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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Patient Protection And Affordable Care Act

2012 ANGA Management Roundtable
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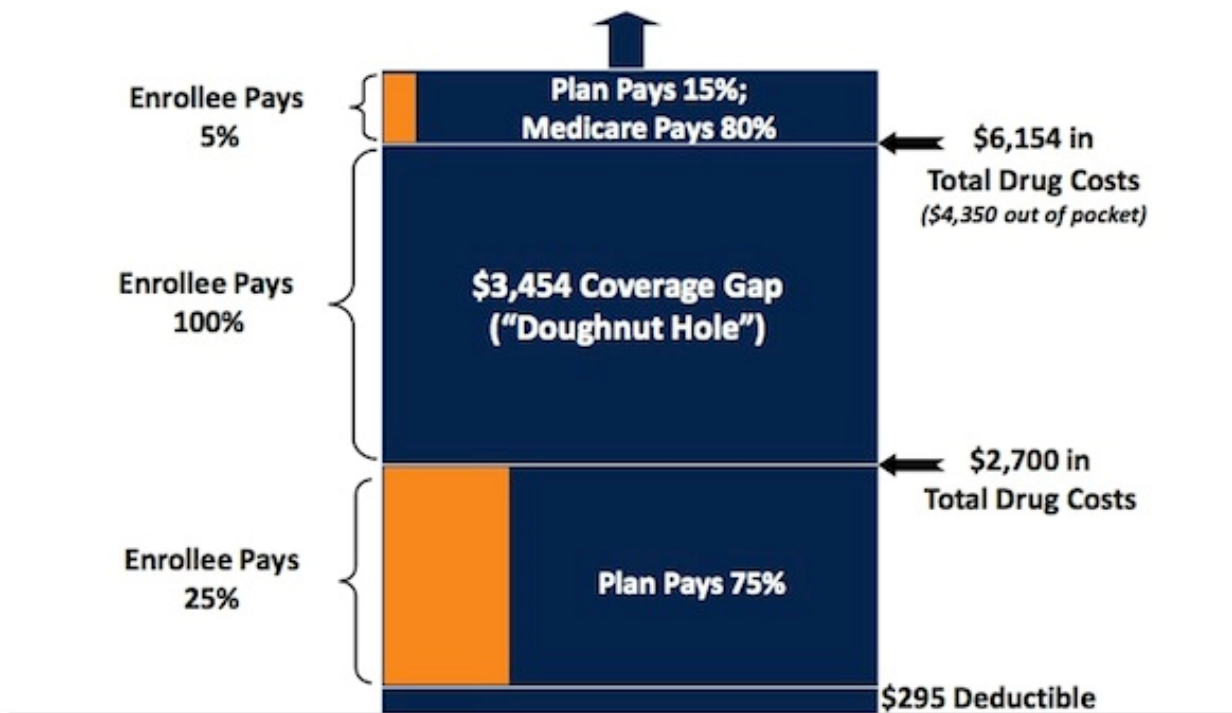
Healthcare Reforms In Effect

- Medicare Part D “Donut Hole” Revision
 - 50% Discount on Brand Name Drugs
 - 14% Discount on Generic Drugs
 - 3.6M Senior Affected
 - \$2.1B Savings



“Donut Hole”

Exhibit 1
Medicare Part D Standard Drug Benefit in 2009



NOTE: Amounts rounded to nearest dollar.

SOURCE: Kaiser Family Foundation illustration of 2009 standard Medicare drug benefit parameters.



Healthcare Reforms In Effect

- Mandatory Coverage For Pre-Existing Conditions
 - Cost Similar To That of Healthy Individual
 - Without Coverage For 6 Months
 - No Exceptions 2014

- Free Preventive Care
 - Immunizations
 - Screenings



Healthcare Reforms In Effect

- Annual “Essential Health Benefits” Limit
 - \$2M Limit Effective September 2012
 - Phased Out January 2014

- Lifetime “Essential Health Benefits” Limit Eliminated
 - Prior Amounts \$1M - \$6M
 - Serious Medical Conditions



Healthcare Reforms In Effect

- Insurance Coverage Age Extension For Young Adults
 - Eligible On Parent's Health Plan Until Age 27
 - 2.5M Adults Affected

- Eliminates Children Pre-Existing Condition Exclusion
 - Negative Consequence "Child Only Plan"



Healthcare Premium Rebates

- Rebates Issued August 2012
- Based On Health Care Providers “Medical Loss Ratio”
- 80% Minimum For Individual & Small Business Plans
- 85% Minimum For Large Group Plans (> 100)
- \$4.2M Alabama Rebates
- Employer Allocation of Rebates



Flexible Spending Accounts

- Employer Set Limits in 2012
- Maximum Contribution \$2,500 in 2013
- Annual Inflation Adjustments
- Excludes Over-The-Counter Purchases



2013 Medical Expenses

- Medical Expense Itemized Deduction
 - Increases To 10% AGI Limitation
 - Remains 7.5% For Taxpayers Age 65 Until 2016



Reporting Insurance Coverage

- W-2 Reporting In January 2013 By Large Corporations
- Report on Box 12, Code DD
- Less Than 250 employees, Not Applicable Until At Least January 2014
- IRS Webinar Available Online October 31, 2012



Small Business Healthcare Tax Credit

- 2010 – 2013 Maximum Credit 35%
- 2014 Maximum Credit 50%
- Must Cover 50% of Employee Premium Cost
- Fewer Than 25 Full-Time Employees
- Average Wage Less Than \$50K
- Planning Consideration: Amend 2010-2011 Returns



Excluded Employees: Healthcare Tax Credit

- Partners
- Shareholders
- Family Members
- Leased Employees
- Seasonal Employees
 - Fewer Than 120 Days
 - Premiums Count Towards Credit



Small Business Healthcare Tax Credit

- Form 8941
- General Business Credit
 - One Year Carryback
 - 20 Year Carryforward
- Credit Reduced Based on State Average
- Alabama State Averages:
 - Employee Only: \$4,778
 - Family: \$12,084



Example – Small Business Healthcare Tax Credit

- Employees: 10 Full-Time Employees
- Wages: \$250K, \$25K Average
- Employee Healthcare Costs: \$70K

- 2010-2013 Credit: \$24.5K (35%)
- 2014 Credit: \$35K (50%)



Example – Small Business Healthcare Tax Credit

- Employees: 40 Half-Time Employees
- Wages: \$500K Wages, \$25K Average
- Employee Healthcare Costs: \$240K
- 2010-2013 Credit: \$28K (35% With Phase-Out)
- 2014 Credit: \$40K (50% With Phase-Out)



Medicare Tax Earned Income

- Begins 2013 Tax Year
 - 2012: Workers Pay 1.45% Wages
 - 2013: 0.9% Earned Income \$200K (\$250K MFJ)
 - Wages & SE Income
 - \$200K Mandatory Withholding By Employer
- S Corporation Advantage



Medicare Tax Investment Income

- Begins 2013 Tax Year
 - 3.8% Surtax
 - Capital Gains, Interest, Dividends, Rental Income, Royalties, & Annuities
 - Passive Business Income
 - Disposition of Non-Business Property (Partnerships & S Corporations)

- Exceptions
 - Personal Residence
 - IRA, Roth IRA, Qualified Pension Plans



Medicare Tax Investment Income

The Medicare Surtax Is Equal To:

**3.8% X
The Lesser
of**

1. Net Investment Income

or

**2. The Excess (If Any) of
- "Modified Adjusted Gross Income"
- "Threshold Amount"**



Example: Medicare Tax Investment Income

- Married Filing Jointly
 - \$400K Earned Income
 - \$50K Investment Income
 - \$400K Gain Sale of Primary Residence

- 3.8% Surtax on \$50K Investment Income



Planning Around the Surtax

- Municipal Bonds
- Life Insurance
- Rental Real Estate
- Oil & Gas Investments
- Tax-Deferred Annuities
- Installment Method



Oil & Gas Investment Example

- \$100K Investment in Oil Well
- 80% 1st Year Deduction “Intangible Drilling Cost”
- \$80K Investment Income
- 36% Tax Bracket

Income Tax Savings IDC Deduction	\$28,000 [(\$100,000 x 80%) x 36%]
Surtax Savings IDC Deduction	<u>5,000</u> [(\$100,000 x 80%) x 3.8%]
Total Tax Savings	<u>\$31,840</u>



2014: Mandatory Health Insurance

- Guaranteed Issue
 - Regardless of Pre-Existing Conditions

- State Impact
 - Individual Insurance Markets Deteriorated
 - Insurers Exited Market
 - Massachusetts Successful (Individual Mandate)

- Alabama: No Current Guaranteed Issue Law



Affordable Insurance Exchange

- Mandatory June 2013
- Must Provide Minimum Essential Coverage
- One-Stop Shopping
- Mandatory Coverage Disclosures
- Increased Purchasing Power For Small Businesses



Affordable Insurance Exchange

- State Administered Unless Declined (Federal Option)
- State Deadline 11/16/12
- Alabama Still Evaluating Options:
 - Gov. Bentley: Process Currently “Irresponsible”
 - Oct. 1st – Missed Deadline “Essential Health Benefits”
 - Also Participating In “Enroll UX 2014”
 - Received \$9.6M In Federal Grants



2014: Premium Tax Credit

➤ Who's Eligible?

- Not Eligible Through Employer or Government
- AGI 100% - 400% Federal Poverty Line
 - ✓ Family of 4 (\$22K - \$89K)
- Employee Cost Exceeds 9.5% Income (Not Family)
- Does Not Provide Minimum Value (60%)



2014: Premium Tax Credit

- Refundable Tax Credit
- Advanceable Tax Credit
- Insurance Costs Shall Not Exceed:
 - 2% of Income At 100% Federal Poverty Line
 - 9.5% of Income At 400% Federal Poverty Line
 - Silver “Benchmark Plan”



Example: Premium Tax Credit

- 45 Years Old
- 250% Federal Poverty Line (\$28K)
- Silver Plan: \$5.7K
- Maximum Cost: 8% of Income (\$2.3K)

- Difference “Benchmark Plan” & “Expected Contribution”
- **Tax Credit = \$3.4K**



Example: Premium Tax Credit

- Family of 4
- 224% Federal Poverty Line (\$50K)
- Silver Plan: \$9K
- Maximum Cost: 7.1% of Income (\$3.6K)

- Difference “Benchmark Plan” & “Expected Contribution”
- **Tax Credit = \$5.4K**



Impact: Premium Tax Credit

- Help 20 Million Americans Afford Health Insurance
- Older Americans Receive Higher Credit
- Advanceable: Lowers Up-Front Costs



Individual Mandate

- Effective 2014
- Penalty Cannot Exceed Minimum Essential Coverage
- Penalty Increases through 2016
- Family Penalty Capped 300% Flat Rate
- Cost of Living Adjustment In Future Years



Individual Mandate

2014

\$95 Per Individual
1% of Taxable Income

2015

\$325 Per Individual
2% of Taxable Income

2016

\$695 Per Individual
2.5% of Taxable Income



2014 Example: Individual Mandate

- Family Of 4
- \$100K Taxable Income
- Estimated Filing Threshold \$20K
- \$285 Maximum Flax Tax Penalty
- 1% of Taxable Income Above Filing Threshold
- **Result: \$800 Penalty (% of Income)**



2015 Example: Individual Mandate

- Family Of 4
- \$100K Taxable Income
- Estimated Filing Threshold \$20K
- \$975 Maximum Flax Tax Penalty
- 2% of Taxable Income Above Filing Threshold
- **Result: \$1,600 Penalty (% of Income)**



2016 Example: Individual Mandate

- Family Of 4
- \$100K Taxable Income
- Estimated Filing Threshold \$20K
- \$2,085 Maximum Flat Tax Penalty
- 2.5% of Taxable Income Above Filing Threshold
- **Result: \$2,085 Penalty (Flat Tax)**



2014 Example: Individual Mandate

- Single Individual
- \$100K Taxable Income
- Estimated Filing Threshold \$10K
- \$285 Maximum Flax Tax Penalty
- 1% of Taxable Income Above Filing Threshold
- **Result: \$900 Penalty (% of Income)**



2015 Example: Individual Mandate

- Single Individual
- \$100K Taxable Income
- Estimated Filing Threshold \$10K
- \$975 Maximum Flax Tax Penalty
- 2% of Taxable Income Above Filing Threshold
- **Result: \$1,800 Penalty (% of Income)**



2016 Example: Individual Mandate

- Single Individual
- \$100K Taxable Income
- Estimated Filing Threshold \$10K
- \$2,085 Maximum Flax Tax Penalty
- 2.5% of Taxable Income Above Filing Threshold
- **Result: \$2,250 Penalty (% of Income)**



Individual Mandate: Maximum Penalty

- Single Taxpayer: Projected Maximum Penalty \$4.5K
- Family of 4: Projected Maximum Penalty \$12K



2014: Shared Responsibility Payments

- Most Small Businesses Exempt
- Large Employers: Minimum Essential Coverage
 - 50 Full-Time Equivalent (FTE) Employees
- Penalty Imposed If Employer:
 - Does Not Offer Coverage For FTE
 - Offers Unaffordable Minimum Essential Coverage (Employee Portion 9.5% of Family Income)
 - Offers Minimum Essential Coverage Less Than 60%



2014: Shared Responsibility Payments

- Large Employers Must Provide Minimum Essential Coverage
 - Penalty Applies If 1 FTE Enrolled In Health Insurance Exchange Receives Premium Tax Credit or Cost-Sharing Reductions
 - \$3K Penalty Per Employee Who Receives Assistance
 - \$2K Penalty Per Employee Calculated Monthly
 - 30-Person Threshold



Example: Shared Responsibility Payments

- Company 100 FTE
- Does Not Offer Coverage
- 1 FTE Receives Premium Tax Credit From Affordable Insurance Exchange

- Excess Employee Threshold: 70 FTE
- **Total Penalty: \$140K (70 x \$2K)**



Example: Shared Responsibility Payments

- Company 100 FTE
- Offers Coverage
- 20 FTE Receive Premium Tax Credit From Affordable Insurance Exchange

- Excess Employee Threshold: 70 FTE
- Maximum Penalty: \$140K (70 x \$2K)
- \$3K Penalty Per Employee: \$60K (20 x \$3K)
- **Total Penalty: \$60K**



Conclusion

- Little Effect on Employers With Adequate Coverage
 - Poor Coverage May Force Upgrade
 - Credit Provides Upgrade Incentive
- Changes Take Effect January 1st