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Patient Protection and Affordable Care Act - Large Employer Mandatory Health Coverage

Beginning in 2015, large employers, generally those with 50 full-time employees in the prior calendar year, that

- Do not offer coverage for all their full-time employees,
- Offer minimum essential coverage that is unaffordable (employee contribution being more than 9.5% of the employee's household income), or
- Offer minimum essential coverage where the plan's share of the total allowed cost of benefits is less than 60% (i.e. less than the bronze coverage),

will be required to pay a penalty if any of its full-time employees were certified to the employer as having purchased health insurance through a state or federal exchange and qualified for either tax credits or a cost-sharing subsidy previously discussed.

Implementation Delayed: This provision of the new health care legislation was meant to have taken effect by 2014. Intense lobbying from the business community, however, which cited lack of time to prepare for the new requirement, has prompted the Obama Administration to delay implementation by one year, to 2015.

Interaction with Premium Credit: Generally, if an employee is offered affordable minimum essential coverage under an employer-sponsored plan, he is ineligible for a premium tax credit and for cost-sharing reductions for health insurance purchased through a state or federal exchange.

If the coverage is unaffordable (see above), however, or the plan's share of benefits is less than 60%, then he is eligible, but only if he declines to enroll in the coverage and purchases coverage through the exchange instead.

Penalty for Employer Not Offering a Health Care Plan: An applicable large employer would be liable for the penalty (figured monthly) if:

(1) *The employer has failed to offer to its full-time employees* (and their dependents) the opportunity to enroll for that month in "minimum essential coverage" under an "eligible employer-sponsored plan"; and

(2) *At least one full-time employee* has been certified to the employer as having enrolled for that month in a qualified health plan for which a premium tax credit or cost-sharing reduction is allowed or paid with respect to the employee.

The excise tax penalty for any month would be $167 ($2,000/12) times the number of full-time employees in excess of 30.

Example: No Health Care Plan. *In January of 2015, an applicable large employer with 120 employees does not offer a health care plan to its employees. The penalty is $167 times the number of full-time employees in excess of 30. Thus, the penalty for the month of January is $15,030 ((120-30) x $167.00).*

Penalty – Employees Qualify for Premium Tax Credits or Cost-Sharing Assistance – An applicable large employer would be liable for the penalty (figured monthly) if:

1) *The employer offers to its full-time employees* (and their dependents) the opportunity to enroll for that month in "minimum essential coverage" under an "eligible employer-sponsored plan"; and

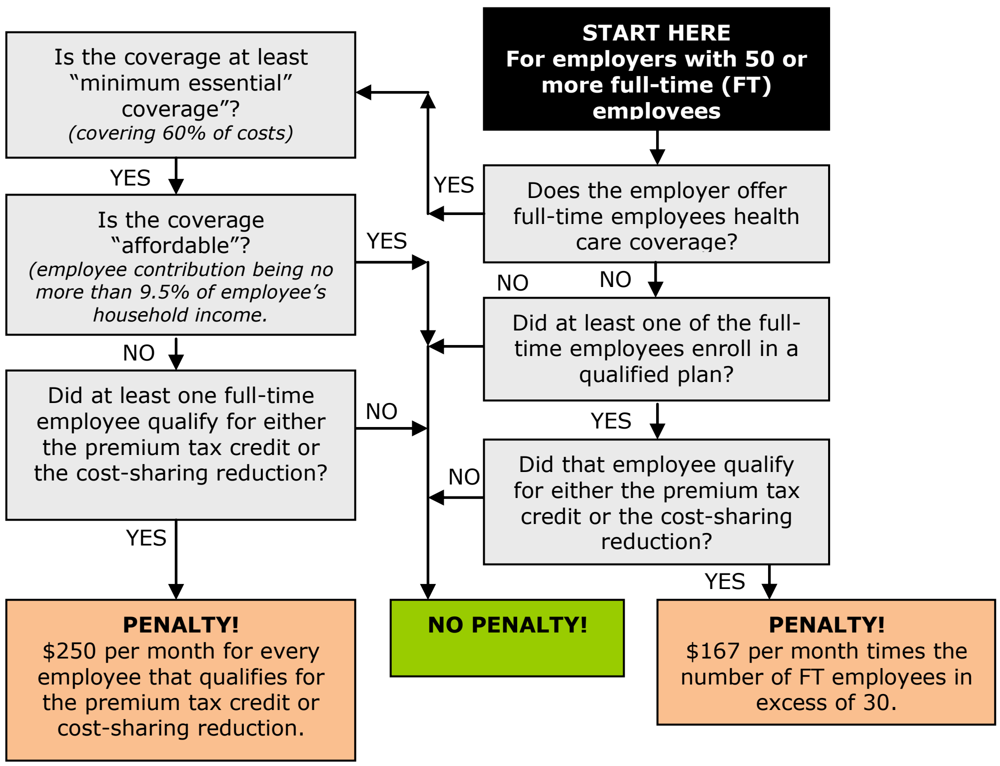
(2) *At least one full-time employee* has been certified to the employer as having enrolled for that month in a qualified health plan for which a premium tax credit or cost-sharing reduction is allowed or paid with respect to the employee.

The excise tax penalty for any month would be $250 ($3,000/12) times the number of full-time employees that received premium tax credit or cost-sharing reductions through an exchange, but would not exceed the penalty imposed had the employer not offered health care insurance.

Example: Health Care Plan, but with Employees Qualifying for Premium Tax Credit or Cost Sharing Reductions. *In January of 2015, an applicable large employer with 120 employees offers its employees a health care plan, but the plan's cost does not meet the affordable criteria—that employee contribution be more than 9.5% of the employee's household income, or that the plan's share of the total allowed cost of benefits be less than 60%—and 20 of the employees sign up for the insurance through an exchange and receive premium tax credit or cost-sharing reductions. The employer's excise tax penalty is $250 times 20. Thus, the penalty for the month of January is $5,000.*

Penalty Decision Tree The flow chart below provides an overview of the large employer health care excise tax.

Large Employer Health Coverage Excise Tax Decision Tree



Applicable Large Employer An "applicable large employer" is one that employed an average of at least 50 full-time employees on business days during the preceding calendar year (for an employer that was not in existence throughout the preceding calendar year, the determination is based on the average number of employees reasonably expected to be employed on business days in the current calendar year).

Seasonal Workers But, under an exemption, an employer will not be considered to employ more than 50 full-time employees if: (a) the employer's workforce exceeds 50 full-time employees for 120 days or fewer during the calendar year; and (b) the employees in excess of 50 employed during that 120-day (or fewer) period are seasonal workers, e.g., retail workers employed exclusively during the holiday season. Special rules apply to construction industry employers.

Full-time-employee: For purpose of complying with the 50 full-time-employee requirement, count those working 30 hours or more per week.

Part-Time Employees Solely for determining whether an employer is an applicable large employer, an employer will also have to include for that month the number of full-time employees determined by dividing (a) the aggregate number of hours of service of employees who are not full-time employees for the month by (b) 120.

Example – Equivalent Full-Time Employees. John has, for his business, 45 full-time employees plus 20 part-time employees. His part-time employees for the month of January have worked 960 hours. This is equivalent to 8 (960/120) full-time employees. Thus, the number of John's full-time employees for the month of January is 53 (45 + 8).

Penalty Deductibility This excise tax penalty is nondeductible under the general rules for excise taxes.

Mandatory Health Insurance Will Begin in 2014

Beginning in 2014 the Patient Protection & Affordable Care Act (the health care legislation sometimes known as Obama Care) will impose the new requirement that U.S. persons, with certain exceptions, have minimal, essential health care insurance.

A minimum essential health care policy is one in which the insurer pays 60% of the average medical expenses incurred by an average person over the course of one year.

How this will affect your family will depend upon a number of issues:

Already insured - If you will already be insured through an employer plan, Medicare, Medicaid, the Veterans Administration, or a private plan that provides minimal, essential care, then you will not be subject to any penalties under this new law.

Exempt from the mandatory insurance requirement - The following individuals will be exempt from the insurance mandate and will not be subject to a penalty for being uninsured:

- Individuals who have a religious exemption
- Those not lawfully present in the United States
- Incarcerated individuals
- Those who cannot afford coverage based on formulas contained in the law
- Those who have income below the federal income tax filing threshold
- Those who are members of Indian tribes
- Those who were uninsured for short coverage gaps of less than three months
- Those who have received a hardship waiver from the Secretary of Health and Human Services, who are residing outside of the United States, or who are bona fide residents of any possession of the United States.

Cannot afford coverage - Individuals and families whose household income is between 100% and 400% of the federal poverty level will qualify for a varying amount of subsidy to help pay for the insurance in the form of a Premium Assistance Credit. To qualify for that credit, the insurance must be acquired from an American Health Benefit Exchange operated by the individual or family's state, or by the Federal Government. These exchanges are scheduled to be up and running as of October 1, 2013, and the policies purchased through them will be effective as of January 1, 2014.

It is important to note that the subsidy is really just a tax credit based upon family income. It can be estimated in advance and used to reduce the monthly insurance premiums; it can be claimed as a refundable credit on the tax return for the year; or it can be some combination of both. However, it is based upon the current year's income and must be reconciled on the tax return for the year. If too much was used as a premium subsidy, it must be repaid. If there is excess, it is refundable.

If household income is below 100% of the poverty level, the individual or family qualifies for Medicaid.

Penalty for noncompliance - The penalty for noncompliance will be the greater of either a flat dollar amount or a percentage of income:

- For 2014, $95 per uninsured adult ($47.50 for a child) or 1 percent of household income over the income tax filing threshold
- For 2015, $325 per uninsured adult ($162.50 for a child) or 2 percent of household income over the income tax filing threshold
- For 2016 and beyond, $695 per uninsured adult ($347.50 for a child) or 2.5 percent of household income over the income tax filing threshold.

Flat dollar amounts - The flat dollar amount for a family will be capped at 300% of the adult amount. For example, the maximum in 2016 for a family will be $2,085 (300% of $695). The child rate will apply to family members under the age of 18.

Overall penalty cap - The overall penalty will be capped at the national average premium for a minimal, essential coverage plan purchased through an exchange. This amount won’t be known until a later date.

If you have any questions as to how this new insurance requirement will affect you, please call.

Eight Tips to Help You Determine if Your Gift Is Taxable

If you give someone money or property during your lifetime, you may be subject to the federal gift tax. The following tips will help you determine if your gift is taxable or if you are required to file a gift tax return.

1. Most gifts are not subject to the gift tax. For example, there is usually no tax if you give a gift to your spouse or to a charity. If you give a gift to someone else, the gift tax usually does not apply until the value of the gifts you give to that person during the year exceeds the annual exclusion for the year. For 2013, the annual exclusion is $14,000.
2. Gift tax returns do not need to be filed unless you give someone other than your spouse money or property worth more than the annual exclusion for that year.
3. Generally, the person who receives your gift will not have to pay any federal gift tax. Also, that person will not have to pay income tax on the value of the gift received.
4. Giving a gift does not ordinarily affect your federal income tax. You cannot deduct the value of gifts you give (other than gifts that are considered deductible charitable contributions).
5. The general rule is that any gift is a taxable gift. However, there are many exceptions to this rule. The following gifts are not taxable gifts:
    - Gifts that are not more than the annual exclusion for the calendar year;

- Tuition or medical expenses that you pay directly to a medical or educational institution for someone (this person does *not* have to be your dependent);
- Gifts to your spouse;
- Gifts to a political organization for its use; and
- Gifts to charities.

6. Gift splitting – you and your spouse can give a gift valued up to $28,000 to a third party without it being a taxable gift. The gift is considered as two halves: one half from you and one half from your spouse. If you split a gift that you give, you and your spouse must each file a gift tax return to show that you both agree to split the gift. You must file a Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return even if half of the split gift is less than the annual exclusion.
7. Gift Tax Returns – you must file a gift tax return (Form 709) if any of the following apply:
   - You gave gifts to at least one person (other than your spouse) that were more than the annual exclusion for the year;
   - You and your spouse are splitting a gift. In this case, each spouse files a gift tax return—joint gift tax returns are not allowed;
   - You gave someone (other than your spouse) a gift of a future interest that he or she cannot actually possess, enjoy, or receive income from until sometime in the future; or
   - You gave your spouse an interest in property that will terminate due to a future event.
8. You do not have to file a gift tax return to report gifts given to political organizations, most gifts to qualified charitable organizations, and gifts through which you pay someone’s tuition or medical expenses.

If you have questions related to gifts and the gift tax, please give this office a call.

Premium Assistance Credit - The Health Insurance Subsidy For Lower Income Individuals and Families

Beginning in 2014, as part of the Patient Protection and Affordable Health Care Acts, all U.S. persons, with certain exceptions, must have minimal essential health care coverage or face a tax penalty.

Recognizing this requirement could present a serious financial problem for lower-income individuals and families who do not have employer-provided coverage or other forms of insurance, Congress included a tax credit in the law to help them pay for their insurance.

The amount of the tax credit, known as the Premium Assistance Credit, is based on the individual or family’s income as it compares to the Federal poverty guidelines Those with household income at 100% of the poverty level get the largest credit, and the credit is reduced for higher incomes and completely phased out when the income reaches 400% of the poverty level. You might be wondering why those with income under 100% of the poverty level do not qualify for the credit; they qualify for Medicaid.

The credit is refundable and computed on the tax return for the year. However, that means the credit will not be available until the tax return is filed in the following year. Understanding this problem, Congress allows an advanced insurance premium subsidy to reduce the insurance premiums. Then, the advanced subsidy and premium assistance credit are reconciled on the tax return and any excess credit is refunded (if other taxes aren't owed), or some portion of the subsidy in excess of the credit is repaid.

To qualify for the premium assistance credit, the insurance must be purchased through the state's American Health Benefit Exchange or, if the state does not have an insurance exchange, the federal exchange. In addition, to qualify for the credit the taxpayer:

- Cannot be claimed as a dependent by another person;
- Cannot be eligible for Medicaid, Medicare, employer-sponsored insurance, or other acceptable types of coverage;
- If married, must file a joint tax return; and
- Cannot be offered minimum essential coverage under an employer-sponsored plan. An individual is eligible for employer-sponsored minimum essential coverage only if the employee's share of premiums is "affordable" and the coverage provides "minimum value."

When determining family size for computing this credit, the family size is the same as the number of individuals for whom the taxpayer is allowed an exemption deduction for the tax year.

The term household income includes the modified adjusted gross income (MAGI) of the taxpayer plus the sum of MAGIs of all individuals who were taken into account when determining the taxpayer's family size and who were required to file a tax return.

The term MAGI for purposes of this credit means adjusted gross income increased by any foreign earned income exclusion, the excluded portion of Social Security and Railroad Retirement benefits, and tax-exempt interest income.

Insurance through the exchanges will be effective January 1, 2014. Exchanges will be accepting applications in the fall in preparation for the January 2014 effective date.

It is not too early to begin planning for 2014 and these new requirements. Please call this office with questions.

Congress Puts Lid On Health Flexible Spending Arrangements

As part of the Patient Protection and Affordable Care Act (new health care law), employee contributions to health flexible spending arrangements (health FSA) are now being limited to a maximum pre-tax contribution of $2,500.

Employers are able to establish what is referred to as cafeteria plans for their employees. These arrangements allow employees to allocate a portion of their otherwise taxable compensation to nontaxable benefits. Thus, the amounts paid by both the employer and employee to fund the cafeteria plan are excluded from the employee's gross income.

Cafeteria plans are used to pay a variety of employee expenses, including group-term life insurance on an employee's life (up to the excludable $50,000 amount), employer-provided accident and health plans, accidental death and dismemberment policies, dependent care assistance program, adoption assistance program, contributions to a 401(k) plan, health savings account (HSA) contributions, long- and short-term disability coverage and health flexible spending arrangements (FSAs).

Health FSAs are benefit plans established by employers to reimburse employees for health care expenses, such as deductibles and co-payments. They are usually funded by employees through salary reduction agreements (and termed "pre-tax contributions"), although employers may contribute as well. Qualifying contributions to and withdrawals from FSAs are tax-exempt.

Prior to 2013, an employer could establish its own FSA plan's contribution limits. That continued to be true until the beginning of 2013, when Congress, as a way to partially pay for provisions in the new health care law, put a cap of $2,500 on FSA contributions. The $2,500 cap is inflation adjusted for future years.

This new $2,500 FSA limitation does not impact dependent care FSAs, health savings accounts, Archer medical savings accounts, or employee contributions toward health insurance premiums.

The limitation is on an employee-by-employee basis. That is, $2,500 is the maximum amount that an employee may contribute in 2013, regardless of the number of individuals (e.g., spouse or dependents) whose medical expenses may be reimbursed under the plan. However, if two people are married, and each has the opportunity to participate in a health FSA, whether through the same employer or through different employers, each may contribute up to $2,500.

The new health care law has many complicated elements. If you have questions regarding FSAs or other tax provisions in this law, please give this office a call.

QuickBooks' Custom Fields: An Overview

Part of QuickBooks' popularity comes from its flexibility. Here's a look at how custom fields contribute to that element.

The beauty of QuickBooks is that it can be used for so many different kinds of businesses. Its smart design lets realtors and retail shops, plumbers and plastic surgeons use it to track income and expenses, pay bills and invoice customers, and to run those all-important reports.

But Intuit knows that QuickBooks can't - and shouldn't - tailor itself to individual business types (except in the industry-specific versions). So its structure and tools are somewhat generic and as universal as possible.

That's where custom fields come in. You can simply use them for your own informational purposes, but QuickBooks also lets you create and add fields to your existing customer, vendor, employee and item records and forms, and use them as filters in reports.

A Common Application

Let's say you want to search for your best customers to create a targeted marketing mailing.

Start by opening the **Customer Center** and opening any customer's record there. Click on the **Additional Info** tab. In the lower right corner of this dialog box, click on **Define Fields**. This box (with some fields already defined in this example) opens:

Figure 1: You can create custom fields for your lists of names in this dialog box.

You want to send mailings to customers who order frequently, or who regularly purchase big-ticket items. You can call them your "High-Value Customers." Click in the first field that's available in the **Label** column and type that phrase, then tab over to the **Cust** column and click in it to enter a checkmark. Click **OK**. The **Edit Customer** dialog box opens with the new custom field included.

This field will now appear in all of your existing customer records as well as any new ones you create. You'll need to open the record for each High-Value Customer, click on the **Additional Info** tab and enter "Yes" on the corresponding line.

Figure 2: Custom fields appear in this box in your customer records.

Using Custom Fields in Items

If you sell physical inventory, custom fields will probably be needed in your item records. You might want to use them for t-shirt colors or sizes, for example, or to store serial or model numbers. They can be employed for all items types except subtotals, sales tax items and sales tax group items.

The process is similar to the one you used to define custom fields in your contact records. Open the **Lists** menu and select **Item List** (or **Fixed Asset Item List** where appropriate). Click **Custom Fields** in the dialog box that opens.

*Tip: The **Custom Fields** tool is also available in the **New Item** dialog box. So you can move directly to that step as you create an item record if you'd like.*

Click **Define Fields** and add your field(s). Be sure to put a checkmark in the Use column, and click **OK**.

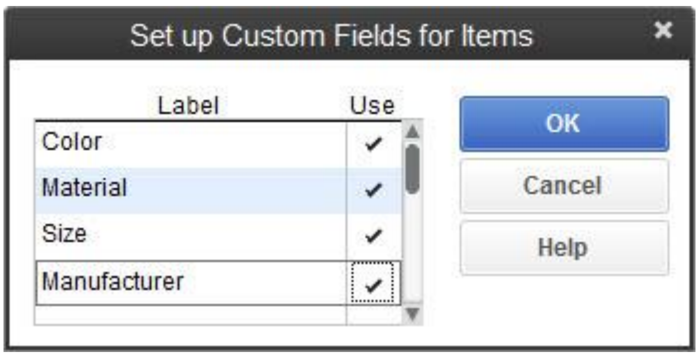


Figure 3: QuickBooks also lets you define and use custom fields in your item records.

Reports and Forms
Custom fields can be invaluable when it comes to using them in forms and reports. Your fields will automatically appear at the bottom of the **Filter** list within your reports' customization tools, but you'll have to add them manually to any forms where they should appear.

*Warning: You should probably enlist our help before you customize forms. QuickBooks provides tools to help you through this process, but you will encounter some potentially confusing messages as you add fields to forms, and you may have to use the **Layout Designer**, which can present quite a challenge.*

Let's say you wanted to find out how many blue coffee mugs Suzanne Jenkins sold in November. You'd proceed like you normally do when you're customizing a report, but you'd have to scroll down to the end of the **Filter** list to find the **Color** custom field that you created. You'd enter the word "Blue" in the field supplied. Your **Sales by Item Summary** report setup would look something like this:

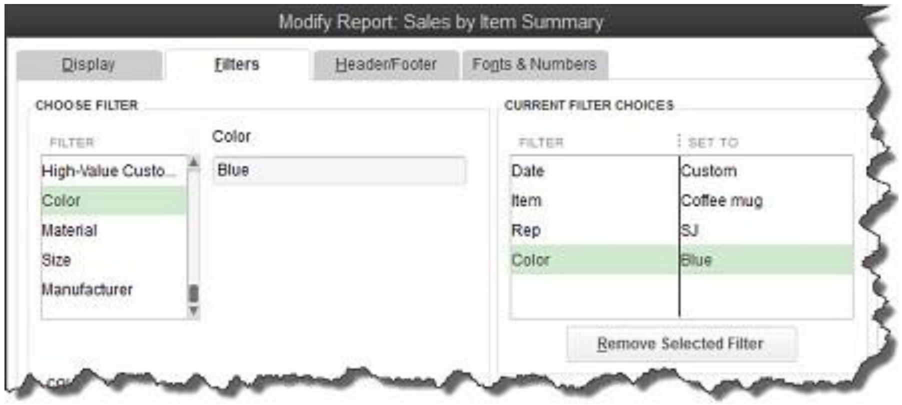


Figure 4: Filtering a report using a custom field.

This report will only run properly if you've added your **Color** field to your sales forms. Again, we'd be happy to help you with this, and to explore other uses for QuickBooks custom fields.