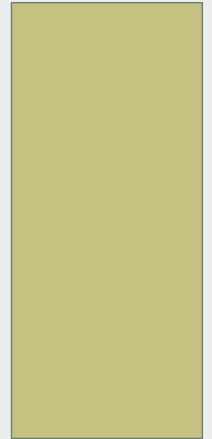


The Affordable care act (ACA)

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Overview



Jack and Diane

Agribusiness, Inc.



Ralph

Brian



overview

Individual Mandate

Medicare Tax Surcharges

Large Employer Coverage

Considerations for Small Employers

ACA Background

In **March 2010**, Congress enacted the Patient Protection and Affordable Care Act (PPACA, P.L. 111-148, 3/23/2010) and the Health Care and Education Reconciliation Act of 2010 (HCERA, P.L. 111-152, 3/30/2010)

In **June 2012**, the Supreme Court upheld the majority of provisions within the act as constitutional

The ACA will not only significantly change the health insurance industry within the USA but also is one of the largest changes to the tax code since the Tax Reform Act of 1986

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Individual mandate

Jack and Diane

Individual mandate

Background

- Family of four, Jack and Diane and two sons
- Dryland wheat farmers with about 10,000 acres
- Jack does all the farming himself (no employees)
- Taxable income ranges from \$45K – \$75K, current year taxable income is \$57,625
- Had “catastrophic” healthcare coverage, but insurance was

Individual mandate

Effective January 1st, 2014 Jack and Diane must obtain a minimum-level of health insurance coverage or pay a “shared responsibility” payment

However, for families like theirs whose income falls within a range of 133% - 400% of the Federal Poverty Line, they are eligible for tax credits and premium subsidies to offset the cost of healthcare

“Shared Responsibility” Payments		
	Per Person 1	Household Income 2
2014	\$95	1%
2015	\$325	2%
2016	\$695	2.5%

1 Family penalty cannot exceed 3 times the per person amount and assessment of only ½ the penalty for dependents

2 Household income over the tax filing threshold

Premium Subsidies	
100% - 200% FPL	66%
200% - 300% FPL	50%
300% - 400% FPL	33%

Individual mandate

Penalty (No Insurance)

Per person penalty:

- 2 adults * \$95 + 2 dependents * \$47.50 = \$285

Household income penalty:

- \$57,625 * 1% = \$576.25

Tax penalty of \$576.25 in 2014 set to increase to \$2,085 by 2016

Tax Credits (Insurance)

Purchase health insurance for \$10,521 a year

Benchmark plan for a family of four costs \$9,846 a year

Available tax credit:

- Percentage of household contribution¹: \$57,625 * 8.05% = \$4,638
- Tax credit: \$9,846 - \$4,638 = \$5,207

Actual cost of health insurance

¹ Taxpayer household contributions range from 3% to 9.5% for households between 133% - 400% of FPL. $\$10,521 - \$5,207 = \$5,314$

² For individuals receiving cost sharing subsidies throughout the year, any difference between the subsidy and their eligible tax credit will be due / refunded on their year end federal income tax return. Or instead of a tax credit taken at the end of the year.

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Medicare tax surcharges

Ralph

Medicare tax surcharges

Background

- Ralph is 72, retired from Hanford 20 years ago, and purchased a 40 Acre Concord Vineyard for \$60,000 (\$1,500 / Acre)
- Ralph has non-farm retirement income of \$80,000 a year
- Ralph is selling his 40 Acre vineyard for \$480,000 (\$12,000 / Acre)

Medicare tax surcharges

Earned Income

Effective 2013, there is a 0.9% Medicare tax increase on:

- Earnings over \$200,000 for a single taxpayer
- Earnings over \$250,000 for joint taxpayers

The increase only effects the **employee** share, not the **employer** share of Medicare taxes

Unearned Income

Effective 2013, there is a new 3.8% Medicare surtax the lessor of:

- Net investment income
- MAGI over \$200,000 for a single taxpayer
- MAGI over \$250,000 for joint taxpayers

Net investment income includes:

- Interest, dividends, annuities, royalties and rents
- Other passive income

Medicare tax surcharges

Option 1: Paid out \$480,000 in year of sale:

- Long-term capital gain¹ of $\$480,000 - \$60,000 = \$420,000$
- 3.8% Medicare tax surcharge due on the lessor of:
 - Net investment income: \$420,000, or
 - MAGI exceeding \$200,000: $\$500,000 - \$200,000 = \$300,000$
- Tax due on the sale of the land: \$95,400

¹ Long-term capital gain tax rates increase from 15% to 20% for taxpayers with AGI above \$400,000

Medicare tax surcharges

Option 2: Carry 4-year contract and recognize on an installment basis

- Long-term capital gain of \$420,000 recognized at \$105,000 per year
- 3.8% Medicare surcharge tax not applicable as:
 - Net investment income: \$105,000 and
 - MAGI is 185,000
- Total tax due over four year on sale of the land: \$63,000 for a tax savings of \$32,400 (\$11,400 from Medicare surcharge tax savings)

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Large Employer coverage

Agribusiness, inc.

Large Employer coverage

Background

- Agribusiness, Inc. is a cold storage warehouse whose majority shareholder is Tom Smith
- Tom is also partners with his son Tony Smith and daughter Tara Smith in a diversified farming operation
- Agribusiness, Inc. employees 10 salaried employees and approximately 15 hourly employees year round
- Their farming operations has 2 salaried employees and 7 hourly employees year round along with seasonal employees hired

Large Employer coverage

Effective January 1st, 2015 (delayed from 2014) employers with 50+ FTEs must provide affordable minimum health insurance coverage or face a “shared responsibility” payment

Only full-time employees (those who average more than 30 hours a week) must be provided “affordable” health insurance

“Affordable” health insurance is insurance that costs less than 9.5% of household income for the employee

Penalty of \$2,000 per full time employee (after 30 employees)

Penalty of \$3,000 per employee who receives health insurance exchange subsidies

The **maximum** penalty that can be assessed is \$2,000 per full time employee (after 30 employees)

Large Employer coverage

FTE Calculation:

- All related business entities are treated as a single employer (controlled group and affiliated service group rules apply)
- FTE equivalents are calculated on a monthly basis and the sum of all month's FTE equivalents are divided by 12 to determine annual FTE equivalents
- Hours include all hours the employee is entitled to pay
- The calculation for hours of service must include any employee who is working in the United States, regardless of the individual's residency or citizenship status
- Under a special **seasonal worker exception**, if the employer's workforce exceeded 50 full-time employees for 120 or fewer days during the preceding calendar year, and the employees in excess of 50 employed during that 120-day

Large Employer coverage

FTE Calculation Example #1

<u>2015</u>	<u>Seasonal</u>	<u>Hourly</u>	<u>Salaried</u>	<u>Total Hours</u>	<u>FTE Equivalents</u>
January	-	2,603	1,440	4,043	32
February	2,652	2,515	1,440	6,607	51
March	-	2,785	1,440	4,225	33
April	-	2,741	1,440	4,181	33
May	-	2,546	1,440	3,986	31
June	-	2,630	1,440	4,070	32
July	9,852	2,802	1,440	14,094	109
August	10,235	2,865	1,440	14,540	112
September	9,987	2,814	1,440	14,241	110
October	-	2,769	1,440	4,209	33
November	-	2,706	1,440	4,146	32
December	-	2,630	1,440	4,070	32
FTE Equivalent Employees (Monthly Total):					640
FTE Equivalent Employees (Annual):					53

FTE Calculation Example #2

<u>2015</u>	<u>Seasonal</u>	<u>Hourly</u>	<u>Salaried</u>	<u>Total Hours</u>	<u>FTE Equivalents</u>
January	-	2,603	1,440	4,043	32
February	2,589	2,515	1,440	6,544	51
March	-	2,785	1,440	4,225	33
April	-	2,741	1,440	4,181	33
May	-	2,546	1,440	3,986	31
June	10,690	2,630	1,440	14,760	114
July	9,852	2,802	1,440	14,094	109
August	10,235	2,865	1,440	14,540	112
September	9,987	2,814	1,440	14,241	110
October	-	2,769	1,440	4,209	33
November	-	2,706	1,440	4,146	32
December	-	2,630	1,440	4,070	32
FTE Equivalent Employees (Monthly Total):					722
FTE Equivalent Employees (Annual):					60

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Considerations for Small Employers

Brian

Large Employer coverage

Background

- Brian owns a local accounting firm with three employees
- Historically, Brian has paid a slightly higher wage to account for the lack of health insurance benefits offered but wants to consider tax effective means of offering health insurance

Considerations for Small Employers

Options and considerations:

- Tax credits for small employer health insurance premiums (up to 35% of premiums paid, set to increase to 50% in 2014 subject to other limitations)
- Availability of small business health insurance plans through the state Small Business Health Options Program (SHOP) marketplace
- SHOP health insurance premiums paid through employee FSA accounts – previously insurance premiums could not be paid from FSA accounts

Considerations for Small Employers

Elect to cover 75% of the cost of health insurance premiums for employees

Insurance premiums are \$4,904 for single coverage / cost per employee of \$3,678 (\$11,034 annual cost to Brian)

Average wage paid is \$37,333

Tax credit available is up to 35% of health insurance premiums paid

SBHIC Calculation¹:

- Potential SBHIC: $\$11,034 * .35 = \$3,862$
- Reduction for average wages in excess of \$25,000 factor: .48%
- $(1-.48) * \$3,862 = \$2,008$ SBHIC
- Out of pocket cost for providing health insurance: $\$11,034 - \$2,008 = \$9,026$

¹ The credit is reduced when number of FTE equivalent employees exceeds 10 (maximum of 25) or the average wage paid exceeds \$25,000 (maximum of \$50,000)



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appendix

ACA Timeline

ACA Timeline