

## The Rodman Report - April 29, 2010



# Health Care Reform - Small Business Impact

by Thomas Astore - Tax Director

For owners of small businesses and their workers, the recently enacted **health reform legislation has some key provisions** to pay attention to. The major ones include: **tax credits; excise taxes; and penalties**. But whether a business will be affected by them depends on a variety of factors, such as the number of employees the business has.



This article is intended to give you an overview of the provisions in the new law with the biggest impact on small businesses. Please call our offices for details of how the new changes may affect your specific business.

**Tax credits to certain small employers that provide insurance.** The new law provides small employers with a tax credit (i.e., a dollar-for-dollar reduction in tax) for nonelective contributions to purchase health insurance for their employees. The credit can offset an employer's regular tax or its alternative minimum tax (AMT) liability.

**Small business employers eligible for the credit.** To qualify, a business must offer health insurance to its employees as part of their compensation and contribute at least half the total premium cost. The business must have no more than 25 full-time equivalent employees ("FTEs"), and the employees must have annual full-time equivalent wages that average no more than \$50,000. However, the full amount of the credit is available only to an employer with 10 or fewer FTEs and whose employees have average annual full-time equivalent wages from the employer of less than \$25,000.

**Years the credit is available.** The credit is initially available for any tax year beginning in 2010, 2011, 2012, or 2013. Qualifying health insurance for claiming the credit for this first phase of the credit is health insurance coverage purchased from an insurance company licensed under state law. For tax years beginning after 2013, the credit is only available to an eligible small employer that purchases health insurance coverage for its employees through a state exchange and is only available for two years. The maximum two-year coverage period does not take into account any tax years beginning before 2014. Thus, an eligible small employer could potentially qualify for this credit for six tax years, four years under the first phase and two years under the second phase.

**Calculating the amount of the credit.** For tax years beginning in 2010, 2011, 2012, or 2013, the credit is generally 35% (50% for tax years beginning after 2013) of the employer's nonelective contributions toward the employees' health insurance premiums. The credit phases out as firm-size and average wages increase.

*Special rules.* The employer is entitled to an ordinary and necessary business expense deduction equal to the amount of the employer contribution minus the dollar amount of the credit. For example, if an eligible small employer pays 100% of the cost of its employees' health insurance coverage and the amount of the tax credit is 50% of that cost (i.e., in tax years beginning after 2013), the employer can claim a deduction for the other 50% of the premium cost.

*Self-employed individuals, including partners and sole proprietors, two percent shareholders of an S corporation, and five percent owners of the employer are not treated as employees for purposes of this credit.* There is also a special rule to prevent sole proprietorships from receiving the credit for the owner and their family members. Thus, no credit is available for any contribution to the purchase of health insurance for these individuals and the individual is not taken into account in determining the number of full-time equivalent employees or average full-time equivalent wages.

**Most small businesses exempted from penalties for not offering coverage to their employees.**

Although the new law imposes penalties on certain businesses for not providing coverage to their employees (so-called "pay or play"), most small businesses won't have to worry about this provision because employers with fewer than 50 employees aren't subject to the "pay or play" penalty. For businesses with at least 50 employees, the possible penalties vary depending on whether or not the employer offers health insurance to its employees. If it does not offer coverage and it has at least one full-time employee who receives a premium tax credit, the business will be assessed a fee of \$2,000 per full-time employee, excluding the first 30 employees from the assessment. So, for example, an employer with 51 employees who doesn't offer health insurance to his employees will be subject to a penalty of \$42,000 (\$2,000 multiplied by 21). Employers with at least 50 employees that offer coverage but have at least one full-time employee receiving a premium tax credit will pay \$3,000 for each employee receiving a premium credit (capped at the amount of the penalty that the employer would have been assessed for a failure to provide coverage, or \$2,000 multiplied by the number of its full-time employees in excess of 30). These provisions take effect Jan. 1, 2014.

**The "Cadillac tax" on high-cost health plans.** The new law places an excise tax on high-cost employer-sponsored health coverage (often referred to as "Cadillac" health plans). This is a 40% excise tax on insurance companies, based on premiums that exceed certain amounts. The tax is not on employers themselves unless they are self-funded (this typically occurs at larger firms). However, it is expected that employers and workers will ultimately bear this tax in the form of higher premiums passed on by insurers.

*Here are the specifics:* The new tax, which applies for tax years beginning after Dec. 31, 2017, places a 40% nondeductible excise tax on insurance companies and plan administrators for any health coverage plan to the extent that the annual premium exceeds \$10,200 for single coverage and \$27,500 for family coverage. An additional threshold amount of \$1,650 for single coverage and \$3,450 for family coverage will apply for retired individuals age 55 and older and for plans that cover employees engaged in high risk professions. The tax will apply to self-insured plans and plans sold in the group market, but not to plans sold in the individual market (except for coverage eligible for the deduction for self-employed individuals). Stand-alone dental and vision plans will be disregarded in applying the tax. The dollar amount thresholds will be automatically increased if the inflation rate for group medical premiums between 2010 and 2018 is higher than projected. Employers with age and gender demographics that result in higher premiums could value the coverage provided to employees using the rates that would apply using a national risk pool. The excise tax

will be levied at the insurer level. Employers will be required to aggregate the coverage subject to the limit and issue information returns for insurers indicating the amount subject to the excise tax.

I hope this information is helpful. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call.

**These and other subjects are covered in a brochure that our clients and friends should be receiving in the mail in the next few days. The brochure is titled:**

## **What Health Care Reform Means for your Business**

**If you don't receive yours in the next few days, call and we'll get a copy out to you. This concise guide will pull together all of the major provisions of health care reform and puts it in easy to understand english. We hope you find it useful.**

### **Change Agent**

by

**Dr. Carol DeFranca, DC, DABCO**

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**Norwell Spine & Sports**

Who me? Change?

As bona fide creatures of habit, we humans would rather not make changes to our routines. Despite the reality that change is indeed a constant feature of life, we resist it. As a clinician helping people through painful episodes in their lives, it has become clear that moving people toward change can be a delicate albeit necessary process. While pain is often a superb motivator for a short term change, instilling different habits for the long term is a larger challenge. So we have a real problem on our hands relative to the growing epidemics of **lifestyle-related illnesses (LRI)** and the need for us to get serious about making changes to save our own lives.

What the experts say...

The ever increasing prevalence of LRI (**Diabetes, Heart Disease, Stroke and multiple gut disorders**) are all strongly linked to the **overweight condition**. Excess body fat we have learned is not just hanging around taking up notches on your belt. Body fat, especially deposited in the belly region, stays very busy making chemicals that actually increase levels of body inflammation. This inflammatory chemical increase is associated with full blown LRI. Typically we have waited patiently for the pharmaceutical industry to make a magic bullet to make all our stuff go away. But times are a changin'! Adult treatment panels (medical experts who convene to tackle public health issues) all call for lifestyle change as a first line defense against LRI. Medications, they say, should only be considered when lifestyle change is not successful.

Action Steps...So what do you need to do?

**Look back:** Family History. If close family members have had LRI, you may possess the genes that predispose you. But having the genes is not enough to get LRI in most cases. You develop LRI because of how you eat and move. You can change your course!



**Take stock:** the number one risk factor for developing LRI is waist size. If your waist is greater than 35" for a female and 40" for a male, you are on your way to being in trouble.

**Know your numbers:** get familiar with your bloodwork especially relative to glucose (blood sugar) and cholesterol levels.

**One out, one in:** remove one negative eating habit and replace it with a good one. A perfect example centers around breakfast. Most people blow off breakfast in exchange for coffee. Breakfast remains the most important meal of your day. Don't put junk in your fuel tank! Oatmeal with a handful of walnuts and some fresh berries is a great first meal.

**Get moving:** there is no substitute for exercise. Our sedentary habits and stress levels are literally killing us. Recent evidence points strongly that resistance training (lifting weights) is superior to cardiovascular exercise for burning body fat. Get educated about different types of exercise, pick something you like to do, and start slowly setting attainable goals.

**Get help:** many times it is necessary to get expert help. Sifting through all the available information can be overwhelming. Personal referral to a health professional with a successful track record in working with LRI can be a great help. Making change is never easy. Your own health, quality of life and longevity are all absolutely dependant on one thing: You. Get serious. There really is no substitute to eating well, moving well and managing stress for positively impacting your life. Make today the start point for being your own Change Agent.

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*Husband and wife and partners, Drs. Scott Chapman and Carol DeFranca are experienced and highly skilled chiropractic doctors who have developed a specialty in spine and sports rehabilitation having trained with top experts in Europe, Great Britain and the U.S. Drs. Scott Chapman and Carol DeFranca work with athletes of all ages and skill levels. They consult with professional athletes in the National Football League including players for the: Indianapolis Colts, Baltimore Ravens, Carolina Panthers, and Pittsburgh Steelers.*

**On Saturday, May 1st, Drs. DeFranca & Chapman will commence "8 Weeks To Wellness," a comprehensive program to improving the health of those who participate. Included in the program is body composition testing, goal setting, personalized eating plans, nutrition workshops, stress reduction and management, interval exercise, boot camp style training and more. For more information please call 781.982.5566 or email [kyoung@norwellspineandsports.com](mailto:kyoung@norwellspineandsports.com).**

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Thank you for checking in on The Rodman Report. We'll see you next time.

Best regards,

*The Rodman Team*

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