TAX NEWS LETTER 2013
By Stephen B Smith CPA

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As in past years, current tax law deductions and rates are essentially unchanged from that of recent prior years. Exceptions include the new "Obama Care" health insurance mandate and the additional Medicare tax on "net investment income" for high income earners.

"Patient Protection and Affordable Care Act (PPACA) also known as "Obama Care":

PPACA consists of two parts: (1) the employee mandate effective January 1, 2014 and (2) the employer mandate, effective January 1, 2015.

Employee mandate:

- The employee mandate requires that all US citizens be covered by health insurance with "minimum essential coverage (MEC)" effective January 1, 2014.
    - Persons not covered will be required to pay a "tax penalty" on their 2014 income tax return. The penalty is determined monthly for all periods without coverage
    - Tax credits are available for insurance premium deemed "unaffordable"
    - Coverage includes those for taxpayers, spouses and dependents (that qualify for an exemption deduction or up to age 26)

- Exemption from the mandate includes persons covered under the following programs:
    - **Government programs:** Coverage under programs such as Medicare, Medicaid, Children's Health Insurance Program (CHIP), the Tricare program, Veteran's Programs, Peace Corp Volunteer coverage and others

    - **Employer plans:** Persons covered under an existing care health plan provided by an employer (including COBRA benefits).

    - **Market place exchange policies purchased:** Persons with no health insurance could have obtained such coverage under the government's "market exchange program" which recently expired. In Maine this program was administered by the federal program

    - **Persons exempted law:**
        - Incarcerated persons
        - Non-U.S. citizen or resident alien

- **<u>Persons - *continued*:</u>**
    - Persons unable to find affordable coverage: minimum insurance premium based on the exchanges that is more than 8% of the individual's household income
    - Persons not required to file an income tax return
    - Certain hardships

- Required tax payment:
    - Determined on a monthly basis
    - Required payment amount is the greater of a (1) "flat dollar amount" or an "excess income amount"
    - Flat dollar amounts are:
        - 2014: $ 95
        - 2015: $ 325
        - 2016: $ 695
    - Excess income – percentages greater than a threshold amount

- Health insurance premium assistance tax credit
    - Applies only to individuals obtaining insurance through the market exchanges (re: not covered by a government or employer health plan)
    - The credit is refundable or can be paid in advance to the insurer
    - Applies to individuals whose income is below a certain level
    - Eligible income levels include individuals and families with household income between 100 and 400 % of the federal poverty level. Household income is defined as federal "adjusted gross income" as modified for un-taxed social security income and exempt interest income)

<u>Employer mandate:</u>

- Beginning January 1, 2015, the mandate requires that employees be provided covered insurance (MEC) by their employer
    - Exempted employers includes ones with less than 50 "full time equivalent" (FTE) employees
    - FTE are those working 30 hours or more per week.
    - Must provided minimum care
    - Penalties are assessed for failure to meet this mandate

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Health Savings Account (HSA):

HSA accounts are similar in operation to an Individual Retirement Account (IRA). Deductions give benefit for out-of-pocket expenses paid:

- Eligibility:
  - Must be covered by high deductible health plan including out of pocket expense: Single coverage: $1,250 plan deductible, $$6,250 for out-of-pocket expense and family plans: $2,500 plan deductible and $12,500 for out-of-pocket limits.
  - Cannot be covered under any plan except the HAS
  - Must not be enrolled in Medicare
  - Cannot be claimed on another person's tax return

- Maximum deduction is $3,300 for single in 2014 and $6,550 for the family plan
- Deduction based on amounts contributed to the plan
- Plan account held at a financial institution such as a bank.
- Monies taken out of the account are non-taxable so long as the expenses are for co-pays and out-of-pocket expenses not covered by the insurance policy

Medicare:

- Must be age 65 to receive benefits unless disability can be proven
- Consists of four parts:
  - Part A: Hospital, nursing care facilities, hospice
  - Part B: Research, ambulance, mental health issues
  - Part C: Medicare (poverty coverage)
  - Part D: Prescriptions

- Eligibility includes minimum employee tax contributions as with social security
- See website for details: www.medicare.gov

Medicare "donut" hole – Part D:

What is the "donut hole"? Most have heard of it but as with many government programs, its definition remains elusive.

Medicare, Part D is the program that provides prescription cost coverage for the elderly. The plan essentially has three different cost coverage levels:

- $ 0 - $ 2,850 combined costs for both patient and Medicare – coverage exists
- $ 2,850 - $ 4,550 coverage "gap" known as the "donut hole" – you pay these costs outright
- Costs over $ 4,550 per year - covered by catastrophic coverage by the plan

Medicare "donut" hole – Part D - *continued*:

Essentially there is a "gap" in the prescription coverage where there is known and you pay the full cost of the drugs.

Tax on Net Investment Income

The PPACA discussed above requires that a Medicare tax be assessed on "net investment income" to offset the cost of the new health care provisions but only for high income earners.

- Net income includes:
  - Interest and dividends earned on Investments an bank accounts
  - Gains on sale of stock investments
  - Income portion (usually interest) of annuity payments
  - Royalties
  - Rents (gross amount) received
  - Gains on sales of investment real estate
- 3.8% tax on such income based on the lesser of:
  - Net investment income
  - Excess of taxpayer's modified adjusted gross income (MAGI) over the threshold amount
  - Threshold income (MAGI):
    - $250,000 joint filers
    - $125,000 married separate
    - $200,000 single individuals

Sincerely,

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References:

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Donut hole: www.medicare interactive.org/
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