

the Competitive Edge

President Obama Releases Details About Tax Incentives for Individuals

Just over 100 days into his administration, President Barack Obama released more details about his tax policies. The Treasury Department's recently published "Green Book" (which is called green for the color of its cover) describes the president's tax proposals. As expected, many of the proposals build on the president's campaign promises to cut taxes for middle-income individuals. Congress has already begun drafting legislation and debating the president's proposals, which could be enacted into law later this year.

Making Work Pay Credit

The centerpiece of President Obama's individual tax incentives is the Making Work Pay credit. Many individuals are already receiving the benefit of this credit in their paychecks. The credit reaches \$400 for single taxpayers and \$800 for married couples filing joint returns if they fall below certain income limits. The credit, however, is temporary and will expire after 2010. President Obama is asking Congress to make the credit permanent, but many in Congress worry that a permanent credit would be too expensive.

More Middle-Income Incentives

Several other incentives are also targeted to middle-income taxpayers. These include marriage penalty relief, a



permanent American opportunity education tax credit, and permanent extension of lower individual marginal income tax rates (except for the 36 and 39.6 percent rates). The President has also proposed extending the state and local sales tax deduction, the higher education tuition deduction, the teacher's classroom expense deduction, the saver's credit, and the deduction for charitable contributions of IRA funds.

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These proposals enjoy significant support in Congress and are expected to pass.

President Obama did not propose extending several new tax breaks. These include the first-time homebuyer credit, which sunsets after December 1, 2009, and the deduction for state and local taxes paid on motor vehicles, which expires after December 31, 2009. The first-time homebuyer is popular in Congress and lawmakers may extend it one or two more years, especially if home sales remain slow.

Higher-Income Taxpayers

More controversial are the President's proposals for higher income individuals. As mentioned, the top two individual marginal income tax rates would revert to 36 and 39.6 percent after 2010. President Obama has also proposed reinstating and expanding limitations on itemized deductions for higher-income individuals along with reinstating the personal exemption phaseout for higher-income individuals.

The White House generally defines higher-income taxpayers as individuals with incomes above \$200,000 and families with incomes above \$250,000. It is unclear if these amounts refer to taxable income or adjusted gross income. More details are expected to be released when legislation is introduced in Congress.

Children

One of the most popular federal tax incentives is the child tax credit. The 2009 Recovery Act expanded the credit. President Obama has proposed making the enhanced child tax credit permanent.

The President has also recommended a permanent enhanced earned income tax credit (EITC). Under current law, more families are eligible for the EITC. However, the President has proposed eliminating the advanced EITC, which provides the credit in advance through payroll.



Capital Gains

Under current law, the maximum tax rate on qualified capital gains and dividends is 15 percent. Some taxpayers may be eligible for a zero percent rate. These rates are temporary and will expire after 2010. President Obama has asked Congress to extend the lower rates for middle-income taxpayers. However, higher income individuals would be taxed at 20 percent on qualified dividends and capital gains under the President's plan.

Health Care

Congress has just started debating comprehensive health care reform. Lawmakers are looking for ways to fund health care reform. Under current law, the amount that an employer contributes to an employee's health coverage is generally excluded from the employee's taxable income. One idea being floated in Congress is to cap the tax exclusion for employment-based health care coverage. Administration officials have generally indicated their support for continuing the exclusion.

Retirement Savings

During the campaign, then-candidate Obama often spoke about strengthening retirement savings, especially 401(k)s and similar defined contribution

arrangements. The President has made one official proposal: mandatory automatic enrollment in IRAs. Generally, employers without a retirement plan would be required to offer automatic enrollment in an IRA to all employees on a payroll-deduction basis. White House officials have also discussed some "unofficial" proposals, such as the partial annuitization of 401(k)s, to strengthen retirement savings.

Estate Tax

Eight years ago, Congress voted to repeal the federal estate tax for 2010. At that time, many observers predicted that repeal would be permanent. The recession has brought about different thinking. Instead of repealing the estate tax, the President has proposed extending the current rate of estate tax and exemption amount into 2010.

Doeren Mayhew Can Help

Congress has a lot of tax legislation on its agenda and is expected to enact much of it into law in late summer or early fall, maybe sooner. Doeren Mayhew will keep you posted of any new significant developments. In the meantime, please contact your Doeren Mayhew representative if you have any questions.

Occupational Hazards: An Internal Fraud Update

Once every two years, the Association of Certified Fraud Examiners (ACFE) publishes its *Report to the Nation on Occupational Fraud & Abuse*. The 2008 report reveals several interesting trends and insights. Following are some of the highlights:

Extent of Losses

The ACFE estimates that U.S. organizations lose 7% of their annual revenues to occupational fraud, up from 5% in the 2006 report. This translates to approximately \$994 billion in total fraud losses, compared to \$652 billion two years ago. The median loss also increased from \$159,000 to \$175,000.

Detection

Despite the Sarbanes-Oxley Act (SOX) and other anti-fraud laws and regulations, occupational fraud remains difficult to detect. A typical fraud continues for two years before it's caught, up from 18 months in 2006.

Also, as in the previous three reports, fraud is more likely to be detected by a tip than as a result of an audit, through internal controls, or via some other means. In the 2008 report, 46% of frauds were caught due to tips from employees, customers, vendors, or other sources (as compared to 34% in 2006).

On the other hand, anti-fraud controls did have an impact on fraud exposure. The ACFE notes that organizations conducting surprise audits suffered median fraud losses of \$70,000, compared to \$207,000 in organizations that didn't conduct such audits.

Occupational Fraud

Small businesses continue to be more vulnerable to occupational fraud. The median loss for businesses with fewer than 100 employees was \$200,000, compared to \$116,000 for businesses with 1,000 to 9,999 employees. The most common fraud schemes in small



businesses are fraudulent billing and check tampering.

The industries most often hit by fraud were banking and financial services, government, and health care. Among industries that reported at least 50 cases, the ones with the largest median losses were manufacturing (\$441,000), banking (\$250,000), and insurance (\$216,000).

Fraud Perpetrators

Most people who commit fraud aren't career criminals. Only 7% had previous convictions and only 12% had previously lost their jobs for fraud-related conduct. Although

perpetrators acted alone in nearly two-thirds of the cases, median losses were more than four times higher when more than one employee was involved. This seems to reflect that collusion generally makes it easier to circumvent anti-fraud controls.

More Information

These are just a few examples of ACFE's findings. You can obtain the entire 68-page report at www.acfe.com/documents/2008-rtnn.pdf.

IRS Provides Guidance on New COBRA Rules

The IRS recently released guidance, in a question and answer format, addressing how employers are to administer and seek recovery of the new COBRA premium subsidy enacted under the American Recovery and Reinvestment Tax Act of 2009 (P.L. 111-5). The Act provides that an individual who has been involuntarily terminated on or after September 1, 2008, through the end of 2009, is required to pay only 35% of the group health insurance premium to secure COBRA continuation coverage (up to nine months).

The new guidance focuses on two broad areas: form preparation – the mechanics of how an employer recovers the COBRA premium subsidy through a payroll credit claimed on IRS Form 941, and administration and eligibility. The guidance also addresses common inquiries surrounding the timing of when the subsidy begins and ends.

How the Subsidy Works

A former employee and his or her family are “assistance eligible employees” if they are eligible for COBRA health insurance continuation coverage as a result of any involuntary termination occurring from September 1, 2008, through December 31, 2009. These individuals are required to pay only 35% of the group health insurance premium that would otherwise apply.

Under the Act, the “person to whom the premiums are payable” – generally, the employer – pays the other 65% of the COBRA continuation premium. The employer will then be reimbursed by means of a federal payroll tax credit claimed on Form 941.

The Payroll Credit

Generally, an employer can claim the payroll credit for the COBRA premium subsidy on Form 941, Employer’s Quarterly Federal Tax

Return. To do so, the employer should enter the amount of any COBRA premium assistance payments paid on behalf of employees for that quarter on Line 12a. The amount entered should equal 65% of eligible workers’ total COBRA premium payments – not amounts received from former employees.

In its Guidance, the IRS indicated that there has been some confusion surrounding the proper number of individuals to be reported on Line 12b as having received COBRA premium assistance reported on Line 12a. The guidance clarifies that only one individual should be counted for Line 12b purposes in a situation where a former employee has also secured coverage for other qualifying individuals such as a spouse and/or children.

Timing Issues

The IRS has also clarified that the COBRA premium reduction applies as of the first period of coverage beginning on or after February 17, 2009, for which a qualifying involuntary terminated employee is eligible to pay 35% of the premium. The exact date of coverage is contingent upon the period to which premiums are charged to the plan.

The 35% premium subsidy generally applies until the earliest of



three events: (1) when the former employee secures other health insurance coverage; (2) the date that is nine months after the first day of the first month for which the special COBRA premium subsidy provision applies; or (3) the date the individual is no longer eligible for COBRA continuation coverage.

The American Recovery and Reinvestment Tax Act of 2009 provides many tax planning opportunities, including that relating to the special subsidy rules for COBRA premiums. If you have any questions regarding the new subsidy provisions under the Act, please call Doeren Mayhew today at (248) 244-3000 and speak to one of our professionals.

“Cash for Clunkers” Bill Signed Into Law

Enacted June 24, 2009, the Supplemental Appropriations Act of 2009 contains the Consumer Assistance to Recycle and Save (CARS) Act, more commonly referred to as the “cash for clunkers” law. This provision is designed to provide incentives to individuals and businesses to “trade-up” older vehicles for newer models that are more fuel efficient.

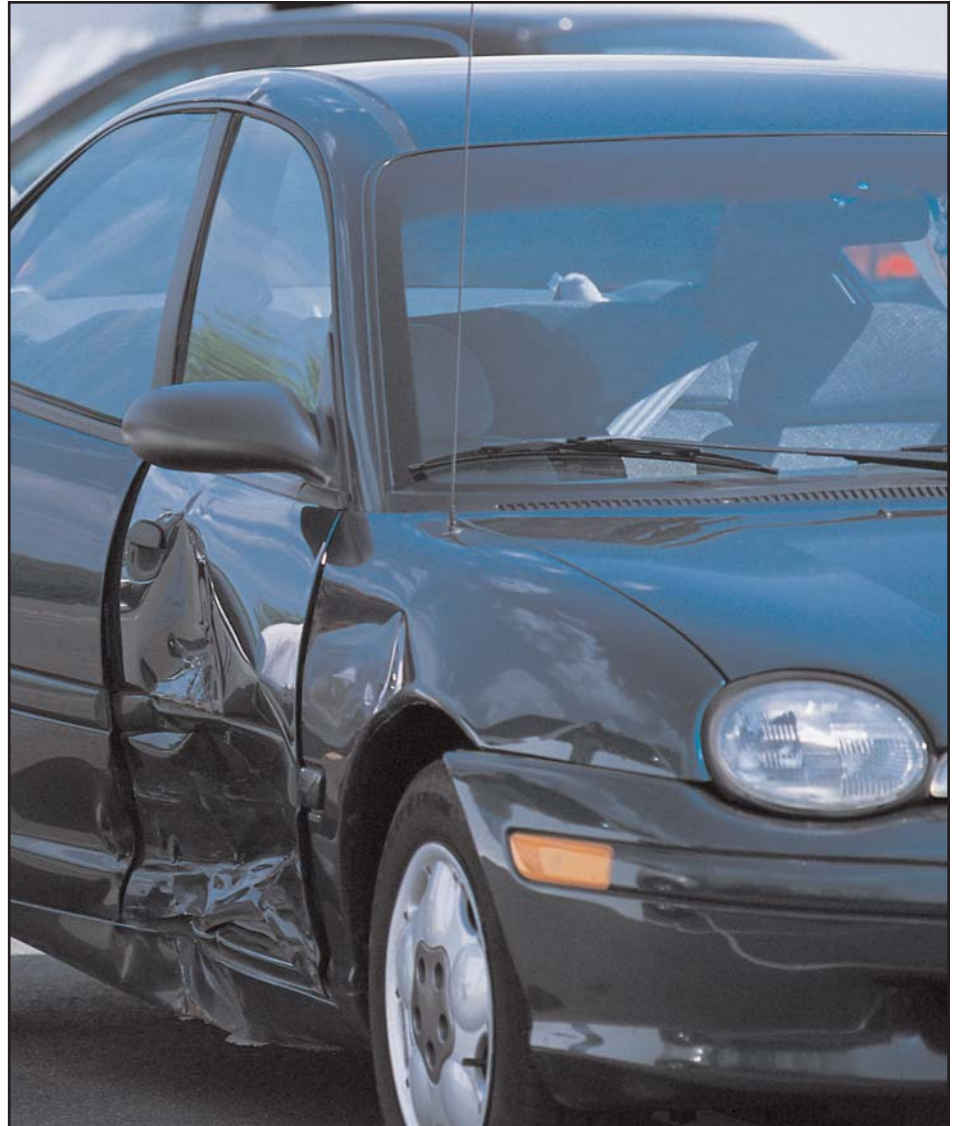
Trade-In Voucher

Under the new law, a taxpayer may be entitled to a voucher in an amount up to \$4,500, depending on the type of vehicle being traded in and the fuel efficiency of the vehicle being purchased. In order to qualify for a voucher under the program, a qualifying new vehicle must be purchased between July 1 and November 1, 2009.

Different rules apply to passenger automobiles and for various truck categories (light-duty, large light-duty, and work). The amount of the voucher will not be considered taxable income under the federal tax laws or for purposes of qualifying for federal or state assistance programs.

Eligible Trade-In Vehicles

Certain minimum requirements must be satisfied in order for a vehicle to be eligible for trade in under the CARS Act. At the time of trade in, the vehicle needs to be in drivable condition. Furthermore, the same owner must have continuously insured and registered the vehicle for a period of not less than one year prior to the trade-in date. The vehicle sought to be traded in must have been manufactured less than 25 years prior to the trade-in date and achieve a maximum fuel efficiency of 18 miles per gallon (mpg) or less (in the case of a passenger automobile).



New passenger automobiles with fuel efficiency of at least 22 mpg (based on the “EPA window sticker mileage”) are eligible for vouchers. If the mileage on the new car is at least four mpg higher than the old vehicle, the maximum voucher value is \$3,500. For new cars that get at least 10 mpg more than the old car, the voucher will be worth \$4,500, the maximum amount permitted under the law.

As to light-duty passenger trucks, old vehicles must get 18 mpg or less. New light trucks or SUVs attaining mileage of at least 18 mpg will be

eligible for a voucher. The new truck or SUV must achieve at least two mpg more in fuel efficiency as compared to the old truck in order to qualify for a voucher worth \$3,500. If the mileage of the new truck or SUV is at least five mpg more than the old truck, the voucher will be worth \$4,500.

Under the Act, an unmarried taxpayer is eligible to trade in only one qualifying vehicle for a voucher. In situations where two or more joint registered owners exist for one vehicle, only one voucher is eligible to be received.

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Doeren Mayhew Launches New Child ID Website

More than three years ago, Doeren Mayhew introduced its child ID kit program – providing free child ID kits to clients, prospects, friends of the firm, or anyone that asks for one. The kits keep a child's vital identification information close at hand in case of an emergency.

If the unthinkable ever happens, this identification kit with your child's photo, fingerprints, and vital information can be easily stored in your glove box, purse, or briefcase, readily accessible for authorities. The kits are ideal for parents, grandparents, and caregivers, and are also great to bring along on vacations and trips.

To date, Doeren Mayhew has given away over 2,000 kits,

originally offering them at seminars and conferences, and eventually through the firm's corporate Website. The positive response we have received over the years lead us to create a dedicated Website just for child ID kits.

Please visit our new Website today at www.freechildidkits.net to request your free child ID kit(s). Visitors requesting the kits from Doeren Mayhew will not be solicited in any way; the program is simply for goodwill.

Even if you have received child



The screenshot shows the website interface for 'Free Child ID Kits'. At the top left is the Doeren Mayhew logo. The main heading is 'Free Child ID Kits' in large blue text. Below this, there are two columns of text. The left column is titled 'Request Child ID Kits' and contains a form with fields for 'First Name', 'Last Name', 'Company Name', 'Address', 'City', and 'State'. The right column is titled 'Free Child ID Kits' and contains promotional text explaining the service. At the bottom right, there is a section titled 'Our Story'.

ID kits from us in the past, please feel free to request them again. The kits have been enhanced and allow for more detailed information.