Jack Burson

From: Jack Burson, CPA <JackBurson@email.mycpanewsletter.com>
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To: Jack Burson
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This issue has been provided to you by **Jack Burson, CPA**

CPA Client Bulletin

Smart Tax, Business & Planning Ideas *from your* **Trusted Business Advisor**SM

Alert: New Rules for Health Insurance

Federal health insurance legislation passed in 2010 is commonly known as the Affordable Care Act. By any name, the legislation is far reaching, with many provisions that take effect in various years. As we head into 2014, you should know what provisions might affect you, your family and, if you are a business owner, your company. (The articles in this issue assume that the law's provisions take effect, as currently scheduled.)

Perhaps the most important news is the introduction of the so-called "individual mandate." Although there are exceptions, most Americans will be required to have acceptable health insurance in 2014. Those who don't have such coverage may owe a penalty, in the form of a payment to the IRS.

Next year's developments go beyond the individual mandate, however. State-sponsored exchanges will be in effect, designed to help consumers find satisfactory policies. Employers already have some obligations under the Affordable Care Act and 2014 will bring new ones, or at least the need to prepare for requirements taking effect in 2015.

In this special issue of the *CPA Client Bulletin*, we discuss the highlights of what to expect next year. Space necessarily limits our coverage of what is to come, so we urge you to contact our office to see how these changes will affect you in your particular circumstances.

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What's Inside
December 2013

Pricey Premiums
From 2003 to 2013, average annual premiums for employersponsored family health insurance rose from $9,068 to $16,351. During those years, the average worker contribution rose from $2,412 to $4,565.

Source: Kaiser Family Foundation

Pay Premiums or Pay a Penalty

Jack Burson, CPA

As of 2014, most Americans must have health insurance. If you don't, you may have to make what the law calls a "shared responsibility payment." Such payments will be made to the IRS, so they will look and feel like additional taxes on uncovered individuals.

Should you be concerned? That depends on many factors.

Multiple exemptions

The new law contains several exemptions. Those exempted include members of Indian tribes and members of religious groups recognized by the federal government as being opposed to government insurance benefits and receive an exemption certification.

The exemptions likely to affect most people are income-based. For example, people with income so low that they don't have to file an income tax return are not required to have health insurance. The same is true for people who can't afford coverage; those who would have to pay more than approximately 8% of their household income for the least expensive available policy are exempt.

Example 1: Bob and Carol Anderson have household income of $50,000 in 2014. To obtain acceptable health insurance, the Andersons would have to pay $400 a month, or $4,800 a year. That would be 9.6% of their income, so the Andersons are exempt from the health insurance mandate.

Unless you qualify for these or other exemptions (one is for people in jail, for instance), you must have health insurance, and all of your dependents also must have coverage.

Qualifying coverage

The good news is that you probably have qualifying coverage already. Medicare and Medicaid qualify; so do most employer sponsored health plans, including retiree health benefits and COBRA coverage for people who leave employer plans. Individual and family coverage also qualifies, if you purchase a policy that's offered to the public.

You should be aware that large companies (those with at least 50 full-time employees or full-time employee equivalents) are required to offer health insurance that covers employees' dependents under age 26, but not employees' spouses. An uncovered spouse may owe a penalty.

Example 2: Dan and Ellie Franklin both work at companies with health plans. Dan's employer offers family coverage, so Dan can buy health insurance for himself and for the couple's children. However, Dan's employer structures its group health plan so that it will not cover spouses who can obtain employer sponsored health insurance. Thus, Dan's family health plan excludes Ellie.

In this situation, Ellie must carry her own health insurance. She can enroll in her company plan or, if that plan is unappealing, she can buy coverage from a health insurer. If Ellie does not comply, and she does not qualify for any exemption, she'll owe a penalty.

Paying the price

Individuals who are covered by the health insurance mandate will owe a penalty if they don't follow the rules. The penalty appears to be modest.

Example 3: Carrie Nelson, age 27, is a freelance Web designer in good health. She has been covered by her father's group health insurance, but that's no longer the case. After investigating her options, Carrie finds that she would pay at least $2,500 a year for acceptable health insurance.

If Carrie, who typically sees a doctor once every year for a checkup, goes without health insurance, she'll owe a fine of $95 or 1% of her taxable income, whichever is greater. Carrie believes her taxable income in 2014 will be around $35,000, so she would owe a $350 penalty.

Paying a $350 penalty rather than $2,500 for unwanted health insurance

4450 Arapahoe Ave #100
Boulder, CO 80303
Telephone: 303-499-4865

Click here to contact us.

On Line Accountant

Trusted Advice

Trading Places

- If you purchase a health insurance policy through an exchange instead of accepting coverage offered by your employer, you may lose any available employer contribution.
- Any employer contribution, as well as your employee contribution to an employer plan, is often excluded from income for federal and state income tax purposes.
- Payments for coverage through a state health insurance exchange are made on an aftertax basis, so choosing to buy your own policy rather than enrolling in your employer's plan may increase your income tax obligation.

Update on Same-Sex Spouses

In the October 2013 issue of the ***CPA Client Bulletin***, we discussed tax issues facing same-sex married couples, in light of the Supreme Court's ruling that Section 3 of the federal Defense of Marriage Act was unconstitutional. We stated that same-sex marriages will be recognized for federal tax purposes if the couple was married in a state that permits these marriages and still lives in such a state.

Since that issue went to press, the IRS issued Revenue Ruling 2013-17, stating that a valid same-sex marriage will be recognized for federal tax purposes, no matter where the couple lives or works. However, the ruling also declared that, for federal tax purposes, civil unions and domestic partnerships will not be recognized as marriages.

In addition, the Department of Labor has stated that the terms "spouse" seems like a rational choice, especially considering that the Affordable Care Act says Carrie can't be turned down for health insurance in the future, even if she develops a medical condition. That will still be the case in 2016, when the penalty will reach 2.5% of taxable income or $695 per person, whichever is greater.

Look before leaping

Nevertheless, forgoing health insurance might not be a wise choice, even for a healthy person with a modest income. Healthy individuals can sprain an ankle in karate class or get an eye abrasion that leads to a trip to the emergency room. That could mean a bill that runs into thousands of dollars, far more than the savings from going without health insurance.

Moreover, it might not be so simple to get health insurance if and when a medical condition appears. Once the initial enrollment period ends next March 31, you will be able to purchase a qualified health insurance policy only during each year's enrollment window, from October 15 to December 7 which may mean waiting uncovered in the interim.

The bottom line is that coverage versus no coverage might not be a simple decision. If you (or your adult children) are thinking about skipping health insurance and paying the fine, you should do so only after carefully weighing all the consequences.

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and "marriage" in federal employee benefit laws will now include same-sex couples who were legally married. That treatment applies regardless of where an employee and his or her same-sex spouse now reside.

Shopping Malls for Health Insurance

On October 1, 2013, state health insurance exchanges were launched. The exchanges are also known as marketplaces, because they offer you a chance to shop for health insurance. Each state has its own exchange; some are running theirs through the federal government. By going online, you can see what's offered in your state, and what you'll pay. For example, if you enter "California (or your own state name) health insurance exchange" in an Internet search engine, you'll be directed to www.coveredca.com (or to your state's version). A policy you buy this year can go into effect as early as January 1, 2014.

Generally, people who do not have adequate and affordable health insurance from an employer will be the major customers; small businesses also can seek employee coverage there. Insurers listing policies on these exchanges must offer plans that conform to the Affordable Care Act's rules. They must cover hospital care, for example, including emergency room service. Policies also must cover preventive tests and maternity care.

To help you weigh costs and benefits, policies will be grouped into five categories: platinum, gold, silver, bronze and catastrophic. In that order, you'll pay the highest to the lowest premiums, for the most to the least covered care. (Catastrophic entries cover only people younger than age 30.) The lower the premiums you pay, the greater your exposure to out-of-pocket costs such as deductibles, copayments, and coinsurance.

Individuals and families with low to moderate incomes may qualify for discounts if they buy health insurance on an exchange. Some observers believe that a family of four with 2014 income just over $90,000 might qualify for a price break on certain policies. However, you won't get a subsidy for a policy bought on a state exchange if your employer offers acceptable health insurance to employees. Our office can help you determine whether shopping for coverage on your state exchange makes sense. ■

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Businesses Must Give Notice

One of the Affordable Care Act's new requirements went into place on October 1, 2013. (That assumes no extension was granted before press time.) This applies to virtually all employers: any company with at least one employee, if the business is subject to the Fair Labor Standards Act. Generally, companies with at least $500,000 in annual revenues must send notices to all employees, full time and part time, informing them about the new health insurance exchanges.

Noncompliance would be subject to fines of up to $100 a day, according to some prior reports; however, the U.S. Department of Labor has said that businesses won't be fined for failing to provide the notices. Nevertheless, business owners should act immediately, if they haven't already done so. In addition to notices for current employees, you must send these letters to new employees within 14 days of hiring.

According to Bill Freedman, partner in the Cincinnati law firm Dinsmore & Shohl, the U.S. Department of Labor has published templates of acceptable notices. Your company can reproduce these samples, send them to employees, and comply with the notice requirement. "However," Freedman says, "the templates go far beyond the requirements of the law. Businesses that adopt the templates may broaden their exposure in other areas." Therefore, employers might want to reduce their notices to meet the minimum requirements; our office can help you find an acceptable solution.

Proposed regulations

Two other information reporting requirements are included in the Affordable Care Act, requiring many employers and health insurance companies to provide reports to the IRS and statements to employees and covered individuals. The reports required will include information about the type and period of coverage and the cost of coverage for employees. This information reporting will facilitate enforcement of the requirement to have health insurance.

In September 2013, the IRS published proposed regulations on these required reports. Once the regulations are finalized, presumably by 2014, reporting will begin for 2015 (with the first reports and statements due in 2016). Throughout 2014, companies that will issue these reports should begin data collection and put a system in place to prepare for dissemination. ■

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TAX CALENDAR

DECEMBER 2013

December 16

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in November if the monthly rule applies.

Corporations. Deposit the fourth installment of estimated income tax for 2013.

January 15

Individuals. Make a payment of your estimated tax for 2013 if you did not pay your income tax for the year through withholding (or did not pay enough in tax that way). Use Form 1040-ES. This is the final installment date for 2013 estimated tax. However, you don't have to make this payment if you file your 2013 return and pay any tax due by January 31, 2014.

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in December 2013 if the monthly rule applies.

January 31

All businesses. Give annual information statements (Forms 1099) to recipients of certain payments you made during 2013. Payments that are covered include (1) compensation for workers who are not considered employees, (2) dividends and other corporate distributions, (3) interest, (4) rents, (5) royalties, (6) profit-sharing distributions, (7) retirement plan distributions, (8) original issue discounts, (9) prizes and awards, (10) medical and health care payments, (11) debt cancellations (treated as payment to debtor), (12) payments of Indian gaming profits to tribal members and (13) cash payments over $10,000. There are different forms for different types of payments.

Employers. Give your employees their copies of Form W-2 for 2013.

For nonpayroll taxes, file Form 945 to report income tax withheld for 2013 on all nonpayroll items, such as backup withholding and withholding on pensions, annuities, and IRAs.

For Social Security, Medicare, and withheld income tax, file Form 941 for the fourth quarter of 2013. Deposit or pay any undeposited tax. If your tax liability is less than $2,500, you can pay it with the return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return.

For federal unemployment tax, file Form 940 (or 940-EZ) for 2013. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it is more than $500, you must deposit it. However, if you already deposited the tax for the year in full and on time, you have until February 10 to file the return.

888.777.7077 • taxinfo@aicpa.org

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