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ACCOUNTING & TAX SOLUTIONS, INC.

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Spring Newsletter

Health Care Reform's New Tax Laws

Dealing with Health Care Reform's New Tax Laws: The Health Care and Education Reconciliation Act of 2010

Dear Client:

Now that Congress has passed a landmark health care reform package, much work needs to be done in dealing with new requirements. While the end result of the legislative process is necessarily health care related, the tax law plays a major role in its implementation. From the tax credits and subsidies used to expand health coverage, to the many penalties, fees and surtaxes designed to pay for it, the Tax Code is front and center.

Two new laws.

Health care reform is actually made up of two new laws: the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010. The Patient Protection Act was crafted largely in the Senate and sets out the general framework of health care reform. The Reconciliation Act was prepared in the House to modify the Patient Protection Act, especially in the areas of tax credits and cost sharing for individuals to help make coverage more affordable. Common features to both laws are delayed effective dates for many of the provisions, which make strategic planning all that more important.

New taxes and penalties.

Viewing the historic health care reform package from the context of the Tax Code, many new taxes and penalties stand out immediately above the rest. Initially, we would advise taking particular note of the following highlights:

- Individuals who earn more than \$200,000 for the year (\$250,000 for married couples) will be paying an additional 0.9 percent in Hospital Insurance (Medicare) tax, starting in 2013;
- Individuals whose adjusted gross income for the year exceeds \$200,000 (\$250,000 for joint filers), whether from wages or otherwise, will also be paying an additional 3.8 percent Medicare tax on net investment income, starting in 2013;
- Employers with 50 or more employees generally will be required to provide a

- minimum level of health insurance for their employees or pay a penalty per employee, starting in 2014;
- Small employers with no more than 25 employees are entitled to up to a 35 percent tax credit on the cost of providing health insurance for employees, starting immediately in 2010;
- Most individuals will be required to obtain health insurance or be subject to a penalty tax starting in 2014;
- Tax credits to subsidize the cost of health insurance premiums will be available to individuals earning up to 400 percent of the poverty level, starting in 2014;
- Health flexible savings arrangement (FSA) dollars will be limited to prescription medications with some exceptions after 2010, along with placing a \$2,500 annual cap on expenses covered under health FSAs, starting in 2013;
- A 40 percent excise tax will be imposed on high-cost, "Cadillac" employer-sponsored health coverage, starting in 2018;
- Fees will be imposed on the pharmaceutical industry and health insurance providers, starting in 2011 and 2014, respectively;
- An excise tax will be imposed on medical device manufacturers after 2012; and
- Limits on tax-subsidized medical expenses will be imposed by raising the itemized medical expense deduction floor for regular tax purposes from 7.5 percent to 10 percent, generally starting in 2013.

Tax incentives.

Among a handful of tax incentives provided under the new health-care reform package, two are particularly notable at this time: (1) the ability of parents to cover adult children up to age 27 under their tax-qualified employer-provided health plans, starting immediately for plans that elect to beat the mandatory post-September 22 year deadline for doing so; and (2) the unveiling of a simplified cafeteria plan specifically tailored to small businesses, starting in 2011.

Exchanges.

The health care reform package requires each state to establish an exchange by 2014 to help individuals and qualified employers obtain coverage. Coverage will be offered at various levels. Qualified individuals may be eligible for premium assistance tax credits, cost-sharing or vouchers to help pay for coverage through an insurance exchange. An individual's income, whether or not coverage is provided by his or her employer, will all be taken into account when determining if the individual qualifies for a premium assistance tax credit, cost-sharing or voucher.

IRS guidance.

Over the course of the next few months, the IRS and other federal agencies will be filling in details on how to comply with all the provisions under the massive health care reform package. The IRS is expected to issue guidance soon on the provisions with effective dates in 2010 and 2011.

Our office will be staying on top of all developments, with an eye toward how to best maximize results under the new law for our clients. We are prepared to advise our clients on all compliance rules and tax-reduction opportunities that undoubtedly will arise. In the meantime, if you have any questions about the new law, please do not hesitate to call our office.

The Hire Act and How It May Impact Your Business

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Attached is a new form [W-11](#) to be used as an affidavit for new employees to complete and sign if they are eligible for the new HIRE credit.

Employers do not have to pay the matching Social Security tax (6.2%) on the wages of workers hired after February 3, 2010 if they worked less than 40 hours in the previous 60 days. The exemption applies to wages paid after March 18, 2010 and before January 2, 2011.

The exemption is claimed on Form 941. The 6.2% exemption for qualified wages the employers pay from March 19 through March 31 will be claimed on the 941 for the second quarter. IRS is revising the 941 form to reflect the exemption. In the interim, employers can reduce their tax deposits by the amount of the exemption or elect to receive the overpayment their 941.

W-2 reporting will be affected, too. The amount of wages that are excluded from Social Security tax under the new law will be listed in box 12, using code CC.

There will also be a credit if the individual remains with the employer for 52 consecutive weeks. This business credit will be the lesser of \$1,000 or 6.2 percent of the wages paid by the employer to the retained worker during the 52 consecutive week retention period.

DD 214- Social Security Benefit (Updated 3/27/10)

DD Form 214-- Extra Social Security Benefit for those with active duty between January 1957 to December 31, 2001

See the web site & notes below to possibly increase your Social Security Benefits.

DD Form 214-- Social Security Benefit-Please share this with anyone who had active duty service between January 1957 to December 31, 2001 and planning for retirement. In a nutshell it boils down to this:

You qualify for a higher social security payment because of your Military service, for active duty any time from 1957 through 2001 (the program was done away with 1 January 2002). Up to \$1200 per year of earnings credit credited at time of application- which can make a substantial difference in social security monthly payments upon your retirement. You must bring your DD-214 to the Social Security Office and you must ask for this benefit to receive it!

Social Security website:<http://www.ssa.gov/retire2/military.htm>

This is something to put in your files for when you apply for Social Security down the road.. It is NOT just for retirees, But anyone who has served on active duty between January 1957 to December 31, 2001.

FYI- this benefit is not automatic, you must ask for it! We've all been on active duty between 1957 and 2001 or know someone who has.

Passing on good information for all you military folks when you apply for social security.

The below information came from the link provided above.....

Since 1957, If you had military service earnings for active duty (including active duty for training), you paid Social Security taxes on those earnings. Since 1988, inactive duty service in the Armed Forces reserves (such as weekend drills) has also been covered by Social Security.

Under certain circumstances, special extra earnings for your military service from 1957 through 2001 can be credited to your record for Social Security purposes. these extra earnings credits may help you qualify for Social Security or increase the amount of your Social Security benefit.

Special extra earnings credits are granted for periods of active duty or active duty for training. Special extra earnings credits are **not** granted for inactive duty training.

If your active military service occurred

- **From 1957 through 1967**, we will add the extra credit to your record when you apply for Social Security benefits.
- **From 1968 through 2001**, you do not need to do anything to receive these extra credits. The credits were automatically added to your record.
- **After 2001**, there are no special extra earnings credits for military service.

Major Changes to 1099 Information Reporting Laws

Major Changes to 1099 Information Reporting Laws were included in the Healthcare Bill.

The passage of the Healthcare reform bill included some of the most drastic changes to 1099 information reporting in over a decade. The bill included revenue raising provisions meant to seek greater compliance of the tax code via 1099 information reporting. General provisions included:

- The elimination of the corporate exemption from 1099-MISC reporting. (Public Law 111-148)
- The requirement to report payments for property (goods, materials, merchandise, supplies, etc.). (Public Law 111-148)
- A six fold increase in penalties from \$250,000 to 1.5 million(H.R.4213,H.R.4849)
- A doubling of penalties per record from \$50 to \$100. (H.R.4213,H.R.4849)

Beginning for payments made after December 31, 2011, companies will be required to furnish and file form 1099-MISC for payments made to all for-profit companies regardless of corporate status. In addition all payments for goods, materials, merchandise, supplies, and other property will need to be reported as well. Early indication reveal that these changes will likely cause the 1099 reporting volume to increase significantly for most companies as well as the associated B-Notices.

While the law applies to payments made after December 31, 2011 companies need to make broad changes to: 1) W-9 procedures to include all vendors. 2) solicit W-9's for corporate vendors. 3) Prepare for larger 1099 year-end printing, mailing and filing. 4) Make the appropriate budgetary and system updates to accommodate these changes.

Contact Information

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