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How will health care reform affect you and your taxes?

Dear Friends and Clients:

It's massive, and it's complicated. At more than 2,000 pages, the *Affordable Care Act* (ACA for short) has left businesses and individuals confused about what the law contains and how it affects them.

The aim of the law is to provide affordable, quality health care for all Americans. To reach that goal the law requires large companies to provide health insurance for their employees starting in 2015. Medium-sized companies have until 2016 to provide health insurance to employees. Uninsured individuals must generally get their own health insurance starting in 2014. Those who fail to do so face penalties.

Insurance companies must also deal with new requirements. For example, they cannot refuse coverage due to pre-existing conditions, preventive services must be covered with no out-of-pocket costs, young adults can stay on parents' policies until age 26, and lifetime dollar limits on health benefits are not permitted.

The law mandates health insurance coverage, but not every business or individual will be affected by this requirement. Here is an overview of who will be affected.

FOR BUSINESSES – It's all in the numbers

● **Fewer than 50 employees**

Companies with fewer than 50 employees are encouraged to provide insurance for their employees, but there are no penalties for failing to do so. A special marketplace will be available for businesses with 50 or fewer employees, allowing them to buy health insurance through the Small Business Health Options Program (SHOP).

● **Fewer than 25 employees**

For 2010 through 2013, small companies that paid at least 50% of the health insurance premiums for their employees could be eligible for a tax credit for as much as 35% of the cost of the premiums. To qualify, the business must employ fewer than 25 full-time people with average wages of less than $50,000 ($50,800 in 2014, as adjusted for inflation). For 2014, the maximum credit increases to 50% of the premiums the company pays, though to qualify for the credit, the insurance must be purchased through SHOP. Special rules apply where SHOP is not available.

● **50 to 99 employees**

Businesses with 50 to 99 employees have until January 1, 2016, to meet the requirement of providing minimum, affordable health insurance to workers or face penalties. To qualify for this transitional relief, employers must certify that they have not laid off workers in order to come under the 100 employee threshold.

● **100 or more employees**

For companies with 100 or more full-time employees, the requirement to provide "affordable, minimum essential coverage" to employees is scheduled to become effective January 1, 2015. The IRS is encouraging large companies to comply with the ACA requirements in 2014 even though there are no penalties for failure to do so.

- **The business play or pay penalty**

  Starting in 2015, companies with 100 or more employees that don't offer minimum essential health insurance face an annual penalty of $2,000 times the number of full-time employees over a 30-employee threshold. If the insurance that is offered is considered unaffordable (it exceeds 9.5% of family income), the company may be assessed a $3,000 per-employee penalty. These penalties apply only if one or more of the company's employees buy insurance from an exchange and qualify for a federal credit to offset the cost of the premiums.

FOR INDIVIDUALS – It's all about coverage

A great deal of attention has been focused on the health insurance exchanges or "Marketplace" that opened for business on October 1, 2013. Confusion about the *Affordable Care Act* left many people thinking everyone has to deal with the exchanges. The fact is that if you are covered by Medicare, Medicaid, or an employer-provided plan, you don't need to do anything.

Also, if you buy your health insurance on your own, you can keep your coverage if your plan is still offered by the insurance company. You can keep insurance that does not meet the minimum coverage requirements of the law through October 2017 if your state permits it. However, the only way to get any premium-lowering tax credits based on your income is to buy a plan through the Marketplace.

- **The exchanges (Marketplace)**

  Each state will either develop an insurance exchange (Marketplace) or use one provided by the federal government. The Marketplace will allow those seeking coverage to comparison shop for health plans from private insurance companies.

  There are four types of insurance plans to choose from: Bronze, Silver, Gold, and Platinum. The more expensive the plan, the greater the portion of medical costs that will be covered. The price of each plan will depend on several factors including your age, whether you smoke, and where you live.

  Many individuals will qualify for federal tax credits which will reduce the premiums they actually pay. Each state Marketplace has a calculator to assist individuals in determining the amount, if any, of their federal tax credit.

- **The individual play or pay penalty**

  Individuals will generally need to have coverage for 2014 or pay a penalty of $95 or 1% of your income, whichever is greater. Under certain circumstances, you may qualify for an exemption from the 2014 requirement to have health insurance. Low-income individuals may qualify for subsidies and/or tax credits to help pay the cost of insurance.

  The penalty increases to $325 or 2% of income for 2015 and to $695 or 2.5% of income for 2016. For 2017 and later years, the penalty is inflation-adjusted. Those who choose not to be insured and to pay the penalty instead will still be liable for 100% of their medical bills.

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MORE ABOUT THE LAW AND YOUR TAXES
In addition to the penalties required by the *Affordable Care Act*, the law made other tax changes that could affect you. Among them are the following:

- Annual contributions to flexible spending accounts are limited to $2,500 (indexed for inflation).
- The 7.5% adjusted gross income threshold for deducting unreimbursed medical expenses is now 10% for those under age 65. Those 65 and older can use the 7.5% threshold through 2016.
- The additional tax on nonqualified distributions from health savings accounts (HSAs) is 20%, an increase from the previous 10% penalty.
- The payroll Medicare tax increases from 1.45% of wages and self-employment income to 2.35% on amounts above $200,000 earned by individuals and above $250,000 earned by married couples filing joint returns. This rate increase applies only to the employee portion, not to the employer portion.
- A 3.8% Medicare surtax is imposed on unearned income (examples: interest, dividends, most capital gains) for single taxpayers with income over $200,000 and married couples with income over $250,000.

● **Pre-Tax Reimbursement**

One unintended consequence of the *Affordable Care Act* is explained in an IRS Notice issued in September 2013. Effective January 1, 2014, employers may no longer reimburse employees for their individual health insurance policies or pay the premiums directly to the insurance company on a pre-tax basis. Employers that continue to pay employee's premiums or reimburse their payment must include these amounts in the employee's taxable wages. Only if the employer offers a group plan can pre-tax dollars be used for health insurance premiums.

The *Affordable Care Act* may be one of the most complicated and confusing laws ever passed, but one thing is very clear: the law will affect the taxes of most Americans. In order to manage your tax bill, you will have to factor the new health care rules into your overall personal and business tax planning. For guidance, contact our office.

NOTE: This Memo is intended to provide you with an informative summary of the tax issues connected with the *Affordable Care Act*. This massive package of legislation contains varying effective dates, definitions, limitations, and exceptions that cannot be summarized easily. Also be aware that in the political environment surrounding this law, changes to the law have already been made and more changes could be made at any time. For details and guidance in applying the tax provisions of this law to your situation, seek professional assistance. (Last updated 7/7/14)

Sincerely yours,

Thomas Mangold

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President