

Client Alert

An informational newsletter from **Tonneson + Co**

Health Care Act changes for Small Business taxpayers

For small businesses the recently enacted health reform legislation has some key provisions. Some of the more significant changes are highlighted below.

Tax credits to certain small employers that provide insurance. The new law provides small employers with a tax credit for nonelective contributions to purchase health insurance for their employees. The credit can offset an employer's regular tax or its alternative minimum tax (AMT) liability.

Small business employers eligible for the credit. To qualify, a business must offer health insurance to its employees as part of their compensation and contribute at least half the total premium cost. The credit is subject to phase-out rules as firm size and average wages increase. Businesses eligible for the full credit must have 10 or fewer full-time equivalent employees and the employees must not have average annual full-time equivalent wages of more than \$25,000. The credit is phased out for businesses with more than 25 employees with average annual wages of more than \$50,000.

Years the credit is available. The Credit is available in 2 phases for a potential total of 6 years. In phase 1, for the 4 years 2010 through 2013, qualifying health coverage is obtained from insurance companies licensed under state law. In phase 2 for the 2 years 2014 and 2015, the health coverage must be obtained through state exchanges.

Calculating the amount of the credit. In phase 1 the credit is generally equal to 35% (50% in 2013) of the employee health insurance premiums paid by the qualifying small business. In phase 2 the credit amount increases to 50%. Tax exempt small businesses meeting these requirements are also eligible for the tax credit. However, they get a 25% credit to offset payroll tax liability in phase 1 and a 35% credit in phase 2. The phase-out rules apply.

Special rules. There is no double-dipping. Amounts claimed as credits cannot also be deducted as a business expense. Self-employed individuals, including partners and sole proprietors, two percent shareholders of an S corporation, and five percent owners of the employer are not treated as employees for purposes of this credit.

Small business exemption from "pay or play" penalties for not offering coverage to their employees. Effective 1/1/2014, the new law imposes penalties on certain businesses for not providing coverage to their employees. Employers with fewer than 50 employees aren't subject to the "pay or play" penalty. For businesses with 50 or more employees, the possible penalties vary depending on whether or not the employer offers health insurance to its employees and can range between \$2,000 - \$3,000 per employee, excluding the first 30 employees from the assessment.

The "Cadillac tax" on high-cost health plans. Effective 1/1/2018 the new law places an excise tax on high-cost employer-sponsored health coverage (often referred to as "Cadillac" health plans). This is a 40% nondeductible excise tax on insurance companies and plan administrators for any health coverage plan to the extent that the annual premium exceeds \$10,200 for single coverage and \$27,500 for family coverage. These amounts will be indexed and additional allowances will be provided for retired individuals 55 years and older and individuals in high risk professions. While the tax will be levied on the insurer, employers will be required to issue information forms for the insurer indicating the amount subject to tax.

Please contact your tax professional at Tonneson + Co. if you would like more details about these provisions or any other aspect of the new law. Visit our website at www.tonneson.com to read about other current relevant topics

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