



# Absolutes

## *Planning for Death and Taxes*

### *Our Mission Statement*

*To Provide Tax and Business Consulting Services  
that Drive Innovative Wealth Building Solutions*

## HEALTH CARE AND EDUCATION RECONCILIATION ACT OF 2010

On March 25, 2010, Congress passed the Health Care and Education Reconciliation Act of 2010. The health care reform package includes more than \$400 billion in revenue raisers and new taxes on employers and individuals. This News Release summarizes the major points of the health care reform package that will affect you and your business in the coming years.

### **Immediate Changes Taking Effect in 2010**

Many of the key provisions in the health care reform package take effect in 2010:

- Small business health care tax credit;
- Temporary high-risk pool for individuals who are uninsured because of a pre-existing condition;
- Temporary reinsurance program for early retirees;
- No discrimination against children with pre-existing conditions;
- No lifetime limits on coverage;
- Coverage for young persons under age 26 through parents' insurance; and
- A \$250 rebate to Medicare beneficiaries who are affected by the "donut hole."

### **Small Business Health Care Tax Credit**

Beginning in 2010, the health care reform package provides a temporary sliding-scale small employer tax credit to help offset the cost of employer-provided coverage. Generally, a small employer is one with no more than 25 employees and average annual wages of less than \$50,000. The qualified small employer must contribute at least one-half of the cost of health insurance premiums for coverage of its participating employees. Employees who are not included are sole-proprietors, a partner in a partnership, a shareholder owning more than two percent of an S corporation, and any owner of more than five percent are not considered employees for purposes of the credit.

In 2010 through 2013, qualified small employers may qualify for a tax credit for up to 35 percent of their contribution toward the employee's health insurance premium. In 2014 and beyond, small employers who purchase coverage through an insurance exchange may qualify for a credit for two years of up to 50 percent of their contribution. If the small employer is a non-profit, the tax credit equals 25 percent instead of 35 percent.

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Small employers with 10 or fewer employees and average annual wages of less than \$25,000 would be eligible for the full credit. The credit is reduced for small employers with 11 to 25 employees and average annual wages of \$26,000 to \$50,000. These wage limits are indexed for inflation.

The small employer health insurance credit will be claimed on the employer's income tax return. It can offset regular income taxes and alternative minimum tax. Any unused credit can be carried back for one year (but not before 2010) and forward for 20 years to offset future taxes.

Please see the worksheet on Page 4 for an example of how to calculate the Small Business Health Care Tax Credit.

### **Additional Medicare Tax for High Income Taxpayers**

Starting in 2013, the health care reform package broadens the Medicare tax base for higher-income taxpayers by:

1. Imposing an additional Hospital Insurance tax of 0.9 percent on earned income in excess of \$200,000 for individuals and \$250,000 for married couples filing jointly; and
2. Imposing a 3.8 percent "unearned income Medicare contributions" tax on higher-income taxpayers.

The 3.8 percent unearned income Medicare contributions tax is imposed on the lesser of:

1. Net investment income; or
2. The excess of modified adjusted gross income over the threshold amount.

The threshold amounts are \$200,000 for single individuals or heads of households; \$250,000 for married couples filing a joint return; and \$125,000 for married couples filing separate returns. These amounts are not indexed for inflation.

Net investment income includes interest, dividends, royalties, rents, gain from disposing of property from a passive activity, and income earned from a trade or business that is a passive activity. In determining net investment income, investment income is reduced by deductions properly allowed to that income.

This tax also applies to estates and trusts. In this case, the tax is 3.8% of the lesser of (1) undistributed net investment income; or (2) the excess of AGI over the dollar amount at which the highest estate and trust income tax bracket begins.

### **Large Employers Pay or Play Rules**

The health care reform package does not require employers to provide health insurance coverage. However, "large" employers (generally those with 50 or more full-time employees) will be subject to "play or pay" rules after 2013. Employees working 30 or more hours per week are treated as full-time employees.

A nondeductible penalty will be assessed on a large employer that:

1. Fails to offer minimum essential coverage to full-time employees and has at least one full-time employee enrolled in an insurance exchange who receives a premium assistance tax credit or cost-sharing; or
2. Offers minimum essential coverage to full-time employees, but has at least one full-time employee enrolled in an insurance exchange who receives a premium assistance tax credit or cost-sharing.

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The applicable penalty for employers will be 1/12 of \$2000 per full-time employee per month (\$166.67 per month). The penalty would apply to employers with 50 or more workers, but would subtract the first 30 workers from the penalty calculation. Businesses with fewer than 50 employees would be exempt from any employer responsibility.

### **Individual Minimum Essential Coverage**

Starting in 2014, the health care reform package requires all individuals not covered by Medicare or Medicaid to obtain health care coverage or pay a penalty unless they are exempt from the individual responsibility mandate. Individuals who fail to maintain minimum essential coverage would be liable for a penalty.

The monthly penalty with respect to an adult individual who fails to carry minimum essential coverage is equal to 1/12 of the greater of the:

- Flat dollar amount; or
- Applicable percentage of income.

The flat dollar amount starts at \$95 in 2014, rises to \$325 in 2015, and increases to \$695 in 2016. For calendar years after 2016, the flat dollar amount is indexed for inflation. The applicable percentage of income is 1% in 2014; 2% in 2015; and 2.5% in 2016 and subsequent years. For individuals under the age of 18, the applicable flat dollar per individual penalty would be one-half of the above amounts.

The health care reform package exempts religious objectors, undocumented aliens, incarcerated individuals, qualified member of Native American tribes, and certain hardship cases.

### **Timeline of Effective Dates**

#### 2010

- Small Business Health Care Tax Credit
- Dependent Adult Child Coverage to Age 26

#### 2011

- Only Dr. Prescribed Medicines Covered by FSAs/HSAs
- Employer W-2 on Value of Health Benefits

#### 2013

- Medicare 0.9% Increase for \$200k/\$250+ wages
- 3.8% Tax on Net Investment Income of High Income Taxpayers
- 10% AGI Floor on Itemized Medical Expenses
- \$2,500 cap on FSAs

#### 2014

- Individual Shared Responsibility Penalty
- Coverage Subsidies
- Large Employer Mandate – “Play or Pay”

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## SMALL BUSINESS HEALTH CARE TAX CREDIT

If you are a small employers that provides health insurance coverage to your employees, determine if you may qualify for the Small Business Health Care Tax Credit by following these simple steps:

### **STEP ONE:**

Determine the total number of your employees (not counting owners or family members)

1. Number of full-time employees (who work at least 40 hours per week): \_\_\_\_\_
2. Full-time equivalent of part-time employees: \_\_\_\_\_  
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080)

Add the answers from 1 and 2 for total employees: \_\_\_\_\_

**If the total number of employees is fewer than 25, go to Step Two**

### **STEP TWO:**

Calculate the average annual wages of employees (not counting owners or family members)

1. Take the total annual wages paid to employees: \_\_\_\_\_
2. Divide it by the number of employees from step one for the average wage: \_\_\_\_\_  
(total wages ÷ number of employees = average wages)

If the result is less than \$50,000 AND you pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then you may be able to claim the Small Business Health Care Tax Credit.

### **Example of Employer Receiving Credit:**

<b>Employees:</b>	10
<b>Wages:</b>	\$250,000 total or \$25,000 per worker
<b>Premiums:</b>	\$70,000
<b>2010 Credit:</b>	\$24,500 (35 percent)
<b>2014 Credit:</b>	\$35,000 (50 percent)

### **We Can Help Make Your Decisions Work For You. We Provide the Following Services:**

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Family Limited Partnerships  
Commercial Mortgages  
Tax Controversy  
Corporate Tax Preparation

Tax & Estate Planning  
Business Control  
Business Organizations  
Charitable Remainder Trusts  
Asset/Debt Restructuring  
Estate & Gift Tax Preparation  
Partnership Tax Preparation