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Year End Tax Planning: Affordable Act Consideration

BY JEFFREY KRAMER, CPA

For many it may seem that tax filing season just concluded with the recent passing of the October 15th filing deadline for taxpayers on extension. Now as year-end approaches, it is time to focus on planning for year 2014 taxes and to begin looking at year 2015.

One area that cannot be overlooked as part of tax planning is the continued implementation of the Affordable Care Act (ACA). I have often referred to the ACA as the Affordable Care "Tax" Act since the ACA contains many tax provisions all of which are enforced by the IRS. Of the ACA's ninety provisions, at least fourteen (15 percent) are tax provisions. Some of these provisions are described below.

Individual Mandate

The individual mandate became effective January 1, 2014. This rule requires taxpayers to have health insurance or potentially pay a tax - affectionately referred to as the shared responsibility payment. Any individual responsible for this tax will need to make the payment when they file their 2014 tax return. As with most tax provisions, calculating the tax is complicated. The shared responsibility payment is generally calculated as the greater of 1% household income or $95 per adult (plus $47.50 per child under 18) increasing to the greater of 2% of household income or $325 per adult (plus $162.50 per child under 18) in 2015. This penalty tax is scheduled to increase each year with the goal of motivating taxpayers to purchase health insurance to avoid the tax.

Medicare Tax

The ACA created a new Medicare tax. Previously, all employees paid a Medicare tax of 1.45% of their salary which has been withheld from paychecks. The ACA now imposes additional Medicare taxes of .9% on "high income" employees. Single employees earning more than $200,000 per year and married taxpayers earning more than $250,000 per year are considered "high income" earners subject to the tax once wages exceed the $200,000/ $250,000 amounts. This increases the Medicare tax rate from 1.45% to 2.35% for "high income" taxpayers. The tax is paid in addition to regular federal withholding and social security taxes.

New Investment Income Tax

The ACA also created the Net Investment Income Tax. This tax of 3.8% is levied when single individuals have income over $200,000 and married taxpayers have income exceeding $250,000. The 3.8% tax is multiplied by investment income for these taxpayers.

Medical Expenses

In the past medical expenses were deductible on the federal income tax return to the extent that they exceeded 7.5% of income. Under the ACA, this deduction threshold has been increased to 10% of income resulting in fewer deductions for medical expenses.

The Affordable Care "Tax" Act added many new taxes, new complexity and new regulations to the tax code on its path towards providing medical coverage to more Americans. The ADA also made the IRS the "enforcer" of the new provisions.

Jeffrey Kramer is a Partner at the firm Goldstein Schechter Koch. He works with medical groups, managed care organizations, hospitals and physicians. He can be reached at (954) 989-7462 or jeff.kramer@gskcpas.com.