HEALTH CARE REFORM:
WHAT YOU CAN – AND SHOULD – DO NOW

Thursday, June 20, 2013; 11 am – noon (EDST)
Thursday, June 20, 2013; 1 pm – 2 pm (EDST)

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- ADP Eye on Washington
- 5 Strategies for Navigating Health Care Reform
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• “Big Ideas for Small Business”
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Introduction

• Major provisions of the Affordable Care Act take effect on January 2014.
  – Individual and business mandates.
• Major provisions of the Affordable Care Act that took effect on January 1, 2013:
  – Additional Medicare taxes on earned income and net investment income
  – Changes in FSA contributions and itemized medical deductions

Introduction

• Some health care rules are essentially unchanged by the Affordable Care Act
  – HSAs
  – HRAs
Keeping an Eye on Payroll

Why it matters:
- Having at least 50 full-time employees triggers the employer mandate
- “Large employers” must provide qualified health insurance or pay a penalty

Status as large or small employee depends on employment levels in 2013

Figure exposure:
- Add FT employees (those working 130 hours or more each month, which is about 30 hrs./week)
- Add FT equivalent employees (part-timers’ hours ÷ 120)
Keeping an Eye on Payroll

- Example: 3 employees work 160 hrs. per month; 40 employees work 140 hrs. per month (35 hr. week); 20 employees work (100 hrs. per month (25 hr. per week)
  - 43 FTs
  - 16 FTEs (20 x 100 ÷ 120)
  - TOTAL PAYROLL: 59

- Determining payroll: Use 2013 figures for 2014 mandate
  - Generally use prior 12 months (e.g., 2014 payroll will impact 2015 employer mandate)
  - Transitional rule for 2013: Use payroll for the first 6 months of 2013 (or any 6-month consecutive period)
Keeping an Eye on Payroll

• Controlled businesses taken into account
  – Definitions of a controlled group from Code Secs. 414(b) and 414(c)
    • Controlled group of corporations (parent - subsidiary or brother – sister)
    • Unincorporated businesses can also be grouped together
    • Businesses owned separately by spouses can be grouped together
  • Foreign workers excluded

Keeping an Eye on Payroll

• Actions between now and year-end
  – Determine where you stand
  – Decide on hiring activities for the balance of the year
    • Note: Once subject to the mandate, future payroll declines do not change employer responsibility for the year (e.g., with 50 FT/FTE employees in 2013, subject to the mandate in 2014 even though payroll in 2014 is only 45 FT/FTEs)
HSAs and HRAs

- Rule for health savings accounts (HSAs) and health reimbursement accounts (HRAs) essentially unchanged
- These plans provide an affordable way to meet the health care mandate or provide coverage even if not mandated (e.g., for small employers)

HSAs

- Overview
  - Combine a high-deductible health plan (HDHP) with a savings account
  - From employer perspective:
    - Meets mandate (check with insurer of HDHP)
    - Payment of insurance/HSA contributions are deductible
    - Payments are not subject to payroll taxes
  - From employee perspective:
    - Benefit is tax free
    - Withdrawals to pay qualified medical costs are tax free
    - Account is portable
HSAs

• HDHP for 2014:
  – Self-only (individual) plan:
    • Minimum deductible: $1,250
    • Out-of-pocket cap: $6,350
  – Family plan:
    • Minimum deductible: $2,500
    • Out-of-pocket cap: $12,700

HSAs

• Contribution limits for 2014:
  – Self-only (individual) coverage: $3,300
  – Family coverage: $6,550
  – Anyone age 55 or older by year end: Add another $1,000
HRAs

- HRAs = promise by employer to pay set amount of employee’s qualified medical expenses
- Employer sets the annual contribution limit
- Bookkeeping entry
  - No upfront cash flow drain
  - No deduction until disbursements are made

- Unused amounts carry over (no use-it-or-lose it feature)
- No portability
Other Ways to Meet the Employer Mandate

- Self insure
  - Some insurers
  - Check state rules on “stop-loss” insurance (NY bars it; California and Rhode Island considering a bar)
- Renew policy in 2013 (before certain provisions that will hike premiums go into effect)
  - Some state regulators (e.g., Illinois and RI) won’t allow early renewal

Additional Medicare Taxes

- 0.9% tax on earned income over threshold amount
  - $200,000 for singles
  - $250,000 for joint filers
  - $125,000 for married persons filing separately
- 3.8% tax on the lesser of net investment income (NII) or the MAGI above the same threshold above
Additional Medicare Taxes

• Strategies for earned income
  – S corporations: owners set their salary below the threshold
    • Consider using the Social Security wage base ($113,700 in 2013)

Additional Medicare Taxes

• Strategies for NII
  – Determine what income is or isn’t subject to the tax
  – Recognize that all income (other than exempt or excludable income) increases MAGI
Additional Medicare Taxes

• Strategies for business owners
  – Check material participation in businesses (Code Sec. 469 rules apply)
  – Watch sales of businesses
    • C corporations: Investment income
    • S corporations: Not investment income unless owner is passive investor
    • Partnership/LLCs/sole proprietorships: Not investment income unless owner is passive investor
    • Assess viability of installment sales to spread gain (and tax pain)

Conclusion

• Steps to take now:
  – Determine whether the employer mandate will apply
  – Decide on appropriate health care options for 2014
  – Project investment income
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