

CLIENT UPDATE

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Referrals

We believe our firm is the most professional provider of employee benefits programs in the business. Our knowledge, ability and service are second to none. Our best new clients are those referred by you. If you know someone that might use our services call us or tell them to call us. It's as simple as 800/344-3766.

Thank you,
Rock Tuchek, President



PROPOSED REGULATIONS FOR DEPENDENT CARE EXPENSES

New proposed regulations were released in May of 2006 regarding the dependent care tax expenses, to replace the regulations that were issued in 1979 and had become partially obsolete. The proposed regulations incorporate statutory changes that were made since the old regulations were issued and add new rules. Proposed regulations apply to taxable years ending after the date they are published as final, but you may apply and rely on the proposed regulations now.

Expenses incurred must be for a "qualified" person. The IRS defines this person as a taxpayer's dependent who has not reached the age of 13, or the taxpayer's spouse or dependent that is physically or mentally incapable of self-care and has the same principal residence as the taxpayer for more than half of the year.

The custodian(s) must be gainfully employed or actively seeking employment in order to take advantage of this tax break. Employment can be inside or outside of the home.

In general, the new regulations are more expansive. Listed below is an *abbreviated* list of eligible and ineligible expenses:

- ✓ **Nursery School** expenses qualify (even though some or all of the expenses are educational).
- ✓ **Kindergarten** expenses are considered educational and **not** allowed; however, expenses for care before and after school may be applied toward eligible expenses.
- ✓ **Day Camp** expenses are acceptable for qualified individuals even if the camp specializes in a particular activity like music or soccer.
- ✓ **Overnight Camp** is not considered work related.
- ✓ **Medical Expenses** may **not** be regarded as daycare expense.
- ✓ **Transportation** to a day camp or to an after-school program not on school premises and furnished by a dependent care provider may be eligible daycare expenses if all other requirements are met.
- ✓ **Payments to relatives** – payments to either the taxpayer's spouse or to a parent of the taxpayer's child who is not the taxpayer's spouse **do not** qualify.

There are special rules for children of separated or divorced parents. Only the custodial parent may claim the expense, regardless of whether the noncustodial parent claims the dependency exemption. The proposed regulations define the custodial parent as the parent with whom the child shares the same principal place of abode for the greater portion of the year.

In order to claim expenses incurred at a Dependent Care Center, the Center must comply with all applicable laws, regulations and licensing required by the State or local governments. A Dependent Care Center means any facility that is providing full or part-time care for more than six individuals (other than those that reside at the facility) on a regular basis and receives a fee, payment or grant for providing services.

Dollar limits have not changed. The current limits allow participants to redirect \$5,000 for any taxable year filing a joint return with spouse or for singles who file as head of household. A \$2,500 limit applies to those married and filing separately.

These are highlights of the proposed regulations. For further details see IRS Publication 503 or contact us at Midwest Group Benefits, Inc.

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DELAY IN EFFECTIVE DATE FOR REGULATIONS UNDER SECTION 403(B)

The Internal Revenue Service announced on August 29th that the general effective date for regulations regarding 403(b) plans (originally proposed in 2004) have been extended. In order to provide employers, employees, insurance carriers and mutual funds involved in section 403(b) arrangements a reasonable advance period before the regulations go into effect, the final regulations generally will not be effective earlier than January 1, 2008.

Midwest Group Benefits, Inc. will be available to provide administrative services for our clients and others that are affected by the change in the regulations of 403(b) plans once the regulations have been finalized.

PENSION PROTECTION ACT (PPA) OF 2006

On August 3rd the Senate voted to pass the Pension Protection Act. As a result, there will be several changes to qualified plans and IRAs. Plan amendments to add the provisions of the Pension Protection Act will be needed; however, plans will not be required to be amended until the end of the 2009 Plan Year. Following is a brief summary of some of the changes that could impact your qualified retirement plan:

EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001) Permanence – The retirement plan and IRA provisions of EGTRRA have been made permanent. Originally, they were scheduled to expire in 2010. The permanent provisions include: the catch-up contribution, Roth 401(k) and Roth 403(b), increased deferral limits to 401(k) and 403(b) plans, the tax credit for lower income individuals (aka the Savers Credit).

Automatic Enrollment – For plan years beginning on or after January 1, 2008, the PPA has made it easier for employers to automatically enroll their participants into the plan. Currently there are state laws on wage withholding without the employee's consent causing many employers to not elect this provision in their plan ~ this has been eliminated. Employers utilizing the Automatic Enrollment Provisions will have an extended deadline for returning deferrals due to a failed ADP test. In addition, there are new "safe harbor" rules which would allow the plan to automatically pass the ADP/ACP test and top heavy tests with lower required employer contributions.

Default Investments – The Department of Labor is expected to issue new safe harbors regarding the default investments used in the case that a participant does not choose their own investments, allowing the employer to choose another "default" fund with the potential for a higher return without compromising their 404(c) protection.

Rollovers – Beginning in 2007, non-spouse beneficiaries will be able to roll inherited amounts into their own IRAs. Previously, only spouses could do this. Beginning in 2008, participants will be able to make direct rollovers of distributions from their qualified retirement plan into a Roth IRA. Employees will need to remember that it will be a taxable event at the time of the rollover.

Tax Refunds to IRAs – Starting in 2007, taxpayers can elect to have all or part of their federal income-tax refund directly deposited into an IRA (subject to the annual limits).

Please contact Sara Hotvedt at Midwest Group Benefits, Inc. with any questions you might have regarding these new regulations shotvedt@midwestbenefits.com , 563-382-9611 or toll free at 800-344-3766.

AGENCY SPOTLIGHT— BUSHMAN INSURANCE AND REAL ESTATE

Bushman Insurance celebrates 30 years in business

The staff at Bushman Insurance in Ossian hosted an appreciation day on October 13, celebrating 30 years in business. Tom and Terri Bushman first located the insurance-real estate business in an office across from the current Anderson, Wilmarth, and Van der Maaten law offices, after purchasing the former Eldo Peck Insurance business.

Patty (Hemesath) Duvel was the first employee and Terri joined staff when her youngest of five daughters was four years old. They currently have a staff

of six.

Terri Bushman said 30 years ago, they started with a two-drawer file and a used desk. The first manual typewriter was purchased at a garage sale. Continuing education is necessary to sell real estate, and in earlier years Tom had to take a written test, waiting weeks to find out if he passed. Today the test is taken on-line and results are known immediately. Bushman Insurance recently doubled the size of their current office area and today they provide many services including insurance policies, real estate transactions and securities. www.bushmanagency.com