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Criser, Gough, & Parrish

Small Business Alert

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Summary of New Health Care Reform Law

Recently, two pieces of legislation, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law. A major component of the reform legislation is the creation of state-based American Health Benefit Exchanges and Small Business Health Options Program Exchanges to provide health insurance for low-income individuals and small businesses. The following is a brief description of some of the most important provisions.

For Employers

- Employers with 50 or more employees that do not offer health insurance coverage will generally have to pay a premium tax of up to $2,000 per full-time employee.
- Employers with more than 200 employees must automatically enroll employees in health insurance plans from which employees may opt out.
- Employers providing health insurance must offer a voucher to qualifying employees to purchase insurance through an exchange.
- Qualifying small employers may receive a tax credit for providing health insurance to employees.

For Individuals

- U.S. citizens and legal residents will be required to have health insurance by 2014, with some exceptions. Those without insurance will face a tax penalty of as much as 2.5% of taxable income.
- Existing employer-sponsored health insurance plans will be allowed to remain essentially the same except the plans will be required to extend dependent coverage to qualifying children through age 26, lifetime limits (and eventually, dollar limits) on coverage must be eliminated, waiting periods for coverage cannot extend beyond 90 days, and insurers will not be able to deny coverage or charge higher premiums to people based on their health status or gender.
- Medicaid eligibility will be expanded to included individuals under age 65 whose income is less than 133% of the Federal Poverty Level.
- For families with incomes up to 400% of the Federal Poverty Level, tax credits and subsidies will be available to purchase health insurance through state-run exchanges, and to offset out-of-pocket costs.
- Contributions to a health flexible spending account will be limited to $2,500 per year. Reimbursements from health FSAs and HRAs for over-the-counter drugs will be restricted, and tax-free reimbursements from HSAs and Archers MSAs for over-the-counter drugs will not be allowed, while the tax on HSAs and Archer MSAs increases for distributions not used for qualified medical expenses.
- A rebate of $250 will be available to Medicare Part D (drug coverage) beneficiaries who reach the coverage gap. Coinsurance rate for costs within this gap are gradually reduced to 25%.
- Adults with pre-existing conditions will be able to purchase coverage from temporary high-risk pools until 2014, when coverage cannot otherwise be denied for pre-existing conditions.
- A national program will be established to provide limited reimbursement for long-term care expenses for individuals who participate by contributing to the program's cost through voluntary payroll deductions.
- The threshold for itemized deductions for qualified medical expenses will be increased from 7.5% of adjusted gross income (AGI) to 10% of AGI, though a temporary exception will be maintained for those 65 and older.
- High income taxpayers will be subject to a surtax of 3.8% on unearned income, such as capital gains, dividends, annuities, and rental income.

(Source: AICPA)

New Summer Hours!

From May 1 through September 30 our offices will close at noon on Fridays.

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Special Payroll Tax Exemption Form Now Available

New Form W-11, Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit, is now posted on IRS.gov, along with answers to frequently-asked-questions about the payroll tax exemption and the related new hire retention credit. The new law requires that employers get a statement from each eligible new hire, certifying under penalties of perjury, that he or she was unemployed during the 60 days before beginning work or, alternatively, worked fewer than a total of 40 hours for anyone during the 60-day period. Employers can use Form W-11 to meet this requirement.

Most eligible employers then use Form 941, Employer's Quarterly Federal Tax Return, to claim the payroll tax exemption for eligible new hires. This form has been revised for use beginning with the second calendar quarter of 2010.

Though employers need this certification to claim both the payroll tax exemption and the new hire retention credit, they do not file these statements with the IRS. Instead, they must retain them along with other payroll and income tax records.

The HIRE Act created two new tax benefits designed to encourage employers to hire and retain new workers. As a result, employers who hire unemployed workers this year (after February 3, 2010, and before January 1, 2011) may qualify for a 6.2-percent payroll tax incentive, in effect exempting them from the employer's share of social security tax on wages paid to these workers after March 18. This reduction will have no effect on the employee's future Social Security benefits, and employers would still need to withhold the employee's 6.2-percent share of Social Security taxes, as well as income taxes. In addition, for each unemployed worker retained for at least a year, businesses may claim a new hire retention credit of up to $1,000 per worker when they file their 2011 income tax returns.

(Source: IRS Newswire IR-2010-43, 4/7/10)

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

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