

– CLIENT MEMO –

The Affordable Care Act and your 2016 tax return

Whatever future changes may occur to the *Affordable Care Act* (ACA), the rules affecting 2016 personal and business federal income tax returns – the returns you'll file in the beginning of 2017 – are likely to be unaffected. Here's an update of what you can expect under the ACA in present form.

- **Individual penalty**

The penalty, also called the individual shared responsibility payment, is reported on your federal income tax return and applies when you or your dependents do not have health insurance for more than three months during the year and don't qualify for an exemption. For 2016 tax returns, the penalty is calculated in two ways, and you pay the higher of the two amounts. The per-person penalty is \$695 per uninsured adult (\$347.50 per child), up to a maximum of \$2,085 for families. The percentage of income penalty is 2.5% of your yearly household income above the filing threshold (capped at the national average price of a Bronze plan). Certain exemptions apply. If you think you qualify for an exemption, you must fill out an application form on the government Marketplace website.

- **Premium credit for individuals**

This federal tax credit provides a subsidy to help pay health insurance premiums. The amount you're eligible to claim, either in advance or on your tax return, 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 modified 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 you're married filing jointly and your earned income (together with that of your spouse) exceeds \$250,000. When you're single or filing as head of household, the 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 2016, the insurance must be purchased through the federal Small Business Health Options (SHOP) Program, and you must have fewer than 25 full-time or full-time equivalent employees. The credit begins to phase out when average annual wages of your employees exceed \$25,900. 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 – penalty eliminated

In December 2016 legislation passed to eliminate the \$100 per employee per day penalty for employers who reimburse employees for health care premiums instead of purchasing a group policy.

- Employer penalties

Depending on the number of workers you employ, you may be penalized for not providing affordable health insurance that provides minimum value to your employees. "Affordable" means the cost of coverage does not exceed 9.66% of an employee's total household income. For 2016, the penalties, known as "employer shared responsibility payments," begin when your business employs 50 or more full-time workers. When you employ fewer than 50 workers, you're not subject to the penalties.

The 2016 penalty calculation is based on the number of full-time equivalent employees in your business in 2015, and is triggered if an employee goes to the Health Insurance Marketplace to buy insurance and receives a premium tax credit.

- Employer reporting

"Applicable" large employers" (ALEs) must file Form 1095-C, Employer-Provided Health Insurance Offer and Coverage, for each full-time employee, or pay a penalty. Your business is an ALE if you have a combination of 50 or more full-time employees or "full-time equivalent" (FTE) employees in the prior year. A full-time employee is anyone working on average 30 hours or more per week, or 130 hours per month. FTE employees are employees whose actual working hours are less than 30 per week, but whose total combined hours meet the equivalent of full-time.

Form 1095-C does not replace any W-2 reporting of employer-sponsored health coverage for which your business is responsible, and you may need to meet both reporting requirements. Form W-2 health coverage reporting is generally required when you have 250 or more employees in the previous year. The informational amounts you report are not taxable to your employees.

NOTE: This Memo is intended to provide an overview of 2016 tax issues connected with the *Affordable Care Act* (ACA). The ACA contains varying effective dates, definitions, limitations, and exceptions that cannot be summarized easily. In addition, the ACA has been changed several times, and in the current political environment, more changes are likely. For detailed guidance about ACA tax provisions, we recommend consulting a team of professionals.

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