Know Your Business

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You are an important client, friend or business partner of Wright Penning & Beamer. We value our relationship with you, and we want to provide pragmatic information to help your business succeed and grow. "Know Your Business" is a firm publication covering recent developments in the law and related areas to assist you, the business owner or manager, in being aware of various issues that could impact your business.

BACKGROUND CHECKS ARE BECOMING THE STANDARD

If you are like most of our business clients and friends, you probably spend some of your free time volunteering for nonprofit civic and religious organizations. If your organization works with children, the elderly or disabled individuals and it doesn't already conduct criminal background checks, then we recommend that it take advantage of an important service made available to nonprofit charitable agencies, at no charge, by the Michigan State Police.

Given the times we live in, we think background checks are necessary to protect not only charitable organizations, but also those served through them. (Incidentally, if your business employs or serves vulnerable individuals, then criminal background checks are equally important – they're just not free.)

Your organization can conduct a background search via the "Internet Criminal History Access Tool," or ICHAT, found at https://mi-mall.michigan.gov/ichat. While ICHAT does not provide information regarding federal records or records from other states, it does give arrest, charge and conviction information from throughout Michigan.

For more information, you can visit www.michigan.gov/msp and click on "Crime Prevention, Safety & Services," then click on "Police Services for Citizens," then click on "Requesting Criminal History Records."

Before your organization or business undertakes criminal history background checks, we recommend that it establish a policy regarding the handling of the sensitive information that may be retrieved. While your organization or business is certainly at risk for harm done to vulnerable people in its care, it is also at risk for harm done to workers whose negative history may be wrongfully or carelessly disclosed. If you need assistance in developing such a policy, please contact us.

THE "SKINNY" ON HEALTH SAVINGS ACCOUNTS

There is a new tool available to help individuals and employers meet the high cost of health care. Effective January 1, 2004, anyone who is covered by a high-deductible health insurance policy and is not eligible for Medicare can open a Health Savings Account. A high-deductible plan is defined as one with an annual deductible of at least $1,000 for individual coverage and at least $2,000 for family coverage. Health Savings Accounts allow individuals and employers to make contributions each year that can be used to pay for qualified health expenses for an employee, the employee's spouse and their dependents. The account can be set up either with a bank or a health insurer.

Not only is the money contributed to a Health Savings Account tax deductible, but the distributions for qualified medical expenses come out tax-free. In addition, investment earnings are not taxable, so the money contributed to a Health Savings Account grows tax-free.

In general, deposits into a Health Savings Account cannot exceed the amount of the health insurance deductible. In addition, they must be made by April 15 for the previous tax year. The list of qualified medical expenses is long and varied. It includes doctor visits, prescription drugs, over-the-counter remedies, long-term care insurance premiums, health insurance deductibles, Medicare premiums, COBRA benefits and health insurance premiums paid by an individual while unemployed.

A nice feature of Health Savings Accounts is that unused balances can be carried over from year to year and will continue to accrue tax-free earnings. In addition, if an employee changes jobs or retires, the account goes with the employee. Another nice feature of Health Savings Accounts is that employees may name beneficiaries to receive balances remaining in the accounts upon death.

In short, Health Savings Accounts provide a flexible, tax-favored tool that may be very attractive to smaller businesses.

ROTH CONTRIBUTIONS EXPANDED

If you thought Roth IRAs were a slick invention, you may be pleased to know that beginning January 1, 2006, all taxpayers (including those in higher income brackets) can make Roth contributions to their 401(k) plans. Roth 401(k) contributions are made with after-tax dollars, but grow 100% tax-free as long as distributions don't take place for at least five years after the contributions are made. This is good news for all of us who are looking for additional ways to save for retirement. Further, once we do retire, our Roth 401(k) account may be rolled into a Roth IRA where it will not be subject to minimum distribution requirements.

As you may have guessed, an existing 401(k) plan must be amended in order to accommodate Roth 401(k) contributions. In addition, a separate account must be established to hold the Roth 401(k) contributions.

If this new option appeals to you, your retirement and financial planning professionals can help you determine whether a traditional 401(k) or a Roth 401(k) makes better sense for you.