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# CLIENT UPDATE

## Table of Contents

Health Care	Page 1
Financial Services: Student Loans	Page 1
Write-offs	Page 1-2
Reverse Mortgages	Page 2
Business Costs: USPS	Page 2
Taxes: Home Buyer Credit	Page 2
Enforcement: IRS Audits	Page 2

### Health Care

**The health care tax debate has another side: Using the tax code as an enforcement tool,** not just to raise money to offset the costs of reform. “Play or pay” is the plan—making folks buy basic coverage and employers offer insurance or face a big hit to their wallets. Key lawmakers in both the House and Senate agree that is the way to make a requirement for universal coverage stick. But there are battles ahead on the details.

**The biggest fight involves employer penalties.** House Democrats would threaten firms with an excise tax—8% of payroll if they fail to fund 65% of the insurance premium for an employee’s family coverage and 72.5% for singles. Small businesses with payrolls of less than \$250,000 would be exempt.

**Senate health lawmakers lean toward a different approach: A flat fee** of \$750 a year per full-time employee and \$375 for each part-time worker from firms that don’t pay at least 60% of worker premiums for basic coverage. The requirement wouldn’t apply to small companies with fewer than 25 employees. A competing plan from Senate tax writers would give firms a pass if enough of their workers were able to buy insurance in the open market and didn’t take government sponsored coverage.

**Congress has a fair shot at getting businesses to accept a mandate—if companies believe health care reform will yield significant cost savings.** Plus, businesses know that they will be preserving a tax benefit they view as crucial: The ability to deduct the payments they make toward employee insurance premiums. But lawmakers will walk a tightrope trying to get the penalty just right. Set it too high and business support will evaporate. A penalty that is set too low could prompt many companies to pay it and ditch the hassle of insuring employees. That could leave the government stuck covering a slew of newly uninsured workers.

**One thing Congress will OK without a fight: Tax breaks for small firms** that are too large to qualify for an exemption from the penalty but still small enough to have trouble covering their workers. Among the options being

eyed: Giving firms with 25 or fewer workers a tax credit equal to 50% of their health insurance costs. Another idea under consideration is a flat payment: Up to \$2,000 per employee for those who take family coverage and \$1,000 for each worker with single coverage.

**For individuals who don’t get insurance—penalties tied to premium costs.** Senate health lawmakers propose making individuals pay a fee that’s equal to 50% of the average premium for a basic plan if they couldn’t show proof of coverage. The House Democrat’s proposal penalizes the uninsured with a surtax equal to 2% of adjusted gross income less personal exemptions and the standard deduction. But that tax couldn’t exceed the cost of a basic premium. Whatever plan is adopted, figure that an individual making less than about \$15,000 a year would be exempt. Singles with incomes up to about \$43,000 would get tax credits to help buy coverage.

*The Kiplinger Tax Letter, July 10, 2009.*

### Financial Services

**Private lenders are losing the battle over student loans.** By next summer, they’ll be cut out of the lucrative student lending market, with a handful of them relegated to the role of simply servicing loans made directly by Uncle Sam. Look for Congress to OK the administration’s direct lending plan this fall, racking up taxpayer savings estimated at about \$87 billion over the next 10 years.

**For banks, it means a tougher time courting young customers** in the future as well as lost profits now. In the past, college loans gave lenders an easy entry. And for about 4,500 schools—a major overhaul of their lending programs. Only about 25% of eligible schools now participate in direct government lending.

*The Kiplinger Letter, July 17, 2009.*

### Write-offs

**Curious how your itemized deductions compare with those of other filers?** Check the averages in this table showing several key write-offs by taxpayers at various income levels. Data supplied by the IRS from 2007 tax returns.

<u>Adjusted Gross Income</u>	<u>Taxable Income</u>	<u>Interest Expense</u>	<u>State and Local Taxes</u>	<u>Charity</u>	<u>Medical Expenses Deducted</u>	<u>Total Itemized Deductions</u>
Under \$15,000	\$2,938	\$9,850	\$760	\$1,387	\$7,402	\$15,431
\$15,000-30,000	9,830	9,102	1,006	1,931	6,849	15,062
\$30,000-50,000	22,477	9,262	1,606	2,127	6,040	16,013
\$50,000-100,000	47,038	10,558	3,053	2,612	6,690	19,938
\$100,000-200,000	97,943	13,766	6,015	3,790	9,992	28,380
\$200,000-250,000	175,186	18,030	10,869	5,733	22,810	39,542
\$250,000 & above	681,827	28,110	39,454	23,817	32,813	91,046

**Note some anomalies.** The last column of the table includes two items not in the chart: Miscellaneous itemized deductions and casualty and theft losses. Totals for itemized deductions reflect the phase out of write-offs for upper incomers. And the averages for state and local taxes may seem low because they include filers who reside in states that don't have an income tax and opt to deduct sales taxes.

**Be careful when interpreting the average deductions for medical expenses.** They're only deductible if they exceed 7.5% of adjusted gross income, so few filers normally qualify for the write-off. The figures above are averages only for them.

**Having above-average deductions doesn't necessarily trigger an audit.** The IRS knows that taxpayers who live in states with a high individual income tax have larger state tax deductions than folks in states with a low tax rate or no tax. And the IRS matches mortgage interest deductions with 1098 forms from lenders.

*The Kiplinger Tax Letter, July 10, 2009*

### Reverse Mortgages to the Rescue

Seniors are using reverse mortgages to tap equity in their homes and generate tax-free income to help them ride out hard times. And new rules that took effect this year allow seniors to use a reverse mortgage to buy a new home (in the past, they had to stay put). As part of the economic stimulus package, Congress raised the reverse mortgage loan limit from \$417,000 to \$625,000 through the end of 2009. But getting a reverse mortgage won't come cheap: You'll pay the usual closing costs, plus loan-

service fees, an origination fee of up to \$6,000 and interest over the life of the loan. There's also an initial insurance premium of 2% of the home's value and 0.5% per month of the mortgage balance. A reverse mortgage makes sense only if you plan to stay in your house for several years.

*Kiplinger's Personal Finance Advisor, July 2009.*

### Business Costs

**Are we headed to a high-tech e-postal service?** It's at least a fair bet, with the U.S. Postal Service facing a \$7-billion loss for this fiscal year and little or no prospect of pulling itself out of the sea of red ink anytime soon.

**USPS may be forced to scan and send mail electronically** within a few years. That's what the Swiss do now, and apparently most mail recipients and senders like it. With mailers' approval, the Swiss Post scans in letters and bills, and then delivers them via secure electronic mailboxes. Delivery of hard copies can be requested. At a cost of just a fraction of a cent per scanned piece, the model has a lot of appeal, especially for businesses that rely on snail mail now—either because their volumes don't justify taking on e-billing themselves or their customers aren't interested.

**Postal unions would squirm**, fearful of losing thousands of jobs. But they also know that year after year of deficits would doom the union to a slow death. In the meantime—another big hike in the cost of a first class stamp, to 50¢ from 44¢ now. Better than even odds that regulators will approve an emergency jump next year, as USPS mail volumes continue to slump and revenues continue to shrink.

*The Kiplinger Letter, July 17, 2009.*

### Taxes

**Another year for the first time home buyers tax credit is a good bet.** With the housing market languishing, Congress is likely to OK an extension until Jan. 1, 2011. The \$8,000 credit is currently set to expire on Dec. 1 this year.

**But no expansion.** Forget about proposals for raising the credit to \$15,000 and offering it to all buyers—not just first timers with annual incomes of \$75,000 or less for singles, \$150,000 a year for couples. Congress would gag on the cost.

*The Kiplinger Letter, July 10, 2009.*

### Enforcement

**Random audits of individual income tax returns won't go away after 2009.**

IRS will continue the program indefinitely. In 2007, the Revenue Service revived its random audit program, selecting 13,000 returns a year for three years. The agency uses data on noncompliance from these exams to fine-tune its formulas to pick returns for audit and to update its tax gap estimates. The Service hopes that by extending these audits, the return selection formulas will be more up to date.

*The Kiplinger Tax Letter, July 10, 2009.*