

**University of South Florida
Accounting Conference**

Tax Implications of Health Care Reform

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**HUMAN
RESOURCES
INC.**



Southeast
Payroll Services, Inc.

Scott Buchanan

CEO- Human Resources, Inc.

CEO- Southeast Payroll Services, Inc.

Topics

- Overview
- 3.8% Medicare Tax
- Small Business Health Care Tax Credit
- Nondiscrimination Requirements
- Form W-2 Reporting
- Repeal of Form 1099 Reporting and Lost Revenue

Health Insurance Reform Historic Overview

- ERISA was passed in 1974 with 500 pages
- Health Reform was passed in 2010 with 2,000 pages
- Regulations are expected to be issued over the next 10 years amounting to 100,000 pages

3.8% Medicare Tax on Investment Income

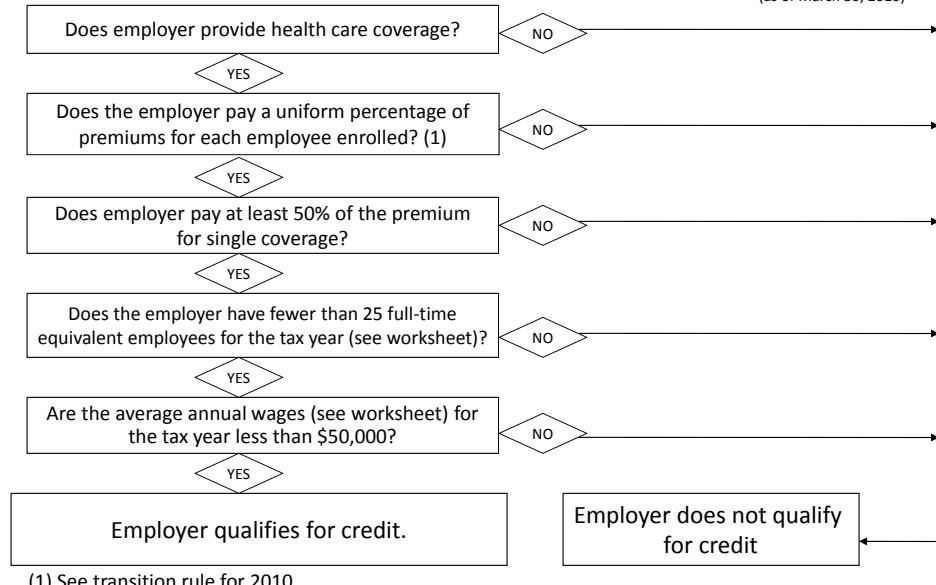
- Applies to incomes in excess of
 - 1) \$200,000-single
 - 2) \$250,000-joint
 - 3) The lesser of a taxpayer's net investment income or modified adjusted gross income in excess of the 200/250 threshold amounts
 - 4) Only to investment income that is subject to tax
- Takes effect in 2013

Questions

- 1) Would gain on the sale of a residence be subject to this tax?
- 2) Will payroll software be revised to withhold this tax? (If yes, how does the employer obtain information necessary to apply the tax?)

Eligibility for Small Business Health Care Tax Credit

(as of March 30, 2010)

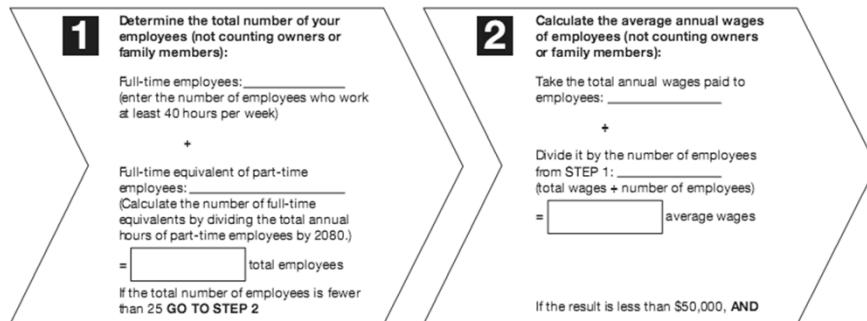


(1) See transition rule for 2010

Form	8941	Credit for Small Employer Health Insurance Premiums	Ord No. 1545-xxxx
Department of the Treasury Internal Revenue Service		► See separate instructions. ► Attach to your tax return.	
		2010 Attachment Sequence No. 63	
Filing Information			
<p>1 Enter the number of individuals you employed during the tax year who are considered employees for purposes of this credit (see instructions). 2 Enter the number of full-time equivalent employees you had for the tax year (see instructions). If you entered 25 or more, skip lines 3 through 11 and go to line 12. 3 Average annual wages you paid for the tax year (see instructions). If you entered \$50,000 or more, skip lines 12 through 24 and go to line 25. 4 Premiums you paid during the tax year for employees included on line 1 for health insurance coverage under a qualifying arrangement (see instructions). 5 Premiums you would have paid on line 4 if the total premium for each employee equaled the average premium for the small group market in which you offered health insurance coverage (see instructions). 6 Enter the smaller of line 4 or line 5. 7 Multiply line 6 by the applicable percentage: • Tax-exempt small employers, multiply line 6 by 25% (.25) • All other small employers, multiply line 6 by 35% (.35) 8 If line 2 is 10 or less, enter the amount from line 7. Otherwise, see instructions. 9 If line 3 is \$25,000 or less, enter the amount from line 8. Otherwise, see instructions. 10 Enter the total amount of any state premium subsidies paid and any state tax credits available to you for premiums included on line 4 (see instructions). 11 Subtract line 10 from line 9. If zero, enter +0. 12 Enter the smaller of line 11 and line 11. 13 If line 12 is zero, skip lines 13 and 14 and go to line 15. Otherwise, enter the number of employees included on line 1 for whom you paid premiums during the tax year for health insurance coverage under a qualifying arrangement (see instructions). 14 Enter the number of full-time equivalent employees you would have entered on line 2 if you only included employees included on line 13. 15 Credit for small employer health insurance premiums from partnerships, S corporations, and S electing small business corporations (see instructions). 16 Add lines 12 and 15. Partnerships and S corporations, stop here and report this amount on Schedule K-1, column 16. Otherwise, go to line 17. 17 Credit for small employer health insurance premiums included on line 16 from passive activities (see instructions). 18 Subtract line 17 from line 16. 19 Credit for small employer health insurance premiums allowed for 2010 from a passive activity (see instructions). 20 Carryback of the credit for small employer health insurance premiums from 2011. 21 Add lines 17 and 19. Cooperatives, estates, and trusts, go to line 22. Tax-exempt small employers, skip lines 22 and 23 and go to line 24. All others, stop here and report this amount on Form 3800, line 29. 22 Amount allocated to partners of the cooperative or beneficiaries of the estate or trust (see instructions). 23 Cooperatives, estates, and trusts, subtract line 22 from line 21. Stop here and report this amount on Form 3800, line 29. 24 Enter the amount you paid in 2010 for taxes considered payroll taxes for purposes of this credit. 25 Tax-exempt small employers, enter the smaller of line 21 or line 24 here and on Form 990-T, line 44.</p>			
For Paperwork Reduction Act Notes, see separate instructions. OMB No. 37778 Form 8941 (2010)			

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:



3 You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

» you may be able to claim the **Small Business Health Care Tax Credit**.
Find out more information at IRS.gov

Health Care Tax Credit Example

Facts

ABC Company

40 PT employees = 20 FT employees

Wages \$500,000 or \$25,000 per employee

Employer paid health insurance premium \$240,000

Credit Computation

(1) Initial credit before phase out	\$240,000 x 35%	\$ 84,000
(2) Credit reduction for employees in excess of 10 (\$84,000 x 10/15)		(\$56,000)
(3) Credit reduction for wages in excess of \$25,000		0
(4) Total 2010 Tax Credit		<u>\$ 28,000</u>

Health Care Act Credit & Phase Out

- **For tax years 2010 through 2013**
 - Tax credit up to 35% of employer's portion of premium if employer pays at least 50% of a benchmark premium
- **For tax years 2014 & 2015**
 - Eligible small businesses that purchase coverage through the State Exchange will receive a tax credit up to 50% of the employer's portion of the premium if that portion is at least 50% of total premium cost
- **Phase Out**
 - This credit gradually phases out for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 11 and 25 FT workers.

Why Be Grandfathered

Advantages

- Delay unlimited maximum benefit
- Delay cost of pre-existing coverage, adult dependent children
- Delay new non-discrimination requirements
- Retain a management carve out

Disadvantages

- Many mandates apply whether grandfathered or not (adult dependents, higher lifetime limits, etc.)
- Insurance carrier may not continue plan
- Limits employer's ability to change plan design

Nondiscrimination Requirements

- Section 105(h) has applied to self-funded plans for many years;
- For plan years beginning on or after September 23, 2010, “similar” rules will for the first time apply to fully-insured plans (for plan years beginning on or after September 23, 2010)
- In Notice 2011-1, the IRS states that enforcement agencies will not require compliance until after guidance is issued. This is good news for those employers that were struggling with the new nondiscrimination requirements.
- The IRS also requested comments by March 11, 2011 regarding the following topics: 1) Availability of Coverage Test, 2) Geographic Location Specific, 3) Safe Harbor Plan designs, and 4) After-Tax Coverage.

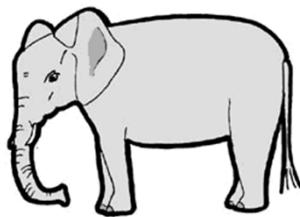
Nondiscrimination Requirements Continued

- Section 105(h) contains both an 1) Eligibility and 2) Benefits test (although different—not unlike the 401(k) testing requirements—coverage, ADP, ACP and top heavy)
- For self-funded plans, a violation results in income inclusion to certain highly compensated participants;
- For fully-insured plans, a violation results in a penalty of \$100 per day per impacted employee (does this mean eligible employee or all employees?)

Nondiscrimination Requirements Continued

- Exceptions exist for the following plans:
- Plans maintained by small employers (average of 2 to 50 employees in prior year);
- Grandfathered plans (generally a plan in existence on March 23, 2010 with no substantial changes---difficult to satisfy with carriers changing plan designs)

Elephant in the Room



When will employer provided health benefits become taxable?

New Form W-2 Reporting Requirement

- Voluntary for 2011 tax year (Notice 2010-69);
- Continues to be voluntary in 2012 for those small businesses with fewer than 250 2011 Forms W2 (Notice 2011-28 Q&A-3);

Purpose?

- 1)To provide data to the Super Committee on deficit reduction?
- 2)To provide useful and comparable consumer information to employees on the cost of their health care coverage?
- 3)To eventually assist in the administration of the Cadillac Tax on rich health benefits?
- 4)All of the above?

Health Care Coverage that Must be Included

- Medical
- Prescription drug
- Dental (integ.w/medical)
- Vision (integ. w/medical)
- Hearing
- Healthcare FSA (employer contributions)
- EAP*
- Wellness Benefits

*if a health plan

- Specified disease or hospital indemnity insurance unless 100% employee paid on an after tax basis
- On-site medical clinic
- Executive medical
 - Physicals
 - Supplemental health

Health Coverage Not Included

- Healthcare FSA salary reduction amounts
(special calculation rule for credit plans)
- Specified disease or hospital indemnity where 100% of the premium is paid by the employee on an after-tax basis
- Costs for self-employed individuals
- Health Savings Accounts (HAS)
- Archer Medical Savings Accounts (MSA)

Health Coverage Not Included

- Certain HIPPA-exempted coverage
 - Accident or disability only coverage
 - Workers' compensation
 - Liability or supplement to liability
 - Automobile medical payment insurance
 - Credit-only insurance
- Long term care insurance

Health Coverage Not Yet Included

- Coverage
 - Stand-alone dental or vision
 - Health Reimbursement Arrangements (HRA)
- Plans
 - Self-funded (non-insured) plans not subject to federal COBRA (e.g. church plan)
 - Multi-employer plans

How is Cost Computed?

- 1) COBRA applicable premium method, or
- 2) Premium charged method, or
- 3) Modified COBRA premium method.

Form 1099 Requirement

- Expanded the reporting requirement to include payments made to corporations in the course of trade or business;
- Repealed on April 14, 2011 by the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayment Act of 2011;
- Lost revenue offset by increasing the repayment of premium assistance subsidies (available beginning 2014).

Questions?

Scott Buchanan - Human Resources, Inc.
727.895.4700 sbuchanan@HRinc.com

