Health Care Reform
Key Points

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CPAs & BUSINESS ADVISORS
Individual Implications

- Individual mandate to have health insurance

- Penalties applies if NO health insurance
  - 2014 - $95 per person or 1% of income;
  - 2015 - $325 per person or 2% of income;
  - 2016 - $695 per person or 2.5% of income

- High wage earners (MFJ > $250,000, Single > $200,000)
  - Medicare payroll tax (.9%)
  - Net investment income tax (3.8%)
2013 Provisions

- Medicare tax for high wage earners (0.9%)
- Net investment income tax for high wage earners (3.8%)
- Medical device excise tax
- Improving preventive health coverage
- Medical itemized deductions increases from 7.5% to 10%
- Limitation on health flexible savings accounts
Health Care Reform

Impact on Business
Employer’s Key Number Is

50

Full-time Equivalent Employees

≥ 50
= Applicable Large Employer and subject to penalties

≤ 50
= Small Employer and **NOT** subject to penalties
• Employed an average of 50 full-time equivalent employees in the previous calendar year

  1) Full-time employees include all employees who work on average at least 30 hours per week (monthly test is if they work 130 hours or more hours per month).

  2) Full-time equivalents include adding your part-time employees (those who work less than 30 hours per week) and your seasonal employees.

• Analysis is done on a monthly basis
Large Employer (≥ 50) NOT Offering Insurance

- Employers NOT offering health insurance:
  - A penalty of $2,000 per year/per FT employee (and seasonal employees the month they work full-time)
  - Exempts the first 30 employees from computation
    - Example: 100 employees and one goes to an Exchange and receives a subsidy
    - Penalty = (100-30) x $166.67 = $11,667/month
      - $140,000 annually
    - Triggered on all full-time employees if one full-time employee goes to the exchange and receives a subsidy
  - Penalty is NOT tax deductible
Large Employer (≥ 50) Offering Insurance

- Potential $3,000 penalty if employer OFFERS health insurance – **must pass 2 tests!**
- Subsidy eligibility based on unaffordable or inadequate insurance
  - **Unaffordable** = Employee insurance premiums exceeding 9.5% of HHI (Safe Harbor created for employers – single plan premiums paid by employee cannot exceed 9.5% of wages)
  - **Inadequate** = Insurance policy less than 60% of actuarial value
- A penalty of $3,000 per year/per FT employee who goes to the marketplace and receives an exchange subsidy
- Capped by the amount of penalty for not offering insurance coverage
Health Care Reform – Employers

50 Full-time Employees

1. Calculate your full-time employees
2. Calculate your (part-time and seasonal) FTEs
3. Add the two numbers in steps 1 and 2
4. Add up the 12 monthly numbers in 3 and divide by 12
5. If less than 50, not applicable large employer
6. If more than or equal to 50, greater than 120 days?
Example 1

- XYZ Company had 40 full-time employees who worked 173 hours per month all year. XYZ also had 25 part-time employees who worked 87 hours per month all year. XYZ has 58 full-time equivalents calculated as follows:
  1. 40 full-time
  2. 25 EEs * 87/month/120 = 18.13
  3. total FTE = 40 + 18.13 = 58 FTE

XYZ would be an applicable large employer
Example 2

- XYZ Company had 49 full-time employees who worked 173 hours per month all year. XYZ also had 25 seasonal employees who worked 173 hours per month for 2 months. XYZ has 49 full-time equivalents calculated as follows:
  1. Full-time employees is 49 for 10 months and 74 for 2 months. So for 12 months there was an average of 53 full-time employees for each month.
  2. The number is greater than 50, but the workforce for XYZ exceeded 50 full-time employees for less than 120 days (only 2 months) so not an applicable large employer.
Health Care Reform – Employers

• 40% excise tax on “Cadillac” health plans ($10,200 for individual, $27,500 for family) – Starts 2018

• Expanded coverage for children under 27
  • Effective 2010

• Value of employee sponsored health plans on W-2’s – effective after December 31, 2012
  • Employers who issue more than 250 W-2’s
## Employer Penalties

<table>
<thead>
<tr>
<th>EE Category</th>
<th>Included in FT equivalent calc?</th>
<th>Not offering minimum essential coverage?</th>
<th>Offering minimum essential coverage but not affordable or adequate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Part-time</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Seasonal, working full-time</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Seasonal, working part-time</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>
Controlled Group Provisions

• Internal Revenue Codes 1563 and 414;
• Parent – Subsidiary – 80% rule;
• Brother/Sister corporations – 50% stock;
• Combined Group
• Section 801 Certain Insurance Companies
Subsidy Factors

- Current Employer coverage results in **NO** employees eligible for an exchange subsidy as coverage is deemed affordable:

  Affordability < 9.5%

  Safe harbor affordability is based on single-only coverage and the employee’s W-2 pay.

  Qualified Health Plan (Actuarial Value) =

  Test is plan actuarial value has to be greater than 60%.
Subsidy Factors – with Spousal Income

- The following chart shows the breakdown of subsidy-eligible based on no employer sponsored insurance:

- Household Income as a % of Federal Poverty Level

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Premium as a % of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 133% FPL</td>
<td>2% of income</td>
</tr>
<tr>
<td>133 – 150% FPL</td>
<td>4% of income</td>
</tr>
<tr>
<td>150 – 200% FPL</td>
<td>6.3% of income</td>
</tr>
<tr>
<td>200 – 250% FPL</td>
<td>8.05% of income</td>
</tr>
<tr>
<td>250 – 300% FPL</td>
<td>9.5% of income</td>
</tr>
<tr>
<td>300 – 400% FPL</td>
<td>9.5% of income</td>
</tr>
</tbody>
</table>
Employer Checklist for 2013-2015

2013
- FSA limit of $2,500
- Medicare taxes for high-income
- Notification of state marketplaces to employees
- Women’s health prevention coverage
- W-2 reporting of health insurance (greater than 250)

2014
- Individual mandate
- Automatic enrollment
- Minimum essential benefits
- Insurance reforms
- Marketplace education
- Increased wellness rewards cap

2015
- Employer shared responsibility
- 6055 & 6056 Tax Forms
Non-discrimination in Insured Health Plans

- Non-grandfathered insured group health plans that impermissibly discriminate in favor of highly compensated employees face significant liability under new rules.

- Relates to the 1986 Tax Law – Internal Revenue Code (IRC) Section 105(h)(2).

- Prohibition on discrimination in favor of highly compensated individuals.

- Effective date for plan years beginning after ___________? (waiting for final guidance).

- The penalty for plans will have an excise tax of $100 per day for the plan per person discriminated against, with a maximum penalty of $500,000!
Health Insurance Exchanges

• Public versus Private?

• What is an marketplace?
  • Marketplace for individuals and small businesses to purchase insurance
    • Different health plans (Metallic levels), compare different plans

• Participation?
  • Small employers – 2014
  • Individuals – 2014
Questions?
Thank You

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