

## How will the *Affordable Care Act* affect your 2015 taxes?

The tax rules contained in the health insurance reform law (*Affordable Care Act* or ACA) continue to evolve. Here's an update on the effect of the ACA on your 2015 personal and business federal income tax returns.

- **Individual penalty**

The penalty, also called the individual shared responsibility payment, began in 2014 and increases this year. It's reported on your federal income tax return and applies when you or your dependents do not have health insurance during the year and don't qualify for an exemption. For 2015, the penalty is the greater of \$325 per adult (\$162.50 per child), up to a maximum of \$975 for families, or 2% of your yearly household income above the filing threshold (capped at the price of a Bronze plan).

- **Premium credit for individuals**

This federal tax credit also started in 2014 and provides a subsidy to help pay health insurance premiums. The amount you're eligible to claim depends on your income and family size.

- **Net investment income surtax**

This 3.8% surtax applies to net investment income – such as dividends, interest, and capital gains (minus related expenses) – when your adjusted gross income (AGI) exceeds certain levels. When you are married filing jointly, the surtax applies if your AGI exceeds \$250,000. When you're single or filing as head of household, the AGI threshold is \$200,000.

- **Medicare surtax on wages**

As in prior years, this 0.9% surtax applies to wages, compensation, and self-employment income when your AGI exceeds \$250,000 and you're married filing jointly. When you're single or filing as head of household, the AGI threshold is \$200,000.

- **Business health insurance premium credit**

You may be able to claim this credit when you pay at least 50% of the cost of employee-only health care coverage for each of your employees. For 2015, the insurance must be purchased through the federal Small Business Health Options Program, and you must have fewer than 25 full-time employees. The credit begins to phase out when average annual wages of your employees exceed \$25,800. The credit is available for two consecutive years and you can carry unused amounts back or forward. Tax-exempt organizations can also benefit.

- **Business fee**

When you self insure your business health care expenses, you may have to pay a fee to help fund the Patient-Centered Outcomes Research Institute, a nonprofit health care research organization.

The “PCORI” fee may also apply to your health reimbursement arrangement or health flexible spending arrangement.

- **Employer reimbursements**

If you choose to reimburse your employees for health care premiums instead of purchasing a group policy, you may have to pay an excise tax. The tax is severe – \$100 per day per employee – and generally applies no matter how many employees you have. Special rules are available for S corporation shareholders.

- **Employer penalties**

Depending on the number of workers you employ, you may be penalized for not providing affordable health insurance. This year the penalties can apply when 100 or more full-time employees work in your business. The penalties begin in 2016 when your business employs 50 or more full-time workers. When you employ fewer than 50 workers, you’re not subject to the penalties.

Note that the *Protecting Affordable Coverage for Employees (PACE) Act*, which was signed into law on October 7, 2015, does not affect these “employer shared responsibility payments.” The PACE Act makes non-tax changes to the definition of “small employer” that individual states use to define insurance markets and the rules insurance companies must follow.

- **Employer reporting**

New information returns are required for 2015 for “applicable large employers” – those with 50 or more full-time employees during the prior year (2014). If you meet the threshold, you’ll need to complete Forms 1094-C and 1095-C for 2015. These returns report health insurance coverage information to your employees and to the IRS, and are in addition to any W-2 reporting of employer-sponsored health coverage required of your business.

- **The Cadillac tax**

As you assess the impact of these rules on your 2015 return, remember to look ahead to upcoming changes, such as the so-called “Cadillac tax” on high-cost health plans that takes effect in 2018. The excise tax is 40% a year on the amount by which the cost of health insurance coverage exceeds government-set thresholds – currently \$10,200 per person and \$27,500 per family. Legislation has been introduced to repeal the tax before it goes into effect. However, businesses must plan for the law as it currently stands.

NOTE: This Memo is intended to provide you with an informative overview of 2015 tax issues connected with the *Affordable Care Act*. This legislation contains varying effective dates, definitions, limitations, and exceptions that cannot be summarized easily. Also be aware that changes to the law have already been made, and in the current political environment more changes could be made at any time. For details and guidance in applying the tax provisions of the *Affordable Care Act* to your situation, seek professional assistance.