitable contributions are deductible only if you itemize deductions using Form 1040.
- Contributions must be made to a qualified charitable organization.
- Used clothing and household items such as furniture, linens and appliances must be in good condition.
- Vehicle donations are subject to special rules which require a signed statement of the value of the vehicle by the charity.
- To deduct charitable contributions of items valued at $250 or more you must have a written acknowledgement from the qualified organization and must be received by April 15, 2008.
- To deduct charitable contributions of items valued at $500 or more you must complete Form 8283, Noncash Charitable Contributions, and attach the form to your return.
- An appraisal from a qualified appraiser is required for donations of property (other than cash and publicly traded securities) with a value of more than $5,000. Also, a copy of the appraisal summary must be attached to the tax return. The appraisal must be obtained within 60 days of the contribution to the charity.

Failure to comply with these documentation and substantiation rules will cause the taxpayer to be subject to penalties and interest if the tax return is audited by the IRS.

If you have any questions, please contact your account manager.

PAYROLL UPDATES

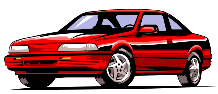
Form I-9, Employment Eligibility Verification

The New I-9 Employee Eligibility Form must be used as of December 26, 2007. NFIB's Legal Foundation has posted guidelines and forms to help you avoid fines of up to $1,100 for non-compliance with new requirements. Please visit NFIB.com often to keep an eye on the latest developments.

Where do I get the new form?

Download Form I-9 directly from NFIB.com at http://www.nfib.com/object/IO 35590.html.

2008 MILEAGE RATE CHANGES



The Internal Revenue Service has issued the 2008 standard mileage rates for calculating the deductible costs of operating an automobile for various purposes. Beginning January 1, 2008, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) for 2007 and 2008 are as follows:

	2007	2008
Business miles	48.5 cents	50.5 cents
Medical & moving miles	20 cents	19 cents
Charitable miles	14 cents	14 cents

Meet the Nohre Staff

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Kathy earned her Bachelor of Arts degree in Accounting in 1997 from Augustana College in Sioux Falls, South Dakota, and is a Certified Public Accountant (CPA).

Kathy began her professional career in 1997 at a small CPA firm in Edina, Minnesota, where she specialized in audit and accounting and taxation for a variety of industries including: construction contractors, professional service companies, distributors, retail, not-for-profit organizations, 401(k) plans, and FHA mortgages. Kathy now specializes in audit and accounting and general services.

Areas of Expertise

Year-end Financial Reporting
Audit, Review and Compilation Services
Accounting Services
General Business Consulting

Organizations

American Institute of Certified Public Accountants (AICPA)
Minnesota Society of Certified Public Accountants (MNCPA)
Eau Claire Chamber of Commerce

Hobbies and Interests

International travel, golf, baking, Norwegian heritage, two pet cats

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: Deb Stange

Please forward comments to newsletter@nohre.com