TaxTips

Keeping You Informed • Summer 2013

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Health Care Provisions

How will they affect your taxes?

In 2010, President Obama signed a new health care reform law. The legislation is in two parts consisting of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010*.

While the primary purpose of this reform is to mandate that all U.S. residents obtain health insurance coverage, the law creates a host of tax credits and penalties on employers and taxpayers for failure to do so. In addition, there are several new rules that were created to raise the necessary funds to pay for this reform. Many of these provisions do not become effective until 2013 and 2014. Below are several of the provisions that may affect you.

Provisions Effective in 2013

Medicare Contribution Tax on Investment Income

A Medicare contribution tax on net investment income is imposed on individuals, estates and trusts. Investment income includes interest, dividends, capital gains, taxable annuities, royalties and passive rental income. For an individual, the tax is 3.8% of the lesser of either:

1. Net investment income, or
2. The excess of modified adjusted gross income (MAGI) over the threshold amount.
   The threshold amount is $250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all others.

Medical Expense Deduction Floor Increases to 10%

The AGI threshold for deducting medical expenses increases from 7.5% to 10%. For taxpayers who have reached age 65 by the end of the year, the effective date of this provision is delayed until January 1, 2017.

Additional Medicare Tax for High Income Workers

An additional 0.9% Medicare tax will be imposed on the wages of individual taxpayers (including self-employment income) received with respect to employment in excess of:

- $250,000 for joint returns;
- $125,000 for married taxpayers filing a separate return; and
- $200,000 in all other cases.

Limitation on Health FSA Reimbursements

The maximum amount available for reimbursement as a pre-tax benefit under a qualified cafeteria plan (health FSA) is limited to $2,500. Previously there were no limits other than those set by the plan.

Provisions Effective in 2014

Individuals With No Health Insurance Coverage

Starting on January 1, 2014, residents must maintain minimum essential health coverage or pay a penalty. Minimum essential coverage includes government sponsored programs (Medicare, Medicaid), eligible employer-sponsored plans, plans in the individual market, certain grandfathered group health plans and other coverage as recognized by the Department of Health and Human Services.

Some exemptions to the minimum essential health coverage include:

- Individuals who cannot afford coverage because their required contribution exceeds 8% of household income for the year.
- Taxpayers with income below the income tax filing threshold.
- Those exempted for religious reasons (members of a recognized religious sect who can elect exemption from self-employment taxes).
- Individuals residing outside of the U.S.
- Individuals who are incarcerated or are not legally present in the U.S.
- All members of Indian tribes.

No penalty is assessed if you do not maintain health insurance for a period of three months or less during the tax year. If you exceed the three-month maximum during the taxable year, the penalty for the full duration of the gap during the year is applied. The maximum tax penalty is gradually phased in and increases between 2014 and 2016.

Refundable Tax Credit for Providing Premium Assistance

If your household income is at least 100%, but not more than 400% of the federal poverty threshold, and you don't receive health insurance under an employer plan, you may be allowed a refundable tax credit for the premiums you paid during the tax year for qualified health plan insurance coverage.

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Onsite vs. Remote Service

A tale of efficiency

Tax On Wheels, LLC started out as a mobile tax service and for the most part we still are. We still come to your home or office and prepare your tax return right at your kitchen table. That's our claim to fame. Lots of others have tried this concept with varying degrees of mobility. But as far as I can tell, nobody in this area is offering a start to finish tax preparation service at your location. Its not as easy as it looks, and more than a few have found this out the hard way.

However, a few years ago we began to notice that many of our clients no longer needed or wanted a face to face tax preparation encounter, especially those clients who had moved out of state. We simply prepared the tax return using the available technology without ever leaving the office. This remote tax preparation service, as we call it, was simply another customer focused way for us to cater to the unique needs of each individual client.

But a funny thing happened on the way to the future, it seems the future actually arrived. With the ever expanding availability of technology, remote tax preparation has become much more efficient to conduct. The necessary tools are accessible to pretty much anyone who chooses have them. The primary requirements for making secure remote tax preparation possible rest largely on the tax preparer. And the tools to make this happen have been available for many years. Only recently have the tools needed on the client side become widely and inexpensively available enough to be sufficiently reliable. The tools you will need on the client side to conduct remote tax preparation include:

1. A working email address
2. The ability to cleanly print a handful of pages.
3. A flatbed scanner or fax machine (remember when fax machines were cutting edge technology, but now my Facebook era kids laugh at me whenever I mention faxing something while mocking me with some smart alecky remark about The Flintstones.)
4. The most important ingredient, of course, is for the client to have the ability to reliably use these tools, which is not as easy as you might think, especially when it comes to using the scanner.

That's it, that's all you need. And most of us already have these tools available in some form or other. If you don't have a fax machine or scanner you probably know someone who will allow you to use one. I'm sure that our competition is experimenting with remote preparation and finding out that this too is not as easy as it looks, but that's their problem.

In the past we have priced both types of service the same. However, the increased efficiency from providing remote services versus face to face services is undeniable. There is a cost savings from not having to travel to your location. The ability to move from one assignment to the next with no travel time in between has proven to be real time saver. This business, or any business for that matter, rises or falls on the time it takes to produce it's product.

For this reason we have begun to experiment with separate pricing schedules for onsite service versus remote service. Face to face service will probably always be available but it will simply be more expensive than it's more efficient sibling.

Not everyone will be able to use remote service. Some situations are more complex and simply require face to face interaction. But for those who are able to use the remote service, we encourage you to make sure your technology and your technology skills are up to date. This way you should be able to enjoy a price structure that will not be as expensive as onsite service.

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While the primary purpose of this reform is to mandate that all U.S. residents obtain health insurance coverage, the law creates a host of tax credits and penalties on employers and taxpayers for failure to do so. In addition, there are several new rules that were created to raise the necessary funds to pay for this reform. Many of these provisions do not become effective until 2013 and 2014. Following are several of the provisions that may affect your business.

Provisions Effective in 2013

Additional Medicare Tax for High Income Workers

An additional 0.9% Medicare tax will be imposed on the wages of individual taxpayers (including self-employment income) in excess of $200,000. There is no employer match on this additional tax. The employer will not be liable for any additional 0.9% Medicare tax that it fails to withhold and that the employee later pays. However, the employer will be liable for any penalties resulting from its failure to withhold.

Limitation on Health FSA Reimbursements

The maximum amount available for reimbursement as a benefit under a qualified cafeteria plan (health FSA) is limited to $2,500. Previously there were no limits other than those set by the plan.

Compensation Deduction Limit for Health Insurance Providers

The deduction for compensation paid by a covered health insurance provider to officers, employees, directors and other workers or service providers (such as consultants) performing services for or on behalf of a covered health insurance provider is limited to $500,000.

Provisions Effective in 2014

Health Coverage Excise Tax for Large Employers

Large employers (those with at least 50 full-time employees) who don't offer health care coverage for all their full-time employees and make contributions toward the premiums, must pay a penalty if any full-time employee is certified to the employer as having purchased health insurance through the state with respect to which a tax credit or cost-sharing reduction is allowed or paid to the employee. These excise taxes are nondeductible. The penalty is $2,000 per full-time employee, excluding the first 30.

Employer Reporting Responsibilities for Health Coverage

Certain employers will be subject to new information reporting and related statement obligations for health insurance coverage. The information these employers are required to report includes:

1. The name, address and employer identification number of the employer;
2. A certification as to whether the employer offers its full-time employees and their dependents the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan;
3. The number of full-time employees of the employer for each month during the calendar year;
4. The name, address and taxpayer identification number of each full-time employee employed by the employer during the calendar year and the number of months, if any, during which the employee and any dependents were covered under a plan sponsored by the employer during the calendar year; and
5. Such other information as the IRS may require.

Corporate Estimated Tax Payment

The corporate estimated tax payment due in July, August and September 2014 for large corporations with assets of at least $1 billion in the previous year has increased from 157.75% to 173.50% of the payment otherwise due.

Travel Per Diem Rates

Rates to use when reimbursing employees

Each year the IRS announces simplified per diem rates that companies can use to reimburse their employees for expenses incurred during business travel. The simplified method allows employers to reimburse the employee instead of using actual expenses.

The IRS-approved per diem rate for high-cost areas is $242 ($177 for lodging and $65 for meals and incidental expenses). The IRS-approved per diem rate for all other areas is $163 ($111 for lodging and $52 for meals and incidental expenses).

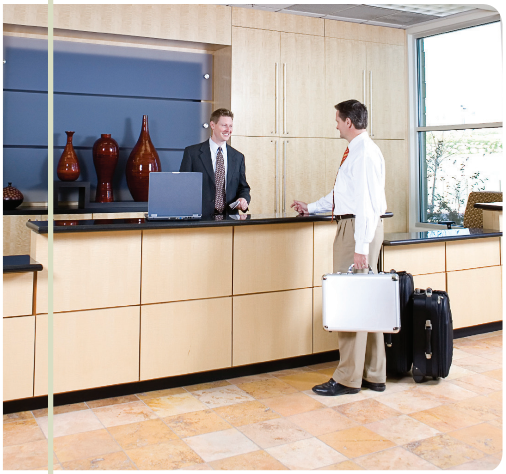
Included in the per diem is a $5 daily rate for incidental expenses. Incidental expenses include fees and tips given to bellhops, hotel maids and other such service providers. They do not include transportation between places of lodging or business and places where meals are taken, and the mailing cost associated with filing travel vouchers and payment of employer-sponsored charge card billings.

Local Lodging Expenses Safe Harbor

IRS provides some guidance on this fringe benefit

Sometimes you may require your employees to stay overnight at a hotel even though they live in the area. The IRS has issued proposed regulations that provide a safe harbor for taxpayers to deduct expenses for local lodging.

These business expenses must be ordinary and necessary in order to be deducted. Some of the circumstances in which the lodging expenses can be excluded from income under accountable plan rules or as working condition fringe benefits include situations where:



- The lodging is necessary for the individual to participate fully in or be available for a bona fide business meeting, conference, training activity or other business function.
- The lodging is for a period that does not exceed five calendar days and does not recur more frequently than once per calendar quarter.
- The employer requires the employee to remain at the activity or function overnight.
- The lodging is not lavish or extravagant under the circumstances and does not provide any significant element of personal pleasure, recreation or benefit.

It is recommended that employers review their fringe benefit/expense policies and determine if any changes need to be made to accommodate these situations.

Dividends and Long-term Capital Gains

How investment rates may affect your taxes

Due to *The American Taxpayer Relief Act of 2012* (ATRA), dividends and long-term capital gains may be taxed differently for some in 2013, than in previous years.

The 0% and 15% dividends and capital gains rates were made permanent by ATRA. This means that if your tax bracket is 15% or below, you do not pay taxes (0%) on your dividends and capital gains. If your tax bracket is 25-35%, you'll pay 15% on your dividends and capital gains.

The ATRA also implemented the new 39.6% income tax bracket for single filers who make over $400,000 and married filers making over $450,000. These filers will pay a 20% tax on dividends and capital gains.

Inherited Property

Receive a step-up in basis

Losing a loved one is never easy. If you inherit property, there are some things you need to know that could potentially save you thousands of dollars when you decide to sell the property.

Generally, when you inherit property, it receives a step-up in basis. Basis is the cost of the property when it is purchased. However when a property is inherited, the basis is allowed to equal (to be stepped-up to) the fair market value of the property on the day of the decedent's death. This becomes important when you decide to sell the property and have to calculate capital gains tax.

For example, let's say your grandfather purchased a home in 1960 for $40,000, which was his basis. On the day he died, the fair market value of the home is $250,000. You later inherit the home, so your basis is $250,000. If your grandfather had gifted you the home prior to death, your basis would have only been $40,000.

Because of this IRS provision, any appreciation that occurs during the decedent's lifetime will never be taxed.

Quik *Tips*

1. The maximum 401(k) contribution limit was raised to $17,500 for 2013.
2. The HSA annual deductible contribution limit for 2013 is $3,250 for individuals and $6,450 for families.
3. The annual exclusion for gifts is $14,000 for 2013, up from $13,000 for 2012.
4. The amount used to reduce the net unearned income reported on a child's tax return subject to the "kiddie tax," is $1,000, up from $950 for 2012.
5. The foreign earned income exclusion is $97,600 for 2013, up from $95,100 in 2012.
6. Beginning in tax year 2013, a new tax rate of 39.6 percent has been added for individuals whose income exceeds $400,000 ($450,000 for married taxpayers filing a joint return).
7. Through December 31, 2013, the payment of private mortgage insurance (PMI) premiums continues to be deductible as qualified residence interest on Schedule A.
8. The maximum net self employment earnings subject to the social security part of the self-employment tax is $113,700 for 2013.
9. Automobiles placed in service in 2013 that qualify for bonus depreciation are allowed a maximum first-year depreciation of $11,160.
10. For 2013, the standard mileage rate for each mile of business use is 56.5 cents.