

- ▶ Welcome to Craft, Noble and Company's e-news update – your quarterly brief on the most up-to-date tax talk and advice.

As we continue to deal with the economic downturn, many of us are concerned about what long-term effects this will have on our personal and business finances. Be assured that Craft, Noble and Company is here to assist you through these challenging times. Whether you are seeking tax preparation assistance, business planning or other financial services turn to Craft, Noble and Company for expert advice and service. We look forward to working with you in 2009.

CONTROL HEALTH COSTS AND TAXES WITH A HEALTH SAVINGS ACCOUNT

Health Savings Accounts (HSAs) have been slow to catch on with the public, but Congress is doing its part to champion their cause. It has tinkered with the law in recent years to make HSAs more appealing. In fact, you now have a once-in-a-lifetime opportunity – literally – to transfer funds tax-free to an HSA.

How does an HSA work?

Assuming you're eligible, you can set up an HSA yourself or participate in a plan through your employer. Any contributions you make are deductible above-the-line on your personal tax return, while your employer can deduct contributions made on your behalf.

For 2009, the maximum contribution allowed is \$3,000 for an individual or \$5,950 for family coverage. Plus, you can add a catch-up contribution of \$1,000 if you're age 55 or over.

The big difference between an HSA and other tax-favored medical savings accounts is that the funds in an HSA can be invested, and the earnings grow tax-free. Withdrawals used for medical expenses are not subject to income tax. Also, unlike funds set aside for medical expenses in flexible spending accounts, unspent funds in HSAs remain in the account to grow tax-free year after year. After age 65, withdrawals can be made and used for any purpose penalty-free but not income tax-free.

To be eligible to participate in an HSA, you:

- Must have a qualifying high-deductible health insurance policy in effect.
- Cannot be entitled to receive benefits under Medicare.
- Cannot be claimed as a dependent on another person's tax return.
- Cannot be covered by another health insurance plan other than a qualifying high-deductible health insurance plan.

For 2009, a “high-deductible” policy is one with a deductible of at least \$1,150 and out-of-pocket maximum of \$5,800 for individual coverage; a deductible of at least \$2,300 and out-of-pocket maximum of \$11,600 for family coverage.

Tax bonus. Under the tax law, you can roll over funds from a traditional individual retirement account (IRA), a health reimbursement account (HRA), or a flexible spending account (FSA) to a Health Savings Account without any income tax consequences. Normally, a rollover of this type would constitute a taxable distribution, with a 10% penalty tax if you’re under age 59½.

This tax break can be especially valuable to retirees and employees nearing the end of their careers. Also, a transfer from an FSA could make a lot of sense when FSA contributions can’t be used up and would otherwise be lost.

The catch. You can only do this rollover once in your lifetime, and if the rollover is from an FSA or an HRA, it must be done before 2012. Also, the transfer amount is subject to limits. Before you make the rollover election, be sure this is the right move for your situation. For details and assistance in deciding how this tax break might benefit you, give Craft, Noble and Company a call.

HAVE YOU DONE AN INSURANCE CHECKUP LATELY?

When was the last time you reviewed your insurance coverage? An annual insurance review makes good financial sense. Here are points to consider as you review your various insurance policies.

Health care. If you have an individual policy, investigate whether your employer, union, or professional association offers a less expensive group policy.

Long-term care. Long-term care insurance may be advisable if you’re between the ages of 55 and 72 and you don’t have enough assets to fund long-term care.

Life. The protection you need depends on the number of people who rely on you for support. Whole, variable, and universal life policies combine insurance coverage with an investment future. If you want insurance only, consider term life.

Disability. Studies show that less than one American in six owns enough disability insurance to provide a comfortable lifestyle during a two-year disability. Disability coverage is generally limited to 60%-70% of salaried income. If you have adequate emergency funds, electing a longer waiting period for coverage to kick in will reduce your premiums.

Homeowners. With fluctuations in the real estate market, it’s possible that your home is now under- or over-insured. Coverage equal to the current replacement cost (excluding land), not its original cost, is advisable.

Auto. Liability insurance is a must, but consider dropping collision coverage if you can afford to repair or replace the vehicle on your own. Collision insurance is probably required if your car is financed or leased.

Umbrella liability. Personal liability coverage is included with most homeowner and auto policies. However, if you own substantial assets, umbrella coverage will provide additional protection at minimal cost.

Unnecessary insurance. Avoid policies with narrowly defined coverage (such as credit, travel, or cancer insurance) if they duplicate other coverage.

IRS RELEASES INFLATION-ADJUSTED TAX NUMBERS FOR 2009

The IRS adjusts many tax numbers for inflation each year. Other numbers change as a result of tax law revision. In your tax planning for 2009, take the following changes into account:

- The maximum earnings subject to social security tax increases to \$106,800 for 2009. As before, all earned income (wages and self-employment income) is subject to Medicare tax. The social security earnings limit for retirees under full retirement age increases to \$14,160. There is no earnings limit for those who have reached full retirement age.
- The top estate tax rate remains at 45%, but the exemption amount increases to \$3.5 million for 2009. The annual gift tax exclusion increases to \$13,000 per donee.
- The nanny tax threshold increases to \$1,700 for 2009. If you pay household workers more than this amount during the year, you're responsible for payroll taxes.
- The kiddie tax threshold increases to \$1,900. If your child has more than \$1,900 of unearned income in 2009 (e.g., dividends and interest income), the excess could be taxed at your highest rate if your child is under age 19 (under age 24 if the child is a full-time student).
- The first-year business equipment expensing limit goes back to its 2007 amount (as adjusted for inflation). Unless Congress changes this limit (and the expectation is that they will), the limit for 2009 is \$133,000. The phase-out level is \$530,000.
- The standard mileage rate for business driving in 2009 goes down to 55¢ per mile, and the mileage rate for medical and moving expenses is 24¢ a mile. The general rate for charitable driving remains at 14¢ a mile.
- The adoption credit increases to \$12,150 for 2009 adoptions.
- There are some changes to the retirement plan contribution limits for 2009. The maximum contribution for an IRA remains at \$5,000 for those under age 50, and at \$6,000 for those 50 and older. The SIMPLE plan limit increases to \$11,500 for individuals under age 50, and to \$14,000 for those 50 and older. The 401(k) limit increases to \$16,500; those 50 and older can contribute up to \$22,000.

For details or for assistance as you begin your 2009 tax planning, give our office a call.

2008 TAX REBATES STILL AVAILABLE FOR SOME

The Stimulus Act of 2008 provided qualifying taxpayers with rebate checks last year. People who did not receive the maximum allowed or whose circumstances have changed since last year may be eligible for the 2009 version of the rebate — a “recovery rebate credit.”

The recovery rebate credit will be based on 2008 tax return information, so filing a 2008 return is necessary. Circumstances that could make a person eligible for the credit include a 2008 income change from 2007, the birth or adoption of a child in 2008, a change in the amount of social security or veterans' benefits received in 2008, and a change in dependency status (no longer being claimed as a dependent on someone else's return in 2008).

The IRS Web site at www.irs.gov provides information on eligibility and procedures for claiming the credit.

TAX STRATEGIES FOR IRA LOSSES

Trillions of dollars disappeared from taxpayers' retirement accounts in the closing months of 2008, thanks to the crisis in the financial markets. If your IRA lost value, you might have a tax opportunity to consider.

Convert your Traditional IRA to a ROTH IRA

Converting to a Roth triggers income tax on the value of your IRA, but since your IRA's value has dropped, the tax would also be lower. The benefit: Qualified withdrawals from Roth IRAs are tax-free while withdrawals from traditional IRAs are subject to ordinary income tax. There is a \$100,000 income threshold to qualify for a Roth conversion in 2009; this income limit ends in 2010.

Recharacterize a ROTH to a Traditional IRA

What if you converted your traditional IRA to a Roth IRA in 2008 before the market took a dive and are now facing income tax on a higher value than your Roth IRA currently has? In this situation, you might consider what is called a "recharacterization" — making a trustee-to-trustee transfer from the Roth back to a traditional IRA, essentially canceling out the original conversion to a Roth and any taxes due.

The rules governing IRAs are complex, so plan to meet with your tax advisor before making any changes. Craft, Noble and Company can help you analyze the options available in your specific circumstances.