Dear Clients:

Whether you are an employer or an employee, the Patient Protection and Affordable Care Act (PPACA) has provisions that will affect you. While some of the law's provisions have already taken effect, many of the provisions will begin taking effect in 2014 and later years. Below is a summary of some of the more significant individual and business provisions that may be of interest to you.

Penalty for Not Maintaining Minimum Essential Coverage

The crux of PPACA is the requirement for almost all individuals to maintain minimum essential healthcare coverage (i.e., the individual mandate). Beginning in January 2014, non-exempt U.S. citizens and legal residents are required to maintain such coverage or be subject to a penalty. The penalty for not maintaining minimum essential coverage in 2014 is calculated one of two ways. You'll pay whichever of these amounts is higher:

> (1) 1 percent of your yearly household income. The maximum penalty is the national average yearly premium for a bronze plan; or
>
> (2) $95 per person for the year ($47.50 per child under 18). The maximum penalty per family using this method is $285.

The fee increases every year. In 2015 it's 2 percent of income or $325 per person. In 2016 and later years it's 2.5 percent of income or $695 per person. After that it is adjusted for inflation.

If you are uninsured for just part of the year, 1/12 of the yearly penalty applies to each month you're uninsured. If you are uninsured for three months or less, you don't have tp pay a penalty.

Under a transition relief for 2014, an employee, or an individual having a relationship to the employee, who is eligible to enroll in a non-calendar year eligible employer-sponsored plan with a plan year beginning in 2013 and ending in 2014 (the 2013-2014 plan year) will not be liable for the penalty for certain months in 2014. The transition relief begins in January 2014 and continues through the month in which the 2013-2014 plan year ends.

Premium Assistance Tax Credit

Effective for tax years ending after December 31, 2013, the law creates a refundable tax credit, called the premium assistance credit, for eligible individuals and families who purchase health insurance through an insurance exchange. The premium assistance credit is generally available for individuals (single or joint filers) with household incomes between 100 and 400 percent of the federal poverty level for the family size involved.

Additional Hospital Insurance Tax

Beginning in 2013, the employee portion of the hospital insurance portion of FICA taxes is increased by an additional tax of 0.9 percent on wages received in excess of the threshold amount. This additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is $250,000 in the case of a joint return or surviving spouse, $125,000 in the case of a married individual filing a separate return, and $200,000 in any other case.

Unearned Income Medicare Contribution Tax

Beginning in 2013, in the case of an individual, estate, or trust, an additional tax is imposed on income over a certain level. This tax is referred to as the "unearned income Medicare contribution tax." Others have referred to it as a tax on investment income, although it can apply to individuals, estates, and trusts that do not have investment income. For an individual, the tax is 3.8 percent of the lesser of net investment income or the excess of modified adjusted gross income over a threshold amount. The threshold amount is $250,000 in the case of taxpayers filing a joint return or a surviving spouse, $125,000 in the case of a married individual filing a separate return, and $200,000 in any other case.

In the case of an estate or trust, the tax is 3.8 percent of the lesser of undistributed net investment income or the excess of adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.

The new tax does not apply to items that are excludible from gross income under the tax rules, such as interest on tax-exempt bonds, veterans' benefits, and any gain excludible from income when you sell a principal residence.

Increase in Medical Expense Deduction Threshold

For 2013 and later years, the floor for taking a deduction for medical expenses is increased from 7.5 percent of adjusted gross income (AGI) to 10 percent of AGI. However, for any tax year ending before January 1, 2017, the floor will be 7.5 percent if the taxpayer or the taxpayer's spouse has reached age 65 before the end of that year.

FSA Limitation

Beginning in 2013, for a health flexible spending arrangement (FSA) to be a qualified benefit under a cafeteria plan, the maximum amount available for reimbursement of incurred medical expenses of an employee, the employee's dependents, and any other eligible beneficiaries with respect to the employee, under the health FSA for a plan year (or other 12-month coverage period) must not exceed $2,500. The $2,500 limit is subject to indexing for inflation. For 2014, it remains at $2,500. For 2015, it increases to $2,550.

Shared Responsibility for Employers

Under PPACA, for months beginning after December 2014, an "applicable large employer" that does not offer coverage for all its full-time employees, offers minimum essential coverage that is unaffordable, or offers minimum essential coverage that consists of a plan under which the plan's share of the total allowed cost of benefits is less than 60 percent, is required to pay a penalty if any full-time employee is certified to the employer as having purchased health insurance through a state exchange with respect to which a tax credit or cost-sharing reduction is allowed or paid to the employee.

An employer is an applicable large employer for any calendar year if it employed an average of at least 50 full-time employees during the preceding calendar year. An employer is not treated as employing more than 50 full-time employees if the employer's workforce exceeds 50 full-time employees for 120 days or fewer during the calendar year and the employees that cause the employer's workforce to exceed 50 full-time employees are seasonal workers. A seasonal worker is a worker who performs labor or services on a seasonal basis, including (but not limited to) retail workers employed exclusively during the holiday season and workers whose employment is, ordinarily, the kind exclusively performed at certain seasons or periods of the year and which, from its nature, may not be continuous or carried on throughout the year.

Small Business Tax Credit

PPACA provides a tax credit for a qualified small employer for nonelective contributions to purchase health insurance for its employees. Although the credit took effect in 2011, the amount of the credit increases from 35 percent (25 percent for tax-exempt organizations) of eligible premium payments to 50 percent (35 percent for tax-exempt organizations) in 2014.

Excise Tax on High-Cost Employer-Sponsored Health Coverage

Beginning after December 31, 2017, PPACA imposes an excise tax on certain health insurance providers for any excess benefit provided by an employer to an employee with respect to employer-sponsored health coverage. The excise tax is imposed pro rata on the issuers of the insurance. In the case of a self-insured group health plan, a Health FSA or an HRA, the excise tax is paid by the entity that administers benefits under the plan or arrangement. Where the employer acts as plan administrator to a self-insured group health plan, a Health FSA or an HRA, the excise tax is paid by the employer. Where an employer contributes to an HSA or an Archer MSA, the employer is responsible for payment of the excise tax, as the insurer.

Sincerely,

Heather Jenkins, CPA

Jenkins CPA, LLC

www.JenkinsCPA.com

417-725-3924