

IMPORTANT NOTICE

ARRA will result in changes to Payroll

This notice is to inform you how A D Computer is implementing the provisions in this act that affect payroll.

The American Recovery and Reinvestment Act of 2009 (ARRA), signed into law on February 17, 2009 has provisions which affect payroll.

- **“Making Work Pay” Tax Credit** – For 2009 and 2010, the act provides a refundable tax credit to more than 95% of employees of up to \$400 for working individuals and \$800 for working families. *Most taxpayers will receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks.* The IRS has released revised Federal income tax withholding tax tables.
- **Increase in Earned Income Tax Credit** – The act temporarily increases the earned income tax credit for working families with three or more children. The IRS has released revised Advance EIC tables for eligible employees receiving advance EIC payments.

The IRS requests that these revised tables be used as soon as possible but no later than April 1, 2009.

TO IMPLEMENT THE TAX CREDIT CHANGES... A D Computer will immediately use the revised Federal income tax withholding tables **and** Advance EIC tables effective for all payrolls processed by A D Computer on or after March 1, 2009.

- **Premium Subsidies for COBRA Continuation Coverage for Unemployed Workers** – The act provides a 65% subsidy for COBRA continuation premiums for up to 9 months for workers who are “qualified beneficiaries” and who have been involuntarily terminated, and for their families. To be eligible for the credit, a worker must be involuntarily terminated between September 1, 2008 and December 31, 2009. Workers who were involuntarily terminated between September 1, 2008 and enactment, but failed to initially elect COBRA because it was unaffordable, are given an additional 60 days to elect COBRA and receive the subsidy. If an assistance eligible individual (AEI) pays 35% of the COBRA premium, the employer must pay the 65% COBRA subsidy. The COBRA subsidy amount is then reimbursed to the employer by being claimed as a credit on the employer’s Form 941. *There are new lines on Form 941 to enter the COBRA premium assistance payments and number of individuals provided COBRA premium assistance during the quarter.* The employer may reduce their 941 tax deposits by the amount of the COBRA subsidy, which would recapture the COBRA subsidy prior to the end of the quarter. The group plan administrator must provide notices to all individuals who are eligible for COBRA coverage at any time on or after September 1, 2008 and on or before December 31, 2009. The act requires the U.S. Department of Labor to provide model notices for plan administrators to use within 30 days after the enactment of ARRA. It is likely that the plan administrator will not be able to make timely notification to all AEIs about the reduced amounts effective for March premium payments and AEIs may pay the full COBRA premiums for one or two months. If an AEI pays the full COBRA premium for the first or second period of coverage beginning after the date of enactment of the ARRA (i.e. periods of coverage for March and April 2009), the plan administrator must credit the subsidized portion of the premium against the AEI’s future COBRA premiums or refund the subsidized portion within 60 days. There will be considerable record keeping and notification required by employers and plan administrators. Employers should coordinate with their plan administrators for all the details and requirements of this act.

TO IMPLEMENT THE COBRA CHANGES... A D Computer will have the provision for employers to enter their COBRA premium assistance payments made for AEIs who have paid their reduced premiums *and* the number of individuals covered with any payroll processed by A D Computer. This amount should be 65% of the total COBRA premiums for AEIs without regard to the reduction. It is the employer’s responsibility to calculate the correct premium subsidy amount. This amount will reduce the 941 deposit for that pay. If all deposits plus the subsidy exceeds the 941 liability for the quarter, the IRS will refund the excess.

A D Computer will be ready to accept subsidy COBRA premium assistance payment information in mid-March for recording on the Form 941.