Bradley F. Douglas, P.A.
Certified Public Accountant
202 Julia Street
New Smyrna Beach, FL 32168
Phone: 386-427-4454 Fax: 386-427-4492
Email: bdouglascpa@gmail.com Website: www.braddouglascpa.com

Summary of Key Provisions Under The Affordable Care Act (ACA)

The health insurance mandate under the Health Care Reform laws enacted in 2010, commonly referred to as the "Affordable Care Act" (ACA), becomes effective January 1, 2014. The purpose of this document is to summarize the financial and tax implications related to this health care law for those taxpayers that do not already have health insurance that meets the new standards established for essential minimum coverage, as required under this law.

Although there are other tax provisions under this law that became effective January 1, 2013, this document summarizes only key provisions related to the health insurance coverage mandate, which includes information on federal financial assistance available to purchase health insurance, the penalty tax imposed on those taxpayers that forgo acquiring health insurance coverage as required by this law, and the information reporting imposed on providers and taxpayers as administered by the Internal Revenue Service. <u>This law will dramatically affect taxpayers and tax return preparers starting in tax year 2014 and future years. For those clients subject to these provisions, this law will result in increased tax preparation fees.</u>

Starting in 2014, employers with at least 50 full-time employees must provide minimum essential health care coverage for their employees. Small business employers with less than 50 employees are exempt from having to provide this coverage. Since many small business employers do not have to offer health insurance to their employees and/or cannot afford to provide such group coverage, the only manner in which individuals and families can have access to such policies is through the U.S. Government created Exchange or Marketplace website.

HealthCare.gov - Official Marketplace for Individuals, Families and Small Businesses
The Health Insurance Marketplace is the official U.S. Department of Health and Human Services website, also known as the "Exchange." It is the place where you will find information about private health insurance options, purchase health insurance coverage, and determine if you are eligible for any U.S. Government financial assistance in the form of a "premium tax credit" that can be used to help make the cost of the mandated health insurance coverage more affordable.

Open enrollment for the first tax year (2014) that this mandate is in effect began October 1, 2013 and runs through March 31, 2014. We recommend that if you have not already done so, please use the Internet and go to the <u>HealthCare.gov</u> website to learn more about this coverage, obtain a quote for health insurance coverage that suits your needs, review the details of the coverage offered to see if your primary physician or other health care providers will accept the insurance you might purchase, see if you are eligible for the premium tax credit, and based on the information provided determine if you want to purchase the health insurance coverage. There are several options, deductibles, coinsurance clauses, that must be evaluated to ensure the cost of this required coverage meets your needs. Due to the number of variables involved it is beyond the scope of this document to address the various types of coverage, costs of premiums, etc. You can only obtain this information through the Exchange and after providing very personal family and financial information only known to the taxpayer.

Premium Tax Credit
The premium tax credit is a refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Exchange (see above), beginning in 2014. You can choose to have the credit paid in advance to your insurance company to lower your monthly health insurance premiums, or you can claim all of the credit when you file your tax return for the year. If you choose to have the

credit paid in advance, you will be required to reconcile the amount paid in advance with the actual credit you compute when you file your tax return.

When you apply for coverage in the Marketplace, the Marketplace will estimate the amount of the premium tax credit that you may be able to claim for the tax year, using information you provide about your family and projected household income. Based upon that estimate, you can decide if you want to have all, some, or none of your estimated credit paid in advance directly to your insurance company to be applied to your monthly premiums.

As mentioned above, if you apply any of the credit in advance towards the cost of your health insurance premiums, you must reconcile the actual credit you are entitled to when you file your tax return against the amount of advance payments that the U.S. Government sent on your behalf and reported to you and to the Internal Revenue Service by your insurance company. Even if you don't have any of the credit applied in advance there will be an additional form to prepare and file with your tax return to compute the actual credit allowable. This will involve some form of 1099 reporting that the Internal Revenue Service is still developing for this purpose. The Marketplace and your health insurance company will be required to send you 1099s statement by January 31st each year, so you have the information needed to prepare your tax return.

The actual premium tax credit for the year will differ from the advance credit amount estimated by the Marketplace if your family size and household income as estimated at the time of enrollment are different from the family size and household income you report on your tax return. If the actual allowable credit on your return is less than your advance credit payments, the difference will be subtracted from your refund or added to the balance due on your return. If the actual allowable credit is more than your advance credit payments, the difference will be added to your refund or subtracted from the balance due on your return.

Eligibility for the Premium Tax Credit
You are eligible for the premium tax credit <u>if you meet **all** of the following requirements</u>:

- Purchase coverage through the Marketplace.
- Have household income that falls within a certain range (see below).
- Are not able to get affordable coverage through an eligible employer plan that provides minimum value.
- Are not eligible for coverage through a government program, such as, Medicaid, Medicare, CHIP or TRICARE.
- File a joint return, if married.
- Cannot be claimed as a dependent by another person.

In general, individuals and families whose household income for the year is between 100 percent and 400 percent of the federal poverty line for their family size may be eligible for the credit. The 2014 income ranges for determining eligibility for the premium tax credit have not been released by the U.S. Government at the time this document was prepared. <u>For reference, the 2013 federal poverty income ranges were</u>:

- $11,490 (100%) up to $45,960 (400%) for one individual
- $15,510 (100%) up to $62,040 (400%) for a family of two
- $23,550 (100%) up to $94,200 (400%) for a family of four

The annual income limits are adjusted for inflation each year. You can find the updated income limits on the official HHS website.

<u>Household income</u> for this purpose is the taxpayer's modified adjusted gross income plus income for every other individual in your family for whom you can properly claim a personal exemption deduction and who is required to file an income tax return. It includes tax-exempt income, nontaxable portion of Social Security benefits, plus any excluded foreign income.

Shared Responsibility Payment / Penalty Tax Imposed
The Affordable Care Act imposes a shared responsibility on employers and individuals to ensure affordability of health insurance coverage in the United States. Starting in 2014, the individual shared responsibility provisions calls for each individual to have minimum essential coverage for each month, qualify for an exemption, or make a payment (pay a penalty tax) when filing the taxpayer's federal income tax return.

Individuals of all ages, including children are subject to the shared responsibility provisions. Parents must provide coverage for their dependent children or else include them in the determination of the amount of shared responsibility payment to be made for the family as a whole.

These provisions go into effect January 1, 2014. It applies to each month in a calendar year. The amount of any payment owed takes into account the number of months in a given year and whether the individual is without minimum essential coverage or an exemption.

Some common exemptions

- If a taxpayer's income is below the minimum filing threshold for filing a tax return, the taxpayer is automatically exempt from having to obtain minimum essential coverage and thus exempt from having to pay a shared responsibility payment. The minimum filing threshold for filing a tax return depends on your filing status, age, and types and amounts of income.

- Economic hardship exemptions must be determined and certified by the Health Insurance Marketplace. An official exemption certificate will be provided under such circumstances if the taxpayer qualifies and will be an important tax-reporting statement that must be kept for your records.

- Unaffordable coverage options - if the minimum amount you must pay for the premiums is more than eight percent (8%) of your household income, you are also exempt from having to obtain health insurance and thus exempt from having to pay the shared responsibility payment.

The determination of the shared responsibility payment was established in IRS Final Regulations issued in August 2013. The computation of the shared responsibility payment is complex and involves many separate calculations, dependent on many factors, that will be reported on a separate form to be filed with your tax return. The IRS is still in the process of developing the form for release later in 2014.

The penalty tax payment amount is being phased-in over the next three years with the full amount of the penalty being imposed in tax year 2016. For taxpayers with income well above the 400% federal poverty level, the penalty tax to be paid can be much more than the originally reported estimates furnished by the U.S. Government when this law was first enacted in 2010.

The penalty tax payment is dependent on family size, level of income and reference to yet-to-be published monthly national average premiums for the lowest type of coverage permitted under this law. Due to this fact we are unable to provide any estimates without very specific financial data and additional taxpayer information.

The maximum shared responsibility payment (penalty tax) that can be imposed, when fully phased-in starting in 2016, is the **greater** of:

- $695 per year ($2,085 per family), or
- 2.5% of household income

Conclusion
This major tax law change will affect many of our clients and because of the complexities involved and new reporting requirements coming into effect in 2014, this will result higher tax preparation fees. If you have any questions regarding these very important matters, please contact our office.