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## 2014 HEALTH CARE REFORM ALERT

### IMMEDIATE ACTION REQUIRED

**Certain employers can be subject to a devastating excise tax equal to \$100 per day per affected employee that will be assessed to any employer regardless of the size of their workforce.** This generally applies to any employer who offers a group health plan that fails to comply with the requirements of the Affordable Care Act (ACA). Generally such failures apply to individual health policies that include but are not limited to:

- Pay or reimburse premiums for employees' individual health insurance policies
- Allow employees to use pre-tax salary reductions to pay for their individual policies
- Offer a health FSA without a group medical plan or the employer contributions to the health FSA exceeds certain dollar limitations
- Pay or reimburse employees' out-of-pocket medical expenses that are associated with individual health insurance policies or otherwise is not integrated with a group medical plan

For plan years starting in 2014, premiums for individual health insurance policies generally cannot be paid or reimbursed on a tax-free basis. Affected arrangements include section 125 cafeteria plans, premium-only plans (POPS), premium reimbursement plans, health reimbursement arrangements (HRAs), medical reimbursement plans (section 105 plans), and health flexible spending accounts (FSAs). It also includes individual health insurance policies purchased through the healthcare Exchange/Marketplace.

**If corrective action is not employed in 2014, this excise tax would be \$36,500 for each affected employee.** The excise tax is reported by the employer on form 8928.

**IN SUM: Starting in 2014, tax-free payments for employees' individual policies and medical reimbursements will no longer be deductible at the corporate level. Shareholders who own at least 2% of the corporate stock will be required to include their health insurance benefits in their wages.**

### CORRECTIVE ACTION RECOMMENDATIONS

- Employers need to either terminate or restructure their tax-favored arrangements and should contact their insurance agents immediately.
- Employers that reimburse their employees tax-free for their individual policies and/or provide a tax-free benefit to employees who are covered by their spouses insurance should convert these

benefits to be included in their wages. For example, if your monthly benefit to an employee was \$200, convert this to a \$1.15 per hour raise ( $\$200 \times 12 = \$2,400$  divided by 2080 hours = \$1.15). You will need to do this retroactively for the year. If you need help, contact us accordingly.

- Corporations should stop paying their shareholders out-of-pocket medical expenses entirely. Any payments year-to-date should be posted to their dividend account.

This HEALTH CARE REFORM ALERT requires your immediate attention. We are here to assist you. The excise penalty is enormous and with proper planning can be avoided. I am personally amazed how so few payroll companies, insurance agents and accountants are aware of this approaching dilemma.

Sincerely,

*Brian Lynn*

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