

SOLUTIONS

June ♦ 2009

Dear Clients and Friends

The American Recovery and Reinvestment Act of 2009

The biggest news in the first quarter is the passing of the American Recovery and Reinvestment Act of 2009. About one-third of this \$800 billion economic stimulus package is comprised of tax incentives for individuals and businesses. These incentives include:

Individual Incentives*

- ◆ Making Work Pay credit
- ◆ Economic Recovery Payment
- ◆ Private Activity Bond Interest & AMT
- ◆ First-time Homebuyer Tax Credit
- ◆ New Car Deduction
- ◆ AMT Exemption Increase
- ◆ Child Tax Credit
- ◆ American Opportunity Tax Credit
- ◆ 529 Plans & Computer Costs
- ◆ Unemployment Compensation
- ◆ Transportation Fringe Benefits

Business Incentives*

- ◆ "Bonus" First-Year Depreciation
- ◆ Section 179 Expensing
- ◆ Net Operating Loss Carryback
- ◆ Small Business Estimated Tax Relief
- ◆ Work Opportunity Tax Credit
- ◆ Qualified Small Business Stock
Withholding on Certain
Government Payments for
Goods/Services
- ◆ COBRA-related Provisions
- ◆ Energy Incentives

*Congress made many of the tax incentives retroactive to January 1, 2009.

For your convenience, we have posted information about the new tax incentives of the 2009 Recovery Act under *In the News* on our Website at www.cpasolutions.net. We also have a booklet available that highlights individual and business incentives – if you have not yet received it, please contact us to request this brief summary.

Because the scope of the American Recovery and Reinvestment Act is broad, we encourage you to call us if you have any questions, or to discuss how you may benefit from the new tax incentives. We can help you analyze the new incentives and determine which apply to your individual situation or business.

1099s and W-9s: What Taxpayers Should Know

A taxpayer who pays a subcontractor more than \$600 for services within one calendar year is required to file information returns with the IRS (Form 1099). It is not the service provider's responsibility to issue the 1099 to the IRS; in fact, taxpayers may be subject to IRS penalties for failure to issue a Form 1099.

Taxpayers must also be diligent about getting a Federal Identification or Social Security Number from subcontractors. A properly filled-out W-9 form may prevent the taxpayer from being subject to the rules for backup withholding at the current rate of 28%. In addition to any penalties a taxpayer may incur for neglecting to file 1099 tax forms, a taxpayer who pays subcontractors and doesn't issue the proper information returns may be subject to penalties for the backup withholding that should have been withheld.

Minimum Distribution Requirement Suspended for 2009

Under the recently enacted legislation, required minimum distributions from individual retirement accounts (IRAs) and retirement plans that maintain participant benefits in individual accounts are waived for 2009. Issuers of the 2008 Form 5498, IRA Contribution Information, should not put a check in Box 11 of the form. However, if a financial institution issues a 2008 Form 5498 with a check in Box 11, the IRS will not consider the form as being issued incorrectly if the financial institution notifies the IRA owner by March 31, 2009 that no required minimum distribution is required for 2009.

Tax Tip: Hire Your Children to Save Tax

Need some help around the office?

Is your child looking for a part-time or summer job?

Working for you may not come with a clothing discount at a trendy teen store or unlimited free pizza, but your child and your business may both benefit when you put your child to work for you. Here's why:

- ◆ Wages are exempt from FICA for a child under 18 employed in a parent's unincorporated business. [IRC 3121(b)(3)]
- ◆ A dependent's standard deduction can be up to \$5,700 for 2009 if all income is earned income. [IRC 63(c)(5)]
- ◆ A child may qualify to contribute \$5,000 to a deductible IRA for 2009 [IRC 219(b)]
- ◆ Wages paid by a parent to a child are deductible by the parent's business if...
 - (a) work is done in connection with the parent's trade or business
 - (b) the child actually performs the work for which wages are paid
 - (c) payments are actually made.

Note that if your child's wages are under \$5,700 in 2009, there is no federal tax withholding or filing requirement because the total wages are under the 2009 standard deduction.

To learn more about the tax benefits associated with employing your children under age 18, please contact our office.

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Protecting Your Loved Ones with Life Insurance

How much life insurance do you need?

Your life insurance needs will depend on a number of factors, including the size of your family, the nature of your financial obligations, your career stage, and your goals. When you're young, you may not have a great need for life insurance. However, as you take on more responsibilities and your family grows, your need for life insurance increases.

To gauge how much life insurance you'll need to protect your loved ones, consider these questions:

- ♦ What immediate financial expenses (e.g., debt repayment, funeral expenses) would your family face upon your death?
- ♦ How much of your salary is devoted to current expenses and future needs?
- ♦ How long would your dependents need support if you were to die tomorrow?
- ♦ How much money would you want to leave for special situations upon your death, such as funding your children's education, gifts to charities, or an inheritance for your children?
- ♦ What other assets or insurance policies do you have?

Types of life insurance policies

The two basic types of life insurance are term life and permanent (cash value) life. Term policies provide life insurance protection for a specific period of time. If you die during the coverage period, your beneficiary receives the policy's death benefit. If you live to the end of the term, the policy simply terminates, unless it automatically renews for a new period. Term policies are typically available for periods of 1 to 30 years and may, in some cases, be renewed until you reach age 95. With guaranteed level term insurance, a popular type, both the premium and the amount of coverage remain level for a specific period of time.

Permanent insurance policies offer protection for your entire life, regardless of your health, provided you pay the premium to keep the policy in force. As you pay your premiums, a portion of each payment is placed in the cash value account. During the early years of the policy, the cash value contribution is a large portion of each premium payment. As you get older, and the true cost of your insurance increases, the portion of your premium payment devoted to the cash value decreases.

The cash value continues to grow—tax deferred—as long as the policy is in force. You can borrow against the cash value, but unpaid policy loans will reduce the death benefit that your beneficiary will receive. If you surrender the policy before you die (i.e., cancel your coverage), you'll be entitled to receive the cash value, minus any loans and surrender charges.

Types of cash value life insurance

Many different types of cash value life insurance are available, including:

- ♦ **Whole life:** You generally make level (equal) premium payments for life. The death benefit and cash value are predetermined and guaranteed (subject to the claims-paying ability of the issuing insurance company). Your only action after purchase of the policy is to pay the fixed premium.
- ♦ **Universal life:** You may pay premiums at any time, in any amount (subject to certain limits), as long as the policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value will grow at a declared interest rate, which may vary over time.
- ♦ **Variable life:** As with whole life, you pay a level premium for life. However, the death benefit and cash value fluctuate depending on the performance of investments in what are known as subaccounts. A subaccount is a pool of investor funds professionally managed to pursue a stated investment objective. You select the subaccounts in which the cash value should be invested.
- ♦ **Universal variable life:** A combination of universal and variable life. You may pay premiums at any time, in any amount (subject to limits), as long as policy expenses and the cost of insurance coverage are met. The amount of insurance coverage can be changed, and the cash value goes up or down based on the performance of investments in the subaccounts. With so many types of life insurance available, you're sure to find a policy that meets your needs and your budget.

Choosing and changing your beneficiaries

When you purchase life insurance, you must name a primary beneficiary to receive the proceeds of your insurance policy. Your beneficiary may be a person, corporation, or other legal entity. You may name multiple beneficiaries and specify what percentage of the net death benefit each is to receive. If you name your minor child as a beneficiary, you should also designate an adult as the child's guardian in your will.

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	Cost	Coverage	Death Benefit	Cash Value	Policy Loans?	Cash Value Account Growth
Term	• Premiums start low, increase at each renewal	• Usually renewable until at least age 70; for some policies up to age 95	• Guaranteed if you die within the coverage term	• None	• Not applicable	• No cash value account
Whole	• Level	• For life	• Guaranteed • May increase with dividends*	• Guaranteed • May increase with dividends*	• Yes	• Insurance company determines guaranteed cash value and declares dividends based on performance of its general investment portfolio*
Universal	• Flexible	• For life	• May be guaranteed, depending on policy • Can be increased or decreased	• Guaranteed minimum interest rate • Varies based on interest rates	• Yes	• Insurance company determines cash value interest crediting rates based on current interest rate returns to the company
Variable	• Level	• For life	• Guaranteed • Varies relative to cash value investment returns	• Not guaranteed • Fluctuates with underlying investment performance	• Yes	• Cash value account growth depends upon the investment performance of the subaccounts you chose
Variable Universal	• Flexible	• For life	• May be guaranteed, depending on policy • Can be increased or decreased; varies relative to cash value investment returns	• Not guaranteed • Fluctuates with underlying investment performance	• Yes	• Cash value account growth depends upon the investment performance of the subaccounts you chose

*Dividends are not guaranteed. **Note:** Any guarantees associated with payment of death benefits, income options, or rates of return are subject to the claims-paying ability of the insurer. **Note:** Policy loans and withdrawals will reduce the policy's cash value and death benefit and may cause an investor to receive less than the original amount invested. Withdrawals may be subject to surrender charges and income tax penalties may apply to withdrawals before age 59 1/2.