

TAX TALK
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PROVISIONS OF HEALTH REFORM LAW

Penalty for Filing to Maintain Health Insurance

Taxpayers that fail to maintain what is considered to be minimum essential coverage will start incurring penalties in 2014. Taxpayers will incur penalties in 2016 which will be at least \$695 per uninsured adult in the household. Penalties for individuals under the age of 18 will be one-half of the adult penalties. These amounts are the minimum amounts, although they may be higher based on income. The total penalty per household will not exceed \$2,085. Although the full impact of these penalties will not be felt until 2016, these amounts will be phased in at \$95 in 2014, \$325 in 2015 and finally \$695 in 2016.

There will be certain exemptions for taxpayers whose employer provided plans exceed 8% of their household income, those exempted for religious reasons and those residing outside of the US.

Low Income tax credits

For certain taxpayers starting in 2014 that earn \$43,320 or less for an individual or \$88,200 for a family of four, there will be tax credits available. These individuals must meet certain requirements such as not being eligible for Medicaid or employer sponsored programs. These individuals will have to purchase insurance from newly established exchanges to obtain the credits.

Employers Responsibilities

The rules start to get complicated here, as if any of this is easy to grasp. Employers that employ an average of 50 full-time employees that do not offer coverage or provide coverage that is not considered adequate will incur a penalty if any employees purchase their own health insurance through a state exchange program.

Tax Credits for small Employers

The law does provide credits to small employers (those with no more than 25 full-time equivalent employees and whose average wages are no more than \$50,000 annually). The credit is phased out for employers with more than 10 full-time equivalent employees and whose employees average more than \$25,000 per year. The tax credit allowed will be 35% in years 2010 through 2013 (25% for tax-exempt organizations) and 50% after 2013 (35% for tax-exempt organizations). In order to receive the credit after 2014 the

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health insurance must be purchased through the Insurance Exchange and eligibility is only for 2 years. In addition, earnings of a sole proprietor, earnings of a partner in a partnership, wages of owners of more than 2% of an S corporation or wages of owners of more than 5% of C corporations do not count in the calculation. Wages and earnings of the families of these individuals are also excluded from the credit calculation.

Conclusion

The above article outlines some very basic elements of the new health reform law. It is, of course, vital that any taxpayer seek the advice of tax professionals and possibly health care insurance agents familiar with such transactions.