National Society of Accountants

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Tax Law Changes Coming With Obamacare

ALEXANDRIA, VA, February 24, 2014 – So what does the Patient Protection and Affordable Care Act (ACA), or Obamacare, mean for your tax situation this year?

It won't affect your 2013 tax return, but the National Society of Accountants (NSA) points out that the ACA will soon increase the complexity of tax filing with new rates and regulations that you – and your tax preparer – must know.

"Now is a great time to begin planning for how you will handle health insurance this year, because we are only weeks away from the Individual Mandate kicking in," says NSA Executive Vice President John Ams. "If you are not covered by health insurance by March 31 of this year, you may be subject to tax penalties for 2014."

Ams urges taxpayers to consult with their tax preparers on the health insurance issue when they meet to go over this year's tax return.

Among the key changes to the law:

- The Individual Mandate begins March 31, 2014, which means that you must obtain minimum essential health coverage for 2014 if you (1) can afford it, (2) get an exemption, or (3) pay a penalty based on your income.

- The Employer Mandate, which starts in 2015 for larger companies (100 employees or more) and in 2016 for smaller companies (50-99 employees), requires these companies to insure full-time employees or pay a per-employee fee.

- Advanced Premium Tax Credits are available for low-to-middle income Americans to reduce costs of premiums on health insurance purchased through a state's health insurance marketplace.

- Small-business tax credits are available under which businesses may qualify for tax credits of up to 50 percent of their cost of employee premiums.

Most of the 85 percent of Americans with health insurance and who make less than $250,000 a year will notice few tax and regulation changes.

New coverage and new taxes

Individuals must now carry health insurance on themselves and their dependents, including those not covered by any other means such as from an employer or by Medicare, Medicaid or an individually purchased policy. Open enrollment to purchase coverage for 2014 through the Health Insurance Marketplace ends March 31, 2014.

Among the new taxes and medical-spending restrictions from Obamacare:

- Individuals with earnings above $200,000 and married couples making more than $250,000 will see an increase in the Medicare Part A payroll tax: up 0.9 percent from 1.45 percent.

- A 3.8 percent tax on interest, dividends, annuities, royalties, rents and gains on the sale of investments for taxpayers who are over the earnings thresholds of $200,000 for individuals and $250,000 for married couples.

- **I**ncreased taxes on unearned income (3.8 percent) can add taxes to the sales of some homes, but many limitations apply. The 3.8 percent tax also typically doesn't apply to your primary residence nor to homes owned for longer than five years or on profits of less than $250,000 for individuals and $500,000 for couples.

- The Medicare Part A tax is paid by both employees and employers who earn over a certain amount. This 0.9 percent increase (from 2.9% to 3.8%) is paid by employees. Small businesses making less than $250,000 are exempt, as are employees making less than $200,000 as an individual or $250,000 as a family.

- Distributions from health flexible spending accounts (FSAs), health savings accounts (HSAs), health reimbursement arrangements (HRAs) and Archer Medical Saving accounts (MSAs) are no longer allowed to reimburse costs of over-the-counter medicines or drugs purchased *without* a prescription, with some exceptions; FSA contributions are now capped at $2,500; and 10-20 percent penalties are also levied on HSA and MSA spending on non-qualified medical expenses.

Avoiding a penalty

You can face escalating extra taxes if you have no health insurance coverage.

If you have no health insurance, your penalty starts at the greater of 1 percent of your income above the minimum necessary for filing or $95 per uninsured adult in your household; the penalty for uninsured children is half the adult amount. You won't pay this penalty until you file your 2014 federal income tax return in 2015.

This year's minimums for filing a return are $20,300-$22,700 for couples and $10,150-$11,700 for singles.

You can avoid a penalty in a few ways. Among them:

- Buy a policy via the Marketplace Exchange for your state.
- Hold an insurance policy from any other source that meets the minimum standards of a midrange (bronze-level) plan on the exchanges. These policies include employer-provided health-care or other group policies, such as through an association, as well as policies you buy on your own.

- If the only coverage you can find costs more than 8 percent of your adjusted gross income.
- If you must go without coverage for less than three months, such as when changing jobs.
- If you prove that a hardship caused you to go without coverage – should, for instance, your policy get canceled and you otherwise can't afford insurance.

No penalty can exceed the cost of a bronze-level policy on the exchanges.

Small-business regulations and credits

Employers with 50 or more employees must offer qualified and affordable health insurance plans for their employees. Employers who fail to do so must pay a $3,000/employee penalty beginning in 2015 for companies with 100 or more full-time workers and in 2016 for companies with 50 to 99 full-time workers.

The Small Business Health Care Tax Credit helps small businesses and small tax-exempt organizations afford to cover employees. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

Premium credit

Two other key tax implications for now and for the future of the ACA are an advanced tax credit and the tax penalty.

Getting health coverage through the Marketplace may qualify you for the Premium Tax Credit. You may qualify if you:

- Buy health insurance through the Marketplace
- Are ineligible for coverage through an employer or government plan
- Are within income limits of four times the federal poverty level – for example, $94,200 for a family of four and $45,960 for a single person
- File a joint return, if married; and cannot be claimed as a dependent by another person.

If you are eligible for the credit, you can choose to: (1) have some or all of the estimated credit paid in advance to your insurer to lower what you pay out of pocket for your monthly premiums during 2014 or (2) wait to get all of the credit when you file your 2014 tax return in 2015.

Though this credit has no effect on your 2013 return, you must file a federal income tax return for any tax year you receive advance credit payments or you plan to claim the premium credit.

If you need tax-preparation help this coming season, you can find a qualified tax preparer in your area on the NSA website at www.nsacct.org. Click on "Find a Professional" or call 800-966-6679.

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