

Padgett Business Services Summer Healthcare Trilogy, Part 2

This is the second of three Padgett SmallBiz Builders that will be dedicated to understanding the Affordable Care Act (ACA) and how it will impact small business owners. This issue will cover how to calculate the number of full-time equivalent employees your business has, how the Small Business Health Insurance Credit works, concerns associated with the Voluntary Reclassification Settlement Program, reimbursement of employee health care costs and changes to the paperwork required for hiring new employees. For more information about the ACA, please contact your local Padgett office.

How many Full-time Employees do you have under the Affordable Care Act?

The Affordable Care Act (ACA) defines a full-time employee as one that works at least 30 hours per week or 130 hours per month for any calendar month. The *Full-Time Equivalent Value* is determined by dividing the total monthly hours of all other employees by 120. Why are these terms important? Under the ACA, beginning in 2015, employers with more than 100 full-time equivalent employees (FTEs) must provide affordable health coverage that provides a minimum level of coverage to at least 70% of their FTEs and their dependents or be subject to an Employer Shared Responsibility penalty. In 2016, businesses with 50 or more FTEs must offer coverage to at least 95% of their employees and their dependents or be subject to the penalty. Below is an example of how to calculate FTE:

- **Calculation:** Divide the number of hours in each month for employees who are not full-time by 120, then add the number of full-time (average of 30 hour/week employees) employees. To get a yearly average, the FTEs for 12 calendar months are averaged.
- **Example:** A firm determines it has 30 full-time employees (paid for 30 or more hours/week), and 35 employees who are not full-time (paid for an average of 20 hours per week). In the month of June, the employer adds up the hours of the 35 employees who are not full-time (working 20 hours per week for 4 weeks) and gets 2,800 hours. The calculation is: $2,800/120 + 30$ full-time employees = 53 FTEs for the month of June.

Are you aware of the Small Business Health Insurance Credit?

This Small Business Health Insurance Credit was designed to encourage small employers to pay a portion of their employee's health insurance costs. Small Employers which have fewer than 25 full-time employees with an average of \$50,000 or less in wages AND who purchase health insurance on the SHOP AND pay at least 50% of the premiums for their employees, may qualify for the credit. If you currently do not offer health insurance to your employees, consider whether offering affordable essential coverage through the SHOP may result in a credit for your business. Beginning in 2014, the maximum Small Business Health Insurance Credit increased from 35% to 50% of the premiums paid for their employees for up to two years.

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Pitfalls of the Voluntary Reclassification Settlement Program (VRSP)

The VRSP is available for taxpayers who want to voluntarily change the classification of their workers from being treated as independent contractors to being classified as employees. Worker classification has always been a complex area and the Affordable Care Act (ACA) only adds to its complexity. Under ACA, a "Large Employer" is defined as having an average of 50 or more employees during the calendar year. ACA's Employer Mandate states a "Large Employer" is required to offer their employees (and their dependents) affordable insurance that provides minimum essential coverage or be subject to a penalty. Despite this mandate being extended until 2016 for employers with 50-99 employees, businesses who participate in the VCSP will inevitably increase their number of employees and may become subject to the requirements of ACA!

Employer Reimbursement of Employee Healthcare Expenses

In lieu of offering health insurance, employers may choose to increase the employee's salary to assist in the cost of purchasing their own personal health insurance. Reimbursements must be included in the employee's wages reported on Form W-2. For example, Company A does not wish to provide health insurance to their employees, but will instead contribute up to \$600 a month to each employee's monthly premium for their health insurance. Employee X selects a health plan that costs \$585 per month. Company A will include $12 * \$585 = \$7,020$ in W2 box 1, 3 and 5 of Employee X.

How does the Affordable Care Act affect your "New Hire" Packets?

The Affordable Care Act (ACA) requires employers to provide notification to all their new employees about the new health insurance marketplace within 14 days from the employee's start date. For each new employee, you should obtain Federal and State Withholding Forms, Form I-9 *Employment Eligibility Verification*, and beginning in 2014, all new employees must receive notification of health insurance available on the state exchange/marketplace. Sample health insurance notification forms are available at <http://www.dol.gov/ebsa/pdf/FLSAwithplans.pdf> for employers offering health insurance to employees and <http://www.dol.gov/ebsa/pdf/FLSAwithoutplans.pdf> for employers not offering health insurance to employees. Each of these documents should be kept for all employees for at least three years after termination of employment.

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