

Nick J. Storhaug, CPA
502 Main Street, Suite A
PO Box 669
Lisbon, ND 58054
Phone: 701-683-5303 Fax: 701-683-4315

Dear Client:

In March, 2010 Congress passed two new laws which will have an immediate effect on business and individual taxpayers in America.

The HIRE Act. This new law provides for three major changes for businesses in 2010 and 2011. In 2010 the law extended the rapid write-off rules for equipment purchased through the end of 2010. This allows small businesses to write off up to \$250,000 of equipment purchased during 2010, rather than depreciating them over the normal 5-7 years.

The HIRE Act also passed a new employer FICA tax holiday for new employees hired after February 3, 2010 who had not worked more than 40 hours in the 60 days prior to hiring. For those employees, any wages paid after March 18, 2010 are exempt from the employer's matching FICA tax of 6.2% through the end of the year if the employee signs an affidavit regarding their limited work prior to hiring. The FICA tax exemption is available on the first \$106,800 of wages paid to each qualified employee during 2010, and is available for both full and part-time employees.

In 2011 any new FICA exempt employees who were hired in 2010 and who are still with the company after 1 year and still earning at least 80% of 2010's wages will also qualify for a \$1,000 per employee tax credit. Family members, owners and a few other employees are not qualified for the FICA exemption or the New Hire credit.

The HealthCare Bill. Here are the income tax related highlights of the Bill:

- * Small employers with no more than 25 employees are entitled to up to a 35 percent tax credit on the cost of providing health insurance for employees, starting immediately in 2010;
- * Individuals who earn more than \$200,000 for the year (\$250,000 for married couples) will be paying an additional 0.9 percent in Medicare tax, starting in 2013;
- * Individuals whose adjusted gross income for the year exceeds \$200,000 (\$250,000 for joint filers), whether from wages or otherwise, will also be paying an additional 3.8 percent Medicare tax on net investment income, starting in 2013;
- * Health flexible savings arrangement (FSA) dollars will be limited to prescription medications with some exceptions after 2010, along with placing a \$2,500 annual cap on expenses covered under health FSAs, starting in 2013;
- * Limits on tax-subsidized medical expenses will be imposed by raising the itemized medical expense deduction floor for regular tax purposes from 7.5 percent to 10 percent, generally starting in 2013.
- * Employers with 50 or more employees generally will be required to provide a minimum level of health insurance for their employees or pay a penalty per employee, starting in 2014;
- * Most individuals will be required to obtain health insurance or be subject to a penalty tax starting in 2014;
- * Tax credits to subsidize the cost of health insurance premiums will be available to

individuals earning up to 400 percent of the poverty level, starting in 2014;

We highly recommend that business clients immediately speak with us regarding establishing Health Reimbursement Arrangements to counter some of these changes.

Tax incentives. Among a handful of tax incentives provided under the new health-care reform package, two are particularly notable at this time: (1) the ability of parents to cover adult children up to age 27 under their tax-qualified employer-provided health plans, starting immediately for plans that elect to beat the mandatory post-September 22 year deadline for doing so; and (2) the unveiling of a simplified cafeteria plan specifically tailored to small businesses, starting in 2011.

Exchanges. The health care reform package requires each state to establish an exchange by 2014 to help individuals and qualified employers obtain coverage. Coverage will be offered at various levels. Qualified individuals may be eligible for premium assistance tax credits, cost-sharing or vouchers to help pay for coverage through an insurance exchange. An individual's income, whether or not coverage is provided by his or her employer, will all be taken into account when determining if the individual qualifies for a premium assistance tax credit, cost-sharing or voucher.

IRS guidance. Over the course of the next few months, the IRS and other federal agencies will be filling in details on how to comply with all the provisions under the massive health care reform package. The IRS is expected to issue guidance soon on the provisions with effective dates in 2010 and 2011.

Our office will be staying on top of all developments, with an eye toward how to best maximize results under the new law for our clients. We are prepared to advise our clients on all compliance rules and tax-reduction opportunities that undoubtedly will arise. In the meantime, if you have any questions about the new law, please do not hesitate to call our office.

Sincerely yours,

Nick J. Storhaug, CPA