

IMPACT OF 2010 HEALTH CARE BILL BUSINESS TAX PROVISIONS

Employer Mandate

Beginning in 2014 employers with 50 or more full-time employees must offer health insurance that employees can afford and provides a “minimum value” to the employees. These employers who do not offer qualifying coverage will face penalties or “taxes” as the Supreme Court prefers to call them. A full-time employee is an employee who is employed on average at least 30 hours per week.

Employers with 50 or more full-time employees will be taxed if they don’t offer health insurance that covers “minimum value” and is “affordable” to employees. A plan:

- Provides minimum value if it pays at least 60% of the cost of services provided under the plan.
- Is affordable if a full-time employee does not have to pay more than 9.5% of household income for the premium.

There are two different taxes that may apply. No tax is paid on the first 30 employees.

If no coverage is provided to full-time employees then the employer will be assessed a tax of \$2,000 for every affected full-time employee over 30. For example if the employer employed 60 full-time employees and does not offer health insurance then that employer would be subject to a tax of \$60,000 (60 employees minus the first 30 employees times \$2,000) for that year.

If the coverage does not provide minimum value or is affordable to the employee then the employer will be assessed a tax of \$3,000 for every affected full-time employee. For example if the employer provided coverage that met the minimum value requirement, but was considered not affordable for 25 employees then that employer would be subject to a tax of \$75,000 for that year.

Future guidance will be issued by the IRS providing details including:

- How to determine a “full-time” employee
- How does employer determine household income of employees

Small Employer Health Insurance Tax Credit

The Health Care Bill created this temporary tax credit for small businesses. For tax years 2010 through 2013 the maximum credit is 35% of health insurance premiums paid by small business employers (25% for small tax-exempt employers). The credit is scheduled to increase to 50% for small business employers (35% for small tax-exempt employers) after 2013 (but will terminate after 2015). However, in tax years that begin after 2013, an employer must participate in an insurance exchange in order to claim the credit, and other modifications and restrictions on the credit apply.

A qualified employer must have:

- Fewer than 25 full-time equivalent employees (FTEs) for the tax year;
- Average annual wages of its employees for the year of less than \$50,000 per FTE; and
- A “qualifying arrangement” that is maintained.

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The Government Accountability Office (GAO) has reported that 170,300 small employers claimed the credit in 2010 out of a pool estimated at between 1.4 million and 4 million eligible employers. At Serle & Associates CPA, LLC we have been taking this credit on all of our small business clients that have qualified. If you know of a small business owner who provides health insurance to employees and has not taken advantage of this credit, please feel free to refer them to us and we may be able to get them the credit for prior years if they qualify.

Forms W-2 Reporting

Originally employers were required to disclose the aggregate cost of applicable employer-sponsored coverage on an employee's Form W-2 for tax year 2011 and forward. However, the IRS changed that rule and now disclosure is optional if the employer files fewer than 250 Forms W-2.

Health Care Coverage Reporting

Employers who have 50 or more full-time employees and are subject to the employer mandate must annually file a return with the IRS reporting the terms and conditions of the health care coverage provided to the employer's full-time employees for the year. This requirement begins in 2014.

IRS will be issuing further guidance on this reporting.

Withholding Requirements for Additional Medicare Tax

Beginning in 2013 there is an additional 0.9% Medicare tax imposed on wages and self-employment income of higher-income individuals. This additional tax applies to individuals with income over \$200,000 and married couples filing a joint return with income over \$250,000.

Employers are required to withhold this tax on all employee wages in excess of \$200,000. If the employee files a joint return and income is less than \$250,000 then any excess Medicare tax withheld would be refunded.

Medical Device Excise Tax

Beginning in 2013 the Health Care Bill imposes an excise tax on the sale of certain medical devices by the manufacturer, producer or importer of the device in an amount equal to 2.3% of the sale price. Certain devices sold at the retail level were exempted from this excise tax such as eyeglasses, contact lenses and hearing aids.