



Client Bulletin

Smart Tax, Business & Planning Ideas *from your Trusted Business Advisor*SM

Health Insurance Reporting Is Delayed

July 2011

The health insurance legislation passed in Washington in 2010 contained several requirements for businesses. As reported in the *CPA Client Bulletin*, businesses had been required to report more purchases of goods and services on IRS Form 1099. That provision from the 2010 legislation has now been repealed.

Another provision of the 2010 health care legislation calls for employers to report the cost of health insurance provided to employees. Those reports would be on the annual W-2 forms provided to employees and to the IRS. The proponents of this provision asserted that such reporting would provide employees with useful information about the cost of their health insurance coverage.

Last year and this year, the IRS issued two notices related to this requirement, IRS Notice 2010-69 and IRS Notice 2011-28. These notices delayed the date when such reporting will be required. The IRS also provided guidance about the requirements in the form of questions and answers.

Citing the costs

Under this requirement, all employers must report the total cost of health

insurance, including employer and employee contributions. If the insurance covers an employee's family members, that cost also must be reported.

Example: Jim Washington works for ABC Corp., where he has family health insurance that covers his wife and their two children. ABC pays \$800 a month for this coverage, and Jim pays \$300 a month, which is deducted from his

paychecks. The total cost is \$1,100 a month, or \$13,200 a year. On Jim's W-2 form, ABC will be required to report \$13,200 as the cost of Jim's health insurance.

As you can see, ABC pays \$800 a month (\$9,600 a year) to buy health insurance for Jim. Jim doesn't owe tax on this benefit he receives.

In Notice 2011-28, the IRS affirmed that the health insurance reported

by employers will not be included in employees' taxable income.

Deferring the deadline

In its 2010 notice, the IRS announced that health insurance cost reporting is optional for 2011. Therefore, employers do not have to calculate health insurance costs this year and do not have to include those costs on W-2 forms delivered in early 2012. The requirement does take



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Premium Pricing

According to the Kaiser Family Foundation, the average annual premium for employer-provided health insurance in 2010 was \$5,049 for single coverage (5% higher than in 2009) and \$13,770 for family coverage (3% higher).

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effect in 2012, however, so the costs of health insurance must be included on W-2 forms issued in early 2013.

The IRS notice published this year provides further relief for smaller companies. Employers that file fewer than 250 W-2 forms in 2011 are exempt from the health insurance cost reporting requirement for an additional year. Those employers will not need to put the additional information on the W-2s they issue until early 2014, reporting health insurance costs for 2013.

Details defined

The IRS clarified other points in its 2011 notice. For example, the cost amounts that must be reported do not include contributions to health savings accounts, Archer medical savings accounts, or health reimbursement arrangements. Similarly, contributions to a healthcare flexible spending account (FSA) generally should not be included. (If an employer contributes money to employees' healthcare FSAs, those amounts should be

included.) The cost of vision and dental benefits should be included on the W-2 forms only if they are part of a group health plan.

The IRS describes several methods of calculating the health insurance costs that must be put on employees' W-2 forms. The process may not be simple, but there is time to prepare for such reporting. ■

Social Security After Death or Divorce



You may be familiar with the basic math of Social Security benefits. For people born from 1943 through 1954, Social Security's "full retirement age" is 66 years old. You can start to receive benefits as early as age 62, but early retirees permanently receive reduced benefits. You can defer Social Security retirement benefits up to age 70; the longer you wait, the larger each check will be for the rest of your life.

Spouses and ex-spouses may receive Social Security benefits on their own work record or on their spouse's record. Generally, they will receive the greater of the two benefits.

Support for spouses

The basic spousal benefit is one-half of the other spouse's retirement benefit.

Example 1: Molly Fox is eligible for \$800 a month on her own work record. As a spouse, however, she is eligible for \$1,000 a month from Social Security (half of her husband, Nick's, full benefit). Molly will receive the larger amount—the \$1,000 monthly spousal benefit.

To get this spousal benefit, however, the lower-earning spouse must wait for benefits until full retirement age.

Example 2: Assume that Nick Fox's benefit at full retirement age is \$2,000 a month. For Molly to get a \$1,000 spousal benefit, she must wait until her full retirement age to start benefits. Molly can start as early as age 62, but the earlier Molly starts to collect benefits, the smaller her checks will be. If Molly turns 62 this year and starts to receive Social Security checks right away, each check would be 75% of the amount she'd get at age 66. For every month after age 62 that she waits to start, her checks will be a slightly higher percentage of her full retirement benefit.

As mentioned, waiting until age 70 generates a larger check. If Nick Fox waits beyond age 66, he will increase his monthly check by 8% for each year he delays. However, Nick's waiting will not increase Molly's spousal benefit. Therefore,

someone who is certain to collect a spousal benefit (generally, someone who earned much less than his or her spouse) may want to start benefits no later than full retirement age.

Survivor's benefits

Married couples who have reached the age of eligibility may receive two Social Security checks each month. After one spouse dies, however, the surviving spouse can receive no more than one check. Again, the survivor will receive the higher of the two benefits. A surviving spouse who has reached full retirement age can collect the benefit that the deceased spouse would have received. A surviving spouse can start to receive survivor's benefits as early as age 60 (50 if disabled) but starting before full retirement age would produce smaller monthly checks. A surviving spouse who starts benefits at age 60 would receive 71.5% of the full retirement benefit; he or she will get a slightly

Did You Know?

Egypt's stock exchange, which closed for nearly two months earlier this year, traces its roots back to 1883. By the 1940s, it was the fourth largest in the world.

Source: African Business

higher amount for each month after age 60 that benefits begin.

Example 3: Assume when Nick and Molly Fox are in their 70s that Nick will receive \$2,600 a month from Social Security, and Molly will receive \$1,300; a 50% spousal benefit. If Nick dies, Molly would start to receive Nick's \$2,600 monthly benefit. Going forward, any cost of living adjustments for Molly would be based on that \$2,600 monthly benefit.

As previously noted, Nick's deferment of benefits beyond full retirement age does not increase Molly's spousal lifetime benefit. However, Nick's deferment of benefits does increase his own monthly checks and also increases Molly's survivor benefit if Nick dies first. In example 3, if Nick had been receiving \$3,000 a month, as a

result of delaying his own retirement benefit, Molly's survivor benefit would have been \$3,000 a month. Thus, a higher-earning spouse might delay Social Security as long as possible, in order to provide a greater survivor's benefit.

For a surviving spouse to receive a survivor's benefit from Social Security, he or she must have been married for at least nine months before the death. There are several exceptions to this nine-month rule. For example, if a couple is married and one spouse dies in an auto accident shortly after the ceremony, the other spouse can receive a survivor's benefit.

The 10-year hitch

After a divorce, an ex-spouse also can receive spousal and survivor's

benefits. Generally, the amounts involved are the same.

Example 4: Before marrying Molly, Nick Fox was married to Paula. Then they divorced. Paula can receive a benefit as large as half of Nick's while he is alive, and as large as Nick's full benefit if he dies before her. Paula generally must meet the same age requirements as Molly, who was married to Nick at his death.

In order to qualify for spousal or for survivor's benefits, an ex-spouse usually must have been married to the former spouse for at least 10 years and must be unmarried to receive the benefits. There is no limit to the number of ex-spouses who can receive benefits on one person's Social Security record; benefits paid to an ex-spouse will not reduce the amount paid to the current spouse or to the surviving spouse. ■

Consider Dividend-Paying Stocks

Even though the stock market has recovered from the crash of late 2008-early 2009, many investors are still leery. At the same time, safe alternatives such as bank accounts and Treasury bills have extremely low yields. In this environment, you might consider putting some money into dividend-paying stocks. They provide a relatively low-risk (but not risk-free) way to invest in equities and they can offer significant yields and tax advantages. Consequently, dividend-paying stocks may play a role in a diversified portfolio.

Plus signs

Dividend-paying stocks offer several advantages:

1. **Yield.** As of this writing, the stocks in the Standard & Poor's 500 Index have an average yield around 2%. That's the average; some stocks pay dividends of 3%, 4%, or more. Such yields compare favorably with current payouts

from bank accounts, bonds, and money market funds.

2. **Growth potential.** Companies that pay dividends can increase those payments if their business prospers. A company paying \$1 a share in annual dividends, for instance, might pay \$1.10 a share next year, \$1.20 a share the year after that, and so on. Share prices might rise with a growing dividend.
3. **Stability.** Companies that pay dividends tend to be well-established enterprises that earn ample amounts of cash. The dividend may act as a cushion in bear markets—investors might refrain from selling stocks that offer cash flow and thus prevent a selling panic. In prior bear markets, dividend payers generally have had smaller losses than stocks that did not pay dividends.

4. **Tax advantages.** When you put money into a corporate bond or a bank account or a money market fund, the income you earn is taxed at ordinary income rates. Currently, the top tax rate is 35%. Most stock dividends now are taxed no higher than 15%.

Less taxing

Taxpayers who owe 10% or 15% on their ordinary income, owe 0% tax on qualified dividends (see the Trusted Advice column on qualified dividends for further details). In 2011, the 0% rate applies to single taxpayers with



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taxable income up to \$34,500. For married couples filing joint returns, the 0% rate extends to \$69,000 of taxable income.

Example: Rick and Madison Peterson have taxable income of \$65,000 in 2011, of which \$5,000 is qualified dividends. All of their dividend income would be untaxed. If the Petersons have taxable income of \$70,000 this year, they would be \$1,000 over the \$69,000 ceiling. Thus, up to \$1,000 of their dividends would be taxed at 15% while any other dividend income would have the 0% tax rate.

The 15% and 0% tax rates on dividend income are in effect for 2011 and 2012. In 2013, dividends are scheduled to be taxed at ordinary income rates up to 39.6%. However, Congress has extended the low tax rates in the past and might do so again. President Obama has proposed making the 0% and 15% tax rates permanent for low-income and moderate-income taxpayers, respectively. Under the president's proposal, taxpayers with income exceeding approximately \$200,000 (single) or \$250,000 (joint returns) would owe 20% tax on dividend

income—which would be less than the tax rate on investment interest income. Although the future of income tax rates is unknown, it now appears likely that dividends to investors will receive favorable tax treatment.

Recognizing the risks

Investing in dividend-paying stocks can be rewarding but you shouldn't overlook the risks. Companies that pay dividends can run into trouble and reduce or even eliminate their dividend. Such a cutback might sink the stock price. In addition, dividend-paying stocks are vulnerable to severe bear markets even if the company continues to do well.

What's more, dividend-paying stocks tend to be concentrated in certain industries, which can add to volatility for investors. A few years ago, for example, banks and other financial firms were among the companies paying sizable dividends. Many of those companies suffered in the crash of 2008–09, so investors lost principal as well as dividend income. Keeping such perils in mind, you should consider diversifying among industries if you're going to

Trusted Advice

Qualified Dividends

- The 15% and 0% tax rates apply to qualified dividends.
- When a company declares a dividend, it also provides an ex-dividend date. That's the first day on which the buyer of a stock will not receive the recently declared dividend.
- For investors, a key time frame is 121 days, lasting from 60 days before the ex-dividend date to 60 days after the ex-dividend date.
- For a dividend you receive to be qualified, you must have held the stock for at least 61 days during that 121-day period.
- The 61-day requirement includes the day you disposed of the stock but not the day you acquired it.

invest in dividend-paying stocks. You also may do well to work with an experienced investment advisor when you select stocks or stock funds. ■

TAX CALENDAR

JULY 2011

July 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in June if the monthly rule applies.

AUGUST 2011

August 1

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2011. Deposit any undeposited tax. (If your tax liability is less than \$2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until August 10 to file the return

For federal unemployment tax, deposit the tax owed through June if more than \$500.

If you maintain an employee benefit plan with a calendar year end, file Form 5500 or 5500-EZ for calendar year 2010.

August 10

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2011. This due date applies only if you deposited the tax for the quarter in full and on time.

August 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in July if the monthly rule applies.