OBAMACARE NUANCES - PRACTICAL TIPS

AccuPay's "benefits and flex team" of HR, benefits, and payroll tax professionals has been working hard to learn every nuance of the Affordable Care Act, better known as "Obamacare." We have been meeting with employers of all shapes and sizes to discuss how Obamacare impacts their organizations. We will continue to monitor daily Obamacare news and regulations since so much uncertainty exists with Obamacare, and we will continue to educate and inform our PayDay readers.

Most new legislation has some flaws which require subsequent correction, and the Affordable Care Act is certainly no exception. **This PayDay lists some Obamacare provisions which you need to be aware of.**

FULL-TIME AS 30 HOURS PER WEEK

Obamacare defines a "full-time employee" for purposes of mandated employer-sponsored health insurance coverage as an employee who averages 30 or more hours per week. **The response by many employers to the 30-hour work week has been to cut hours of part-timers to below 30 hours weekly to avoid the requirement to provide health insurance to part-time employees**. We have all heard news about "corporate America" employers cutting hours to below 30, but other employers such as schools, local government, and churches have also followed suit by cutting hours.

This 30 hour definition of "full-time employment" is intended to insure more people, but in reality will result in reduced work hours, and thus reduced pay, for part-timers. Most employers cannot afford to provide excellent health insurance to their non-core, part-time workers.

MATERNITY COVERAGE FOR MEN

Insurance policies which are compliant with Obamacare must require maternity coverage for every insured, regardless of age or gender. This simply means that a 60-year-old man will pay more for his insurance now than before - seems silly to us!

SMALL EMPLOYER HEALTH INSURANCE TAX CREDIT

If you are a "small employer" (including churches), you have likely heard that the Federal government will provide you with a 50% tax credit (35% for churches) if you provide health insurance to your employees, and have under 25 employees whose average wages are below $50,000 per year. Sounds like a generous tax benefit for the majority of American employers and small business owners, right? This Federal tax credit has been around since 2010, and the "results are in" - **most small employers receive a very small portion of what sounds like a significant tax benefit. This"small employer health insurance tax credit" is "phased out" as you employ**

more than 10 employees and as average wages exceed $25,000 per employee. Most CPA's/tax advisors will tell you that calculating the "small employer health tax credit" is hardly worth the effort - the tax credit calculations are complex and the actual tax credit is generally far less than the "hyped" 50%/35% amounts. This tax credit is only available for small employers who use the new "SHOP" exchanges to procure employee health insurance.

THE "CATCH ME IF YOU CAN" INDIVIDUAL PENALTY

A key component of Obamacare is that every individual is required to obtain health insurance or "pay a penalty" - the so-called "individual mandate."

The penalty for an individual not obtaining insurance in 2014 is relatively small ($95-$285 per person), and then increases significantly in 2015, 2016, and future years. The individual penalty is calculated and paid in each person's annual Form 1040. So far so good.

Here's the rub - if a person does not obtain insurance and owes the penalty/tax, the IRS cannot use typical collection tools such as liens or levies - so this penalty/tax is really a "dog without teeth."

The IRS anticipates collecting the individual mandate tax by reducing people's tax refunds. Our guess is that the "word will get around" - simply structure your income tax withholdings and estimated tax payments to never overpay your taxes.

THE MAN-CHILD INSURANCE

Obamacare requires that family health insurance with dependent coverage permit a child to stay on their parents' coverage until they reach age 26 - regardless whether the "adult child" is married, has insurance offered at his/her own employer, etc. Our understanding is that it is often much less expensive for the "adult child" to be carried on their parents' coverage than to procure their own.

This provision surely increases premium costs for other insureds and taxpayers. Since everybody can obtain insurance on the public exchanges, we are not sure why other insureds and taxpayers need to help pay for a 25-year-old married person's health insurance.

DON'T GIVE ME A CHRISTMAS BONUS!

U.S. citizens and legal residents who are not offered affordable health insurance by their employers can obtain "guaranteed issue" insurance on a state government exchange. Experts estimate that **as many as 2/3 of those people will qualify for Federal premium tax credits** based on the level of their "household income" and the size of their household. A single individual whose income is below $45,960 will qualify for a premium tax credit. **If they earn $1 more than the subsidy cutoff (which is 400% of the federal poverty level), they will receive zero premium tax credit.**

This provision will require that individuals who obtain subsidized health insurance on public exchanges closely monitor their annual income to not exceed 400% of FPL for their household size.

People who obtain public exchange health tax credit subsidies must ultimately calculate their actual tax credit on their actual household income when they file their personal tax returns by April 15th of each year. **AccuPay believes that many people (hundreds of thousands or more) will owe thousands of dollars each in tax credit repayments when they file their tax returns.** Our understanding is that the IRS will have full enforcement tools, to include liens and levies, to recoup these taxes.

NOTE - Household income will include your kids' summer job wages as well as your income. Be careful when you estimate each year's "household income."

I'LL BUY THE CHEAPEST INSURANCE

The public exchanges will have various levels of insurance coverages, ranging from the lowest cost "bronze" coverage to the most expensive "platinum" coverage. Each "metallic" level of coverage will have different premiums, deductibles, co-pays and co-insurance amounts. **Experts anticipate that the majority of people will make incorrect insurance benefit choices, with many choosing the least expensive premium without an understanding of deductibles, co-pays and co-insurance.**

Exchanges are intended to help people shop on websites for coverages and costs which best fit their health profile and family budget. **We recommend that people use experienced health insurance agents/brokers to help people make wise insurance selections on the public exchanges - which will be free to the consumer. AccuPay Benefits & Flex can help people make wise decisions and procure coverage on the exchanges, with zero cost for the professional advice.**

IF IT'S AFFORDABLE WHY CAN'T I AFFORD IT?

An "applicable large employer" (an employer who averages 50 or more full-time equivalent employees per month for a year) must provide insurance of a "minimum value" to their full-time employees, which is also "affordable" to the employee. The ACA's definition of "affordable" is that the employee cost of "single-only" coverage cannot exceed 9 1/2% of the employee's gross wages. However, in many cases an employer can meet the "affordability test" to avoid employer penalties by shifting up to 9 1/2% of the premium cost to the employee - who will decline the employer's offer as "unaffordable."

Here is an example. A restaurant employee works full-time for $10 per hour and works a 40 hour work week. This employee earns $400 of gross wages and pays $40 in payroll taxes, resulting in a net, pre insurance, pay check of $360. An employer can require the employee to pay $38 (9 1/2% of $400 of gross wages) per week for insurance and meet the "affordability" test. **Many employees with net pay checks of $360 per week will not accept employer-sponsored "affordable" insurance which costs $38 per week. The result? No subsidy to the employee on the exchange, no employer penalty, and most likely the employee does not obtain insurance.**

THE WEDDING TAX

Obamacare premium tax credit subsidies on the public exchanges are available for single individuals with income below $45,960 and couples with a combined income below $63,040. Based on these rules, **2 singles earning $35,000 each are both entitled to health insurance premium tax credits - until they get married. Once married, the couple obtains no Federal tax subsidy on the public exchanges since their household income of $70,000 for a household of 2 exceeds the 400% of the FPL subsidy cutoff.**

NOTE - Exchange subsidies can be worth thousands of dollars per year for each qualifying individual. **Be careful when you calculate your household income and your household size. Know the rules and monitor your income!**

WE ARE HERE TO HELP

AccuPay has developed a "healthcare reform" team of experts to educate employers and their staff about the Affordable Care Act provisions.We have found that every employer profile is unique as to number of employees, full-time vs. part-time, and seasonal employees, income levels, desired benefit offerings, and the like. It is vitally important that employers track employee hours correctly so they can monitor and plan ACA outcomes as well as file accurate reports with the IRS, DOL and the HHS. Our previous PayDay, ***Employers and the Affordable Care Act***, lists and explains four of AccuPay's ACA compliance/planning reports.

We continue to learn new strategies daily as we brainstorm with numerous employers about their financial objectives and their "payroll profiles."

Please email healthcarereform@accupay.com with your questions and/or requests to meet for discussion. You can also call us at **317-885-7600** and your AccuPay processor can put you in touch with our healthcare reform team professionals.

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