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TAX LETTER

OBAMA CARE (Affordable Care Act) and YOU in 2014

The following is our attempt to summarize what we can expect under Obama Care in 2014. Effective January 1, 2014, mandatory health insurance coverage will be the law of the land. Under the new mandate, there are many new requirements for health coverage and related affordability. They are:

A) **MEC** (Minimum Essential Coverage) = To satisfy MEC, medical/health insurance coverage **must** include EHB (Essential Health Benefits) plus PC (Preventive Care).

B) **EHB** (Essential Health Benefits) **must** include ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health and substance abuse/disorder services, prescription drugs, rehabilitative services, laboratory service and pediatric services.

C) **PC** (Preventive Care) **must** include, for the least, immunization, colonoscopy, preventive care for woman, (i.e. Pap smear), domestic violence screening, screening for gestational diabetes and continue support and contraception, etc.

D) **Health insurers** :

1) Can not set up lifetime limits on your coverage, (2) Can not set annual coverage limit except under special circumstances, (3) Can not deny coverage and/or charge higher premium based on Pre-Existing Conditions, (4) For small group plan/policy must use at least 80% of total premium received for purposes of delivering medical care to the insured, (5) For large group plan, the percentage will be 85%.

E) **Individual Mandate** :

1) All individual must have health insurance coverage, otherwise a penalty tax will be assessed. The penalty tax in 2014 will be $95 single/$285 family or 1% of income whichever is higher. This penalty tax will be gradually increased to 2.5% by 2016.

2) Exception - Individuals coverage provided by Employers, Unions, all level of Governmental Agencies, Medicare, Medicaid, etc. do not need to acquire their own health insurance and will not be assessed any penalty tax:

3) Affordability and Refundable Tax Credits – Coverage will be deemed not affordable under the Individual Mandate if the required contribution for MEC exceeds 8% of the individual's household income. For individual covered under Employer provided coverage, to measure affordability, the required contribution will be the amount of the lowest required contribution for a "self-only" coverage. A refundable IRC Section 36B premium tax credit is made available to assist qualified individual to pay portion of the required contribution towards his/her health insurance.

F) **Employer Mandate :**

1) Employer employing 50 or more "Full Time Equivalent (FTE)" employees **must** provide health coverage qualified under the Affordable Care Act (Obama Healthcare Act). Any employee on average work for the employer 30 hours per week is an FTE.

The employer's share of the total health insurance cost will be at least 60% of the total required premium. This is known as the "Bronze" coverage. Certainly, generous employers can increase the insurance cost burden for themselves from 60% all the way to 90%.

A penalty will be assessed on employer who decided not to provide "Bronze level MEC" benefits to employees. "Bronze" level is the lowest level. There are 4 levels, namely Platinum, Gold, Silver and Bronze. The penalty will be $2,000 per year per employee in excess of 30 employees. For example: employer with 60 "FTEs" will be assessed $60,000 per year for not wiling to provide the MEC health coverage for the employees [$2,000 x {60 – 30}].

2) Employer employing 49 or less "FTEs" will be exempt from this mandate. In order to assist smaller employer to provide MEC coverage, a special "Small Business Tax Credit (SBTC)" will be given to the employer. For 2014 and after, this "SBTC" will be a defined percentage of the Employer's total contribution to the health coverage premium.

To qualify for this SBTC, the total number of FTEs must be less than 25 and the average annual wage must be $45,000 or less. For example, for an employer having 10 or less FTEs and the average annual wage is $25,000 or less, the SBTC will be 50% of total contribution to the health coverage premium for the employees. For an employer with 24 FTEs and an average annual wage of $25,000 or less, the SBTC will be reduced to 3%.

On the other hand, at $45,000 average annual wage, the SBTC will be reduced to zero for employer having 13 or more FTEs. For more detail, please refer to a chart published by the IRS.

G) **State Health Insurance Exchange** :

According to Consumer Report : Starting on October 1, 2013 every state within the US will begin to have in place a State Health Exchange, or an online Health Insurance Market Place. Each State will make a decision on how their exchange would operate. The State will manage the exchange.

In most States, the State Health Exchanges will begin operation on October 1, 2013 or no later than January 1, 2014. The State Health Exchange will be a simple online market place for all state resident interested in purchasing health insurance. There will be various health plans and costs of those plans will be display throughout the site to offer the consumer a concise idea of how much the various plans will cost them.

Most middle-income individuals will be able to pick from a variety of health plans by private insurers. Qualified individuals with low income will be provided the options of Medicaid. However, there will be States that chose not to expand Medicaid. Individuals in those states must abide by the Medicaid eligibility rules of their respective States.

Each State has three options for the setting up their State Exchange. First, they can elect to build an exchange that is managed and implemented by the State itself. Second, they can choose a partnership where the State Exchange is partnered with the Federal Exchange. In a Federal and State co-operating atmosphere, States will be allowed to have a greater role in administration, plan functions, consumer assistance, etc. The Federal partner will pick up the slacks and will perform the remaining functions not carried by the States. Third, a State may choose not to set up an Exchange. In this case the Department of Health and Human Services (HHS) will step-in to establish and to maintain the Exchange for that State.

H) **Small Business Health Option Program (SHOP)**

"SHOP" will be a nationwide healthcare pool open to individuals, self-employed and small businesses. The SHOP program will require insurance companies to participate in one of many pools to cover everyone.

Under "SHOP", a small business will be defined as a business of up to 100 employees. Once a small business participates in the SHOP program, the small business will be entitled to receive a tax credit for providing healthcare insurance to their employees. In general, this small business health insurance tax credit will be $1,000 maximum each employee for providing self-only coverage by the employer, and $2,000 maximum each employee for providing family coverage by the employer. All tax credit under the SHOP program will be subject to "size" limitation. For 10 or less employees, the employer will be able to claim 100% of the allowable tax credit. This percentage will be reduced from 100% to zero for employer having 50 or more employees.

I) **SHOP vs. Exchange**

The nationwide "SHOP" program and the State Exchange program are expected to work in harmony. It is also hoped that both programs will have a robust range of plans and participation from individuals, self-employed and small businesses.

Hoping the above summary can be helpful to our readers who wish to understand what can we expect for the coming year(s).

Sincerely,

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