

Tax Matters

connecting and informing
employees



OFFICE OF INCOME TAXATION
COMMUNICATIONS & TRAINING BRANCH

Fall 2010

A New Day for Health Care

THE AFFORDABLE CARE ACT

The **Affordable Care Act**, passed by Congress and signed into law by President Barack Obama in March 2010, gives you better health security by putting in place comprehensive health insurance reforms that hold insurance companies accountable, lower health care costs, guarantee more choice, and enhance the quality of care for all Americans. This Act involves major health care reform that will be implemented over a period of several years.

What Does This Mean for You?

Health care reform brought about by this act will affect every employee in some way. Let's take a look at four important items that may impact you in the coming year.

✿ Your W-2 Wage Statements

Starting in tax year 2011, the Affordable Care Act requires employers to report the value of the health insurance coverage they provide employees on each employee's annual Form W-2. To provide employers the time they need to make changes to their payroll systems or procedures in preparation for compliance with this requirement, the IRS has made this reporting requirement optional for 2011 and mandatory for every year following.

Despite information you might see circulating on the internet, the value of the employer contribution to health insurance is not taxable income. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be more informed consumers.

✿ Have a Flexible Spending Account (FSA)?

Effective Jan. 1, 2011, the cost of an over-the-counter medicine or drug cannot be reimbursed from Flexible Spending Arrangements or health reimbursement arrangements unless a prescription is obtained. The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles.

Plans that issue a debit or credit card to pay for over-the-counter medicines or drugs must ensure that the card is reprogrammed no later than Jan. 15, 2011, so that the card can no longer be used to purchase over-the-counter medicines or drugs.

The new rule does not apply to items for medical care that are not medicines or drugs. Thus, equipment such as crutches, supplies such as bandages, and diagnostic devices such as blood sugar test kits will still qualify for reimbursement by a health FSA if purchased after Dec. 31, 2010.

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✿ Have Adult Children that Need Health Coverage?

In the past, health plans could remove enrolled children usually at age 19, sometimes older for full-time students. Now, most health plans that cover children must make coverage available to children up to the age of 26. By allowing children to stay on their parents' plan, the **Affordable Care Act** makes it easier and more affordable for young adults to get health insurance coverage. This also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

Employees who have children who will not have reached age 27 by the end of the year are eligible for the new tax benefit from March 30, 2010, forward, if the children are already covered under the employer's plan or are added to the employer's plan at any time. For this purpose, a child includes a son, daughter, stepchild, adopted child or eligible foster child.

The new age standard of 27 replaces the lower age limits that applied under prior tax law, as well as the requirement that a child generally qualify as a dependent for tax purposes.

Your adult children can join or remain on your plan whether or not they are:

- married;
- living with you;
- in school;
- financially dependent on you; or
- eligible to enroll in their employer's plan, with one temporary exception—until 2014, “grandfathered” group plans do not have to offer dependent coverage up to age 26 if a young adult is eligible for group coverage outside their parents' plan.

✿ Considering Adoption?

The **Affordable Care Act** raises the maximum adoption credit to \$13,170 per child, up from \$12,150 in 2009. It also makes the credit refundable, meaning that eligible taxpayers can get it even if they owe no tax for that year. This credit is for federal purposes only, as Kentucky does not offer an adoption credit.

The above four items are only a small part of the changes to health care created by the **Affordable Care Act**. Other significant changes will be implemented in the next several years.

To stay on top of these and other changes, visit this IRS link:

[Affordable Care Act of 2010: News Releases, Multimedia and Legal Guidance page.](#)

“Happiness is nothing more than good health and a bad memory.” —Albert Schweitzer



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6. **Employees or Areas Not Collaborating**—Employees do not always share information with each other. Departments or units may not include all relevant parties when sharing information to help achieve common goals. This limits the capability of the organization as a whole.
 7. **Communication Hampered by Distance**—Departments or units that are in different locations do not communicate as much and as often as those in close proximity. Remember that changes in procedures in Frankfort can also mean changes for our field offices located throughout the state.

S-O-L-U-T-I-O-N

Remember, every aspect of an organization is impacted by communication. Even in this age of e-mail, cell phones, text messaging, and Web conferencing, critical and timely communication between management and employees and between departments or units still does not happen as much and as often as needed. Never underestimate the importance of communication in your job.

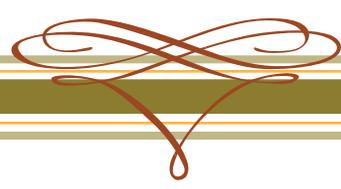
Whether you are a manager or employee, do your part to communicate workplace issues and the DOR workforce will be better equipped to face the daily challenges of our jobs. Effective communication between management and the front-line employees is essential to ensure that the right work is being done in the right way.

Be aware of breakdowns in communication and take the necessary steps to avoid contributing to the problem. Employing strong communication practices in a consistent and timely manner will be a win-win situation for everyone.



“Nothing is so simple that it cannot be misunderstood”

—Freeman Teague, Jr.





WORKWISE

Beat Fatigue: How to Stay Focused at Work When You Are Feeling Tired

Have you ever been so tired you almost fell asleep at work? Did you ever wish you could just crawl under your desk and take a nap like George Costanza on Seinfeld? We all know the feeling. Monday morning . . . you wake up still exhausted, can barely drag yourself into work, and then struggle to keep your head off the desk. Whether you stayed up too late watching the ballgame the night before, or maybe you are sleep deprived from feeding a newborn baby, sometimes it can be difficult to stay focused at work. Below you will find several practical ways to help you stay awake and on task, even when you feel like you're on the verge of dozing off.

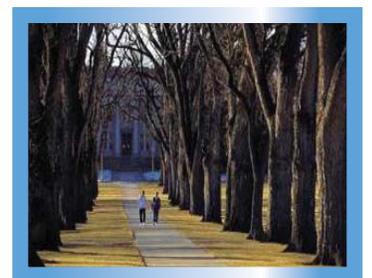
- Drink a glass of cold water.** Depending on your work environment and level of activity, it is recommended that you drink up to two liters of water per day. One of the major causes of exhaustion is dehydration; sometimes you don't even know you are dehydrated, instead you just feel sluggish. Water is actually thought to make up around 80% of the brain—so poor hydration can also adversely affect your mental acuity as well as how your body functions physically. The best way to stay hydrated throughout the day is to have a water bottle within arm's reach at all times. And here's a helpful hint: if you don't enjoy drinking plain old H₂O, then add a slice of lemon or orange to make it more appealing.



- Physical movement.** When people are sleep deprived, exercise can help increase alertness. Instead of giving in to the head nodding and eyelid drooping, get up and get moving for 5 to 10 minutes. Some type of brisk physical movement like walking or jogging, jumping jacks, or even push-ups will help to energize the body. If there is a stairwell, jog up and down the stairs five or six times. Getting your heart rate up is a really good way to wake yourself up. Your mind tends to go into exercise mode every time your heart rate elevates and this will wake you up significantly.



- Go outside during your break and get some fresh air.** Sometimes sitting in a warm office with a comfortable chair, staring at a computer screen and listening to the gentle background noise is enough to put anyone to sleep. A simple change of scenery makes a huge difference and just being outside can help revitalize you. Breathing in some fresh air can put the spring back in your step. Further, scientists tell us that the body thrives on sunlight. If there is not enough natural light, the body goes into sleep mode. However, being exposed to natural light has the ability to wake you up and make you feel more alert. And if you can combine the fresh air and natural light with some physical activity — perhaps a short walk around the block? — then all the better.



- Adjust your posture.** It is much easier to nod off at your desk if you are slouched or leaning back in your chair, or sit with your feet propped up. Good posture can make a huge difference in keeping you awake and alert. Try sitting upright in your chair, with your head lined up directly over your body and your feet flat on the floor, shoulders width apart. Also try breathing deeply and doing some simple stretching exercises while sitting at your desk. Take 10 deep breaths using your diaphragm (you should feel an expansion in your abdomen, not your chest or the upper part of your lungs). This should have a calming effect and help reduce your stress level, and can wake up your mind to help you get focused. The stretching exercises will not only increase your flexibility and help tone your muscles, they can help alleviate the aches and pains that are often associated with fatigue.
- Eat a healthy snack.** Some nutritionists suggest a snack rich in vitamin-C, such as orange slices, to help increase your vitality and energy. Fruit is an excellent food for giving you fast energy but without making you crash. Protein is also a good source for energy that won't make you sleepy. However, try to avoid foods high in refined sugar like soda and candy. Initially, they will give you a little boost, but then when the sugar crash comes you will be right back down again before you know it. If you do find yourself in a situation where you need to eat candy or something sweet, try eating a tiny square of dark chocolate. It will not only help improve your mood, but it helps the body release energy-boosting feel good endorphins and is also full of antioxidants that help prevent some diseases.



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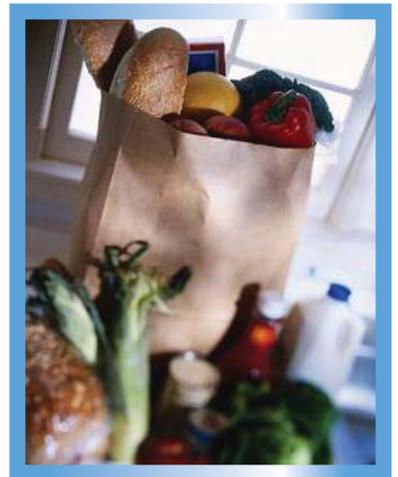
Communications and Training Branch

10 Helpful Tips for Saving Money on Groceries

During these tough economic times, it is often more difficult to make ends meet, pay the bills and provide for your family. It may seem like every time you turn around, the cost of milk, bread, eggs and other necessities has gone up. According to a recent federal government survey, the average American family of four spends \$9,172 on food each year. Cutting that total by just 20 percent would save you more than \$1,800. With that in mind, here are a few simple ways that you can stretch your budget and save money on groceries the next time you're at the grocery store.

- 1. Make a grocery list and stick to it.** This is so obvious, yet many shoppers run out the door without a list in hand. However, writing down what you really need helps you to avoid wasting money by reducing expensive impulse purchases. So make a list before you go, including only what you and your family needs and a few additional items that are on sale. Then be sure to only buy what is on the list, nothing else.
- 2. Use coupons.** A great way to save money is to use coupons that you find in the newspaper, your mail or on the internet. It may take some effort and a few extra minutes of time, but the savings can be significant and well worth it. A few websites to check out for electronic and printable coupons include: www.cellfire.com, www.shortcuts.com, www.pgesaver.com, www.smartsources.com, and www.redplum.com. Also, be sure to shop on double-coupon days to realize additional savings.
- 3. Consider purchasing store label and off brand products.** Brand-name items typically cost more, but often the products are virtually the same as the store brand. Here is the little secret that many grocery stores don't want you to know—a lot of off-brand products are actually produced by the same manufacturers as name-brand products under different names and packaging. So unless the difference is noticeable, and in some cases it still may be, go with the store brand products and you'll notice substantial savings.
- 4. Look for sale items and buy in bulk.** If an item is considered a "staple" or something you buy regularly that won't expire quickly, consider stocking up when the item is on sale. You should also consider buying items in bulk from wholesale clubs, where you can often find them at a cheaper price. However, always be sure to check the unit price of an item—sometimes buying the largest package is not always the best deal. You should not buy in bulk though, if you won't use the entire product and will end up throwing some away.

5. **Buy non-food items at another store.** Make a separate list for toiletries and personal care products, paper products, cleaning supplies and medicines. A lot of these items are often marked up at the grocery store and usually less expensive someplace else, such as a drug store or a discount store.
6. **Never go to the grocery store when you are hungry.** It's a no-brainer, but one you are likely to forget. If you're hungry, you're more likely to add food items to your cart and buy more than you need. Always try to shop on a full stomach—be sure to have a meal or at least a small snack before you leave the house—and hopefully you can avoid those impulse buys.
7. **Go grocery shopping alone.** Or at least, shop without the children in tow. Taking care of the kids while you shop can often be a distraction and lead to not making smart choices at the grocery store. Also, kids are great at talking their parents into buying items that are unnecessarily expensive and not on the list. You may also find that you purchase more if you shop with a friend. Your spouse or partner, on the other hand, may actually have a leveling effect on spending.
8. **Try to avoid prepared foods and also single servings.** You'll pay dearly for the convenience. Essentially, you're paying for the labor of somebody at the grocery store to prepare the meal for you. It is almost always cheaper to buy the ingredients and cook your own meals and usually it's also a healthier option. Next time, just skip the P's—that means processed, prepared, precut, and peeled—and you're savings will add up quickly.
9. **Look high and low.** Grocery stores tend to stock higher-priced items at eye level. Often, the best deals are usually found on items that are located on the top or bottom shelves and are harder to reach.
10. **Ignore items at the checkout counter.** Do you really need those magazines, sodas, candy bars, and gadgets? It's very strategic marketing by the grocery stores, which are keenly aware that the longer you wait, the more likely you are to give in to these are impulse buys. So just look the other way at the checkout and don't get lured into wasting money on them.



AGE IS ONLY A NUMBER

It has been said that wisdom comes with age. However, as a counterpoint, someone once said, "Sometimes age just shows up all by itself."

Either way, one thing that does come with age is eligibility for retirement benefits. There are several key retirement milestones tied to specific birthdays or ages. Take this quiz to see how "wise" you are when it comes to these important birthdays.

Match the following ages to their respective retirement milestones:

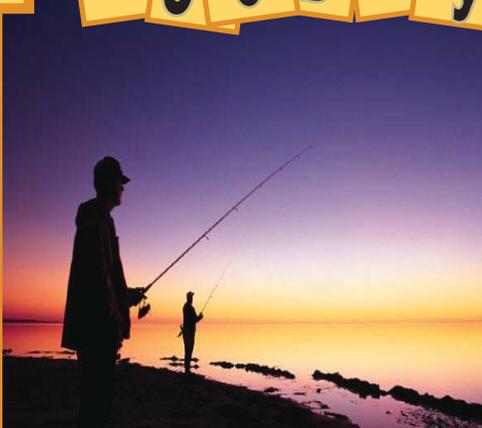
59½; 62; 65; 66; 70½

- _____ 1. You become eligible for full Social Security benefits at this age, assuming you were born between 1943 and 1954.
- _____ 2. At this age you must start taking withdrawals from most employer-sponsored retirement plans and traditional IRAs (the first distribution must be taken no later than April 1 of the year after you reach this age). Required minimum distributions are calculated based on life expectancy tables set by the IRS. The penalty for failing to take a required distribution is 50% of the amount that should have been withdrawn.
- _____ 3. You are eligible for Medicare coverage at this age.
- _____ 4. You can take penalty-free withdrawals from employer-sponsored retirement plans, IRAs, and annuities. Before this age, withdrawals are subject to a 10% federal income tax penalty. Distributions from tax-deferred retirement plans are subject to ordinary income taxes (with annuities, only earnings are taxed).
- _____ 5. You are eligible to start collecting reduced Social Security benefits. Collecting benefits early may permanently reduce your benefit by up to 30%.

Answers: 1. 66; 2. 70½; 3. 65; 4. 59½; 5. 62

GOODBYE

TENSION



The Communications and Training Branch would like to offer our thanks to Don Richardson, Executive Director of the Office of Income Taxation, for his guidance and support and our best wishes upon his retirement at the end of this year.

HELLO PENSION

“WELCOME ABOARD!”

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WELCOME... WELCOME... WELCOME... WELCOME...



WELCOME...

WELCOME... WELCOME... WELCOME... WELCOME...

“WELCOME ABOARD!”



WELCOME... WELCOME...

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DOR would like to
welcome these new
additions to our staff:

NOVEMBER 2010

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Individual Tax**

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**Division of Income Taxation/
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YOUR INPUT IS REQUESTED:

Your input, comments, and suggestions are welcomed. Please submit via e-mail to contact below.

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