

Silver Advantage Tax Alert

How Will Health Care Reform Affect You and Your Business?

By Laurie Kaplan, CPA

September 2013 – The Affordable Care Act (ACA) is the nation's health reform law enacted in March 2010. Since that time, some minor changes have been made to our health care system. Beginning in 2014, several major changes will take effect that may affect you and/or your business. There has been plenty of information in the news about these changes, some of which are accurate and some not. Following are several important questions and answers that we hope will provide you with a better understanding of the legislation's key provisions and the potential impact on you and your business.

1. What is an Insurance Marketplace or Exchange?

- Beginning October 1, 2013, each State is required to open a Health Insurance Marketplace (formerly known as an Exchange). These Marketplaces will provide individuals and employers with a one-stop-shopping website for the purchase of health insurance. There will be a number of insurance companies offering individual policies, with different coverage levels, through these websites.
- Individuals are allowed to purchase insurance through these Marketplaces. However, not everyone will be eligible for a premium assistance credit (see below).
- Small employers with 50 or fewer full-time employees will also be eligible to purchase group insurance through the Small Business Health Options Program (SHOP) offered by these Marketplaces.
- Purchases made at the Marketplaces will be for coverage beginning January 1, 2014.

2. As a business owner and employer, will I be required to provide health insurance to my employees?

- No. There is no employer mandate on any business and/or employer.
- However, penalties might apply, beginning in 2015, if you are considered a large employer (50 or more full-time equivalent employees) and do not offer minimum essential coverage.
- The annual penalty is \$2,000 for each full-time employee in excess of 30 full-time employees (i.e., the penalty starts with the 31st full-time employee).

- The penalty applies if a full-time employee purchases insurance through one of the Insurance Marketplaces **and** receives a premium assistance credit.

3. How do I determine if I am a large or small employer?

- In general, a small employer has less than 50 full-time equivalent employees.
- “Full-time equivalent employees” refers to the total number of full-time and an aggregated total of part-time employees.
- An employee working 30 or more hours a week is considered a full-time employee, regardless of how you classify them in your payroll system.
- Part-time employees also count toward the total. The hours worked for all part-time employees are aggregated and then divided by 30. The result is the number of full-time equivalents. For example, if your business has 3 employees working 20 hours a week each, the aggregate number of hours worked is 60. 60 divided by 30 equals 2; therefore, you have two full-time equivalent employees.

4. As a large employer, if I decide to offer insurance, what are the requirements?

- Insurance provided must be “minimum essential” and “affordable” coverage.
 - To be considered minimum essential coverage, the insurance must provide coverage for at least 60% of the costs incurred.
 - Affordable means the portion of the premium paid by the employee cannot exceed 9.5% of the employee’s household income.
 - Household income is Adjusted Gross Income from your income tax return, plus tax exempt income, plus untaxed Social Security.
 - If coverage does not meet the affordability requirement and any full-time employee purchases insurance through an Insurance Marketplace and is entitled to premium assistance credit, your business will pay a penalty equal to the lesser of \$3,000 per employee receiving the credit, or \$2,000 per employee excluding the first 30 workers.
- If you are a small business, not subject to the penalties and these requirements, you can offer any form of group insurance or no insurance at all.

5. Recently, I heard that, as an employer, I am required to provide a notice to my employees about the Insurance Marketplaces prior to October 1, 2013. What am I required to do?

- You are required to provide your employees with a written notice informing them of the existence of the Insurance Marketplace in your State, including a description of the services provided and how they can obtain assistance.

- If your insurance plan does not meet the definition of minimum essential and affordable coverage, you must inform your employees that they may be eligible for a premium assistance credit (see below).
- You also need to inform them that if they purchase insurance through a Marketplace, they could lose the employer contribution if one is provided.
- **ALL** employers must comply with this notice requirement.

6. What is a premium assistance credit that my employees can obtain and could cause me to pay a penalty?

- Individuals who purchase insurance through a Marketplace may be eligible for a premium assistance credit on their income tax return. To be eligible, the employee's income must be equal to or less than 400% of the federal poverty level based on the number of people in their household.

7. How do I know if I qualify for the tax credit for small businesses?

- You **may** be a small business eligible for a credit on your income tax return if you:
 - Have less than 25 full-time employees (including part-time employees calculated by combining total hours and dividing by 30); and
 - Pay average wages of no more than \$50,000 a year; and
 - Contribute at least 50% of the cost of the insurance premiums for the employees.
- The credit equals 35% through 2013 and 50% for years after 2013 of the lesser of the actual premiums paid, or the average premiums in the small group market within your State.

8. How does the ACA affect me if I am self-employed with no employees or an individual without insurance?

- An individual mandate applies:
 - You are required to personally have health insurance coverage beginning January 1, 2014 or pay a penalty.
- For 2014, the highest penalty for individuals is the greater of \$95 or 1% of household income (increases to \$325 or 2% for 2015, and \$695 or 2.5% for 2016).
- Unlike the employer penalty, this penalty on individuals has **not been deferred** and is applicable for 2014.

9. How do I know if I am eligible for a tax credit for health insurance premiums that I pay myself?

- Starting in 2014, premium assistance credits will become available for health insurance bought through an Insurance Marketplace, assuming you meet the following criteria:
 - Your household income must be between 100% and 400% of the federal poverty level based on the number of people in your household; and
 - Your employer does not offer affordable minimum essential coverage; and
 - You cannot be claimed as a dependent on someone else's income tax return.
 - If you are married, you must file jointly with your spouse.
- If you qualify for a credit, your monthly insurance premiums will be limited to a set percentage of your income, ranging from 2% to 9.5%, depending how your household income falls as a percentage of the federal poverty level.
- The actual credit received will be reconciled when you file your income tax return for that year.

The requirements and opportunities of the Affordable Care Act are numerous and confusing. Please do not hesitate to contact us with any questions or concerns you may have regarding your specific circumstances.

Laurie Kaplan, CPA, has over 25 years of experience managing and addressing tax and accounting issues within a variety of industries, including retail, manufacturing, restaurants, real estate, automobile dealerships, and professional service providers. Laurie serves as the Firm's key employee benefit plan specialist, consulting with and advising clients on plan selection, design, set-up, and administration. She also assists with resolution of plan defects through self-correction and/or IRS or DOL voluntary compliance programs, handling employee benefit plan audits and the preparation of the required tax returns. Laurie has broad experience in estate and gift taxation, as well as significant expertise regarding like-kind exchanges.