2014 Payroll Fact Sheet

Employers with Fewer Than 25 Employees

Key Provisions under the Affordable Care Act for Employers with Fewer Than 25 Employees

Implementation of the Affordable Care Act occurs in stages, with many of the reforms and requirements taking effect in 2013 and 2014. Some of the provisions that may impact employers with fewer than 25 employees include:

- **Small Business Health Care Tax Credits**

  The small business Health Care Tax Credit helps small employers afford the cost of health care coverage for their employees and is specifically targeted for those employers with low- and moderate-income workers. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. Since 2010, businesses that have fewer than 25 full-time equivalent employees (FTEs), pay average annual wages below $50,000, and that contribute 50% or more toward employees' self-only health insurance premiums may qualify for a small business tax credit of up to 35% to help offset the costs of insurance. In 2014, this tax credit goes up to 50% and is available to qualified small employers that participate in the Small Business Health Options Program (SHOP). Eligible small employers can claim the current credit through 2013, and the enhanced credit can be claimed for any two consecutive taxable years beginning in 2014 through the SHOP. To calculate your FTEs and average annual wages for the purposes of this credit, refer to this Q&A from IRS. You can also use this Small Business Health Care Credit Estimator to help you find out whether you're eligible for the credit and how much you might receive.

- **Small Business Health Options Program (SHOP)**

  Open for enrollment now, small employers with generally up to 50 employees will have access to the new health care insurance marketplaces through the Small Business Health Options Program (SHOP). Currently, small businesses may pay on average 18% more than big businesses for health insurance because of administrative costs. SHOP offers small employers increased purchasing power to obtain a better choice of high-quality coverage at a lower cost. Costs are lowered because small employers can pool their risk. To enroll, eligible employers must have an office within the service area of the SHOP and offer SHOP coverage to all full-time employees. In 2016, employers with up to 100 employees will be able to participate in SHOP. HHS has a Call Center hotline that specifically serves small businesses with 50 or fewer employees interested in purchasing coverage through the SHOP Marketplace.

- **Employer Notice to Employees of the New Health Insurance Marketplace**

  Under the Affordable Care Act, employers covered by the Fair Labor Standards Act (generally, those firms that have at least one employee and at least $500,000 in annual dollar volume of business), must provide notification to their employees about the new Health Insurance Marketplace; inform employees that they may be eligible for a premium tax credit if they purchase coverage through the Marketplace; and advise employees that if they employee purchase a plan through the Marketplace, they may lose the employer contribution (if any) to any health benefits plan offered by the employer. Employers are required to provide this notice to all current employees by **October 1, 2013**, and to each new employee at the time of hire beginning October 1, 2013, regardless of plan enrollment status (if applicable) or of part-time or full-time status. The Department of Labor has provided employers with two sample notices they may use to comply with this rule, one for employers who do not offer a health plan and another for employers who offer a health plan for some or all employees. For more information refer to DOL's Technical Guidance.

- **Summary of Benefits and Coverage (SBCs) Disclosure Rules**

  Employers are required to provide employees with a standard "Summary of Benefits and Coverage" form explaining what their plan covers and what it costs. The purpose of the SBC form is to help employees better understand and evaluate their health insurance options. Penalties may be imposed for non-compliance. For more information, refer to this completed sample of the SBC form from the U.S. Department of Labor.

- **Medical Loss Ratio Rebates**

  Under the ACA, insurance companies must spend at least 80% of premium dollars on medical care rather than administrative costs. Insurers who do not meet this ratio are required to provide rebates to their policyholders, which is typically an employer who provides a group health plan. Employers who receive these premium rebates must determine whether the rebates constitute plan assets. If treated as a plan asset, employers have discretion to determine a reasonable and fair allocation of the rebate. For more information on the federal tax treatment of Medical Loss Ratio rebates, refer to IRS's FAQs.

See Reverse Side

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- **Limits on Flexible Spending Account Contributions**

For plan years beginning on or after January 2013, the maximum amount an employee may elect to contribute to health care flexible spending arrangements (FSAs) for any year will be capped at $2500, subject to cost-of-living adjustments. Note that the limit only applies to elective employee contributions and does not extend to employer contributions. To learn more about FSA Contributions, as well as what is excluded from the cap, refer to this document provided by the IRS.

- **Additional Medicare Withholding on Wages**

Beginning January 1, 2013, ACA increases the employee portion of the Medicare Part A Hospital Insurance (HI) withholdings by .9% (from 1.45% to 2.35%) on employees with incomes of over $200,000 for single filers and $250,000 for married joint filers. It is the employer's obligation to withhold this additional tax, which applies only to wages in excess of these thresholds. The employer portion of the tax will remain unchanged at 1.45%.

- **New Medicare Assessment on Net Investment Income**

Beginning January 1, 2013, a 3.8% tax will be assessed on net investment income such as taxable capital gains, dividends, rents, royalties, and interest for taxpayers with Modified Adjusted Gross Income (MAGI) over $200,000 for single filers and $250,000 for married joint filers. Common types of income that are not investment income are wages, unemployment compensation, operating income from a non-passive business, Social Security Benefits, alimony, tax-exempt interest, and self-employment income.

- **90-Day Maximum Waiting Period**

Beginning January 1, 2014, individuals who are eligible for employer-provided health coverage will not have to wait more than 90 days to begin coverage. The IRS has provided temporary guidance on how employers should apply the 90-day rule and is expected to provide more information in the near future clarifying these rules.

- **Transitional Reinsurance Program Fees**

The Transitional Reinsurance Program is a three-year program, beginning in 2014 and continuing until 2016, that reimburses insurers in the individual insurance Marketplaces for high claims costs. The program is funded through fees to be paid by employers (for self-insured plans) and insurers (for insured plans). HHS estimates that the fees for 2014 will be $5.25 a month (or $63 for the year) for each individual covered under a health care plan, with the required fee for the following two years to be somewhat lower. The fee applies to all employer-sponsored plans providing major medical coverage, including retiree programs. The U.S. Department of Labor has advised that for self-insured plans, these fees can be paid from plan assets. The IRS has stated that the fees are tax deductible for employers. The U.S. Department of Health and Human Services is expected to provide more information in the near future clarifying the details of this program.

- **Workplace Wellness Programs**

The Affordable Care Act creates new incentives to promote employer wellness programs and encourage employers to take more opportunities to support healthier workplaces. Health-contingent wellness programs generally require individuals to meet a specific standard related to their health to obtain a reward, such as programs that provide a reward to employees who don't use, or decrease their use of, tobacco, and programs that reward employees who achieve a specified level or lower cholesterol. Under final rules that take effect on January 1, 2014, the maximum reward to employers using a health-contingent wellness program will increase from 20 percent to 30 percent of the cost of health coverage. Additionally, the maximum reward for programs designed to prevent or reduce tobacco use will be as much as 50 percent. The final rules also allow for flexibility in the types of wellness programs employers can offer. For more information and to view the final rules, visit www.dol.gov/ebsa.

- **Health Insurance Coverage Reporting Requirements**

Beginning in 2015, the Affordable Care Act provides for new information reporting by employers that sponsor self-insured plans. (Section 6055 rules). Self-funded employers, issuers, and other parties that provide health coverage must submit these new reports to the IRS detailing information for each covered individual. The first of these reports must be filed in 2016. On September 5, 2013, the U.S. Department of Treasury issued Proposed Regulations that provide further guidance about this requirement and invites stakeholders to submit comments on these proposed rules through early November 2013. The public comments will be taken into account in developing final reporting rules.

The Affordable Care Act timeline provided by the U.S. Department of Health and Human Services includes the next steps you can take to implement the provisions.