

# FARM Library

Financial and Risk Management Database

*Improving farm management skills one topic at a time*

August 2012

## Obamacare: Patient Protection & Affordable Care Act

The Patient Protection and Affordable Care Act from 2010 has many provisions that will take effect, or already have, in which we need to be made aware of.

### Small Employer Health Insurance Credit:

This is a two-phase credit for those qualified small employers that make contributions to purchase health insurance for its employees.

**Phase One:** What's a qualified small employer? The employer has no more than 25 full-time equivalent employees (i.e. Full-time Equivalent Employees (FTE) equal the total number of hours worked by all employees during the employer's tax year by 2080) and have annual FTE wages that average no more than \$50,000. The full amount of this credit is only available to the employers that have 10 or fewer FTE and whose employees have average annual full-time equivalent wages of less than \$25,000. This credit is equal to the lesser of :

1. The amount contributed by the employer for the employees for the qualifying health coverage during the tax year.
2. The amount the employer would have contributed during the tax year each employee would have enrolled in coverage with a small business benchmark premium.

**Phase Two:** This phase has the same requirement as the first, except that the credit will only be available to a small employer who purchases the health insurance coverage for their employees through a state exchange.

#### **Effective Dates:**

Phase One: Available for tax years beginning in 2010, 2011, 2012 or 2013. The health coverage must be purchased from an insurance company licensed under state law.

Phase Two: For tax years beginning after 2013. Health coverage must be purchased through a state exchange and only offers the maximum coverage period for two consecutive taxable years. The first year beginning when the employer first offers one or more plans through the state exchange.

### Coverage for Children Under Age 27:

Any individual who is the policy holder's child (son, daughter, step-son, stepdaughter, or eligible foster child) and under the age of 27 at the end of the tax year can be covered for sick and accident benefits. It is not required that the child is policy holder's dependent on the tax return. Self-employed individuals can deduct the premiums paid for the coverage of any adult children that are under the age of 27 at the end of the tax year.

**Effective Date:** March 30, 2010

### Employer Health Plan reimbursements Limited to Prescription Medication:

Unless over-the counter medication is prescribed by a doctor, it cannot be reimbursed under FSAs, HSAs, Archer MSAs, or HRAs. Only prescribed drugs or insulin would be qualified medical expenses under these plans.

**Effective Date:** After Dec. 31, 2010

### Cost of Employer-Sponsored Health Coverage Included on W-2:

Employers are now required to include the total of all health coverage that has been provided to the employee on their annual W-2.

*Example: If the employee has employer sponsored health insurance plans for major medical, dental and vision, the employer must report the total value for all health related policies. Employer contributions to a Health Savings Account (H.S.A) need to be reported separately on the employee's W-2.*

**Effective Date:** Mandatory starting in 2011; However, there is provisional relief for those that file fewer than 250 W-2s until further notice.

### Tax Penalty Increase on Non-qualified H.S.A. Distributions:

Any distributions from an H.S.A. or Archer MSA now have tax penalties of 20%. This will affect any distributions that were made in 2011.

**Effective Date:** Distributions made after Dec. 31, 2010

### Additional Hospital Insurance (HI) Tax for High Income Workers:

Wages that are considered High Income will be imposed with additional Hospital Insurance tax of 0.9%. Wages over the following will be affected by the 0.9% tax:

\$250,000 for joint returns

\$125,000 for married filing separate

\$200,000 for all other filing statuses

The employer will not be held responsible for any additional HI tax , but is responsible for the penalties that are in place because of failing to withhold. As the employee, you are responsible for the amount of HI tax that wasn't deducted by the employer.

The tax deduction for half of the self-employment tax will not be affected by the HI 0.9%.

**Effective Date:** Starting 2013

### Medicare Contribution Tax on Unearned Income:

A Medicare contribution tax will be imposed on unearned income for individuals, estates and trusts.

For an individual, the tax is 3.8% of the lesser of the net investment or the excess of the modified adjusted gross income : \$250,000 for a joint return, \$125,000 filing separate, or \$200,000 for all other filing statuses.

For an estate or trust, the tax is 3.8% of the lesser of the undistributed net investment or the excess of adjusted gross income over the dollar amount at which the highest tax bracket for the estate/trust begins.

**Effective Date:** Starting 2013

### Medical Expense Deduction Floor Increases to 10%:

The amount that one can take for an itemized deduction for medical expenses has increased to 10%. If the taxpayer turns age 65 by the end of 2012, this deduction will not come into effect until January 1, 2017.

**Effective Date:** Starting in 2013, Unless you turn 65 in 2012, then it starts in 2017.

*More Info to Come regarding: Individuals without Health Coverage & the Refundable Tax Credit for providing premium assistance are to come into effect in 2014. We will provide more information when that time is closer!*

\*\* The 1099 Provision that was going to require taxpayers to file 1099's to anyone they did business with has been revoked, and is not being enforced! Taxpayers are still required to file a 1099 for individuals, independent contractors, interest or dividends paid, cash rents, etc. that they paid \$600 or more to. A 1099 must be sent to an attorney for any amount that the taxpayer paid.