AKT

HFMA 2014 Tax Update

Presented By

Joylyn Ankeney, CPA

Topics

- **Healthcare** industry tax issues for 2014
- **Business** tax issues impacting physician clinics
- **Individual** tax impact of ACA and other current tax changes

Healthcare Regulatory Issues:

Changes for 2014 and Forward

Healthcare Industry Regulatory Issues

- Patient Centered Outcome Research Institute Fee
- Health Insurers Fee
- Ongoing IRS & Congressional Scrutiny
- 501(r) regulations

Patient Centered Outcome Research Institute Fee

- Fee based on covered lives
  - $1 per life this year, $2 per life next year,
  - Future years indexed based on national health expenditure
- Encouraging informed patient decisions

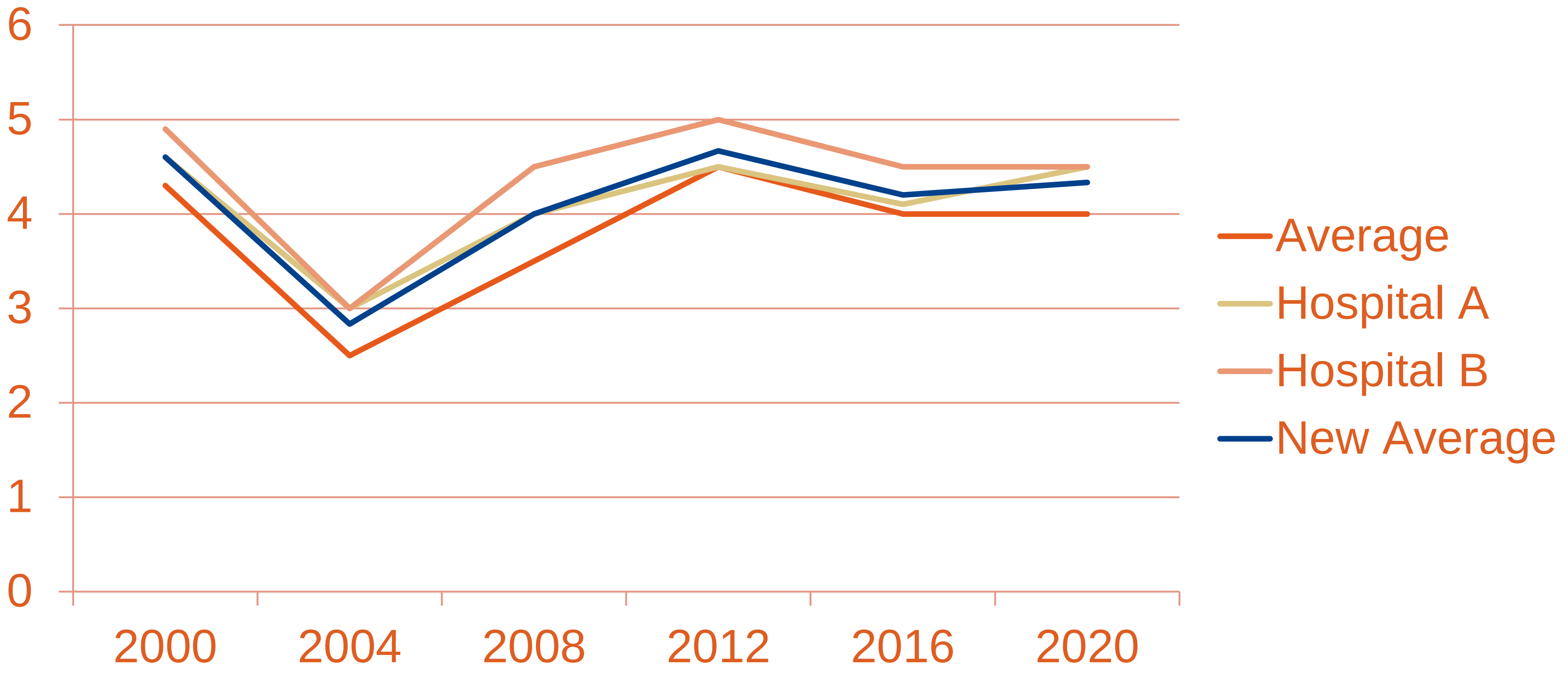
Health Insurers Fee

- Fee created to pay for individual insurance subsidies
- Applies to issuers of insurance, including nonprofits
- Fee is set at a dollar amount for each year, allocated to insurers based on premiums written

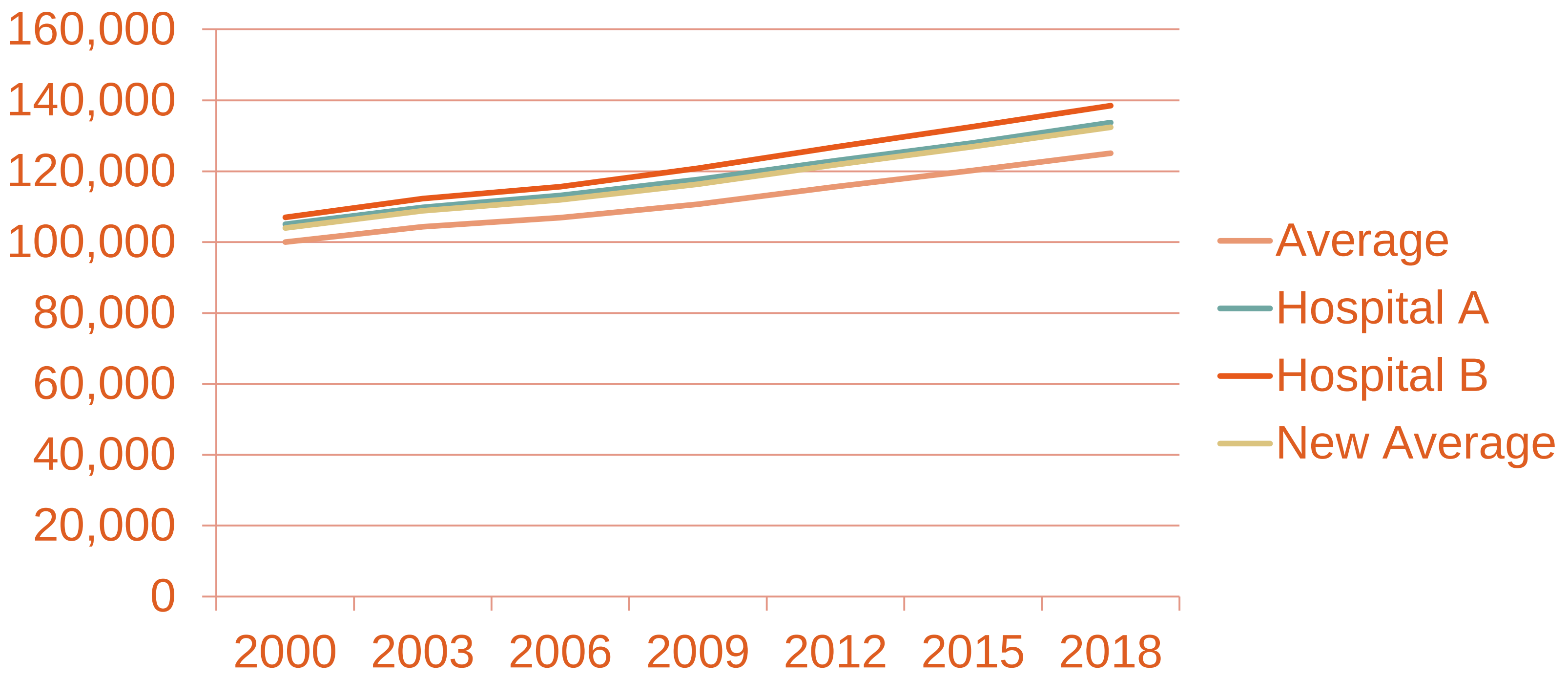
IRS & Congressional Scrutiny

- Compensation
  - OIG has been conducting an analysis of highly paid executives at hospitals that participate in Medicare.
  - OIG's 2014 Work Plan revealed a program that would determine potential savings brought by compensation caps.

Compensation Trend



Compensation Trend



IRS & Congressional Scrutiny

- IRS mandated to examine every hospital's 990 once every 3 years
  - *Chances are very high yours has been looked at by an agent at least once by now.*

501(r) Regulations

- ACA created new standards for exempt hospitals
  - CHNA every 3 years
  - Limitation on charges
  - Billing and collections policy (ECA's)
  - Financial assistance policy

- Consequence is loss of exemption

Community Health Needs Assessment

- Most organizations are now working on their 2nd CHNA
- IRS issued guidelines for correcting failure to comply last year
- IRS & Congress are asking:
  - How are hospitals responding to the needs identified in the assessment

Limitation on charges

The proposed regulations prohibit charging patients eligible for financial assistance gross charges.

Fees charged to patients eligible for financial assistance must to limited to amounts generally billed (AGB) those with insurance.

- Regulations cite specific examples for calculating AGB
- AGB is applied to all ER care and medically necessary care

Limitation on charges

Hospitals may use one of two methods

Look back method - based on actual past claims paid by Medicare fee-for-service and deductible and copayments made by the Medicare beneficiary, or Medicare FFS together with all private health insurers, as well as costs paid by Medicare beneficiaries or insured patients through deductibles, copayments or co-insurance.

Prospective method - estimate that amount that would be paid by Medicare and the Medicare beneficiary for the emergency or medically necessary care, if patient were a Medicare beneficiary.

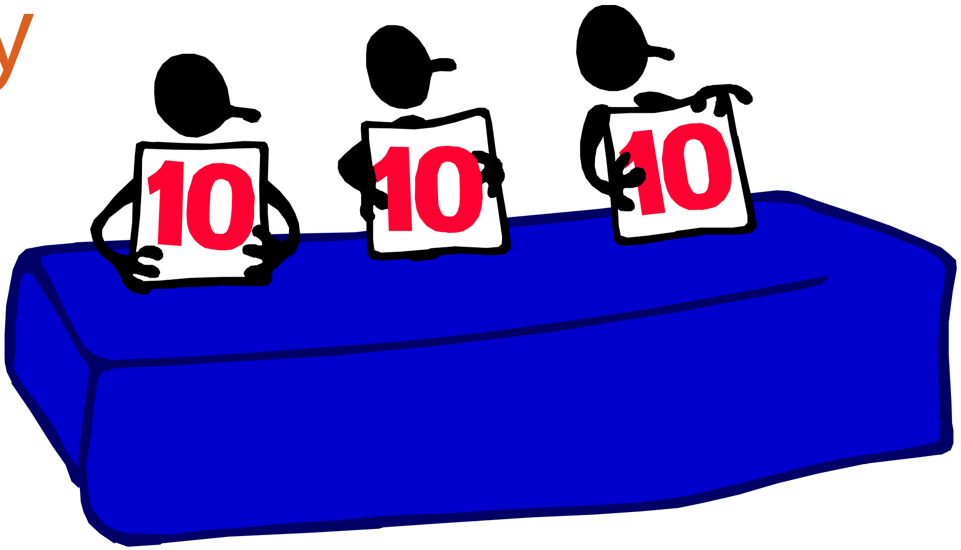
Billing and Collection Policy

Billing and collection policies must be defined as either part of the overall financial assistance policy or stand as a separate policy.

- Policy outlines actions that may be taken in the event of nonpayment
- No **extraordinary collection actions** allowed before reasonable efforts to determine if patient is FAP-eligible
- Process and timeframe for collection actions outlined
- Responsible party is identified
- If a patient is determined to be FAP qualified later in the revenue cycle, the extraordinary collection actions must be reversed

Financial Assistance Policy

Are you meeting all of the necessary criteria?



Small Business Tax Issues

Impact on Physician State of Mind

- Investing in their practice
- ACA Employer Mandate
- Credit for Small Employers

Business Investment Incentives

- Intended to speed up the tax deduction for capital improvements, encouraging investment.
- Changes deduction timing from over the course of 5 to 15 years to significantly front load the deduction.

Current Incentive Deductions

- Current expensing under Section 179
  - $25,000 current year deduction
  - Reduction limitation $200,000
  - In 2013 $500,000 deduction on up to $2,000,000 in capital purchases
- Bonus depreciation under Section 168
  - None in 2014 (proposed at 50%)
  - 50% current year expense in prior years

“The Tax Stair Step”

Section 179

?

Taxable Income <u>over</u> $457,600

39.6%

$457,600

35%

$405,100

33%

$226,850

28%

$148,850

25%

$73,800

15%

$18,150

10%

IRS 2014 Federal Tax Rate
* Example: Married Filing Jointly

2014 Purchase of New Equipment

	Current Law		Proposed	
Equipment Purchased	$ 65,000		$ 65,000	
1st Year Write-Off				
* Section 179 Expensing	25,000		65,000	
* Normal 1st Year Depreciation	8,000		-	
Total Deduction 1st Year	$ 33,000		$ 65,000	
Marginal Tax Rate	40%		40%	
Tax Savings in 2014	**$13,200**	**20%**	**$26,000**	**40%**
Tax Savings Over Next 4 Years	**$12,800**	**20%**	**$0**	
Total Deduction	**$26,000**	**40%**	**$26,000**	**40%**

Employer Shared Responsiblity Mandate Under ACA

Large employers must offer full-time employees health coverage that is affordable and provides minimum value or pay a penalty

ACA Final Rules on Employer Mandate Under ACA Include Transition Relief Until 2016

- The final rules will apply to:
  - Employers with 50-99 full-time employees (including (FTEs)), beginning January 1, 2016.
  - Employers with 100+ FTE's phase in compliance starting in 2015
  - Small employers with fewer than 50 workers are exempt.

Large Employer Phase-in

- Original compliance date was January 1, 2014. new deadline was pushed back to 2015.
- Employers will have to offer coverage to at least 70% of the workforce for 2015
- Starting in 2016 coverage must be offered to 95% of FTE's.

Qualifying for Mid-Size Employer Transition Relief

- Employers must certify that they have not laid off employees or reduced hours in order to come under the 100-employee threshold or materially reduced their previously offered health coverage.
- The certification is to be submitted with the information filing required under § 6056, which the IRS requires for 2015.

Employer Penalties

- Coverage is not offered to its full-time employees and their dependents ($2,000 penalty per employee)
- Coverage is not affordable or does not provide minimum value, penalty is lesser of:
  - $3,000 per employee receiving federal subsidy, or
  - $2,000 per employee
- **Penalty trigger:** At least one full-time employee enrolls in a qualified health plan and received a premium tax credit or a cost-sharing reduction.

How would an employer qualify for a penalty?

- Large employers would face excise taxes in 2015 and for plan years that begin in 2015 if:
  - Full-time employees who are part of the 30 percent group not offered coverage actually purchase their own coverage in an Exchange and
  - They receive a premium tax credit
- Medium sized employers face excise taxes for plan years that begin in 2016

Low Threshold for Penalty

- For the penalty to apply, it only takes ONE employee to receive a premium tax credit for the purchase of their own health care coverage on one of the Health Care Marketplace Exchanges

Small Employer Credit for Health Insurance

- Significant changes to the credit beginning in 2014
- To be eligible for the credit
  - Must cover at least 50% of the cost of employee-only health care coverage
  - Must have fewer than 25 FTE’s
  - Average wages of less than $50,000
  - Insurance must be purchased through Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement.
  - The credit is available to eligible employers for two consecutive taxable years

Credit for Small Employer Health Insurance Premiums.

- Credit available:
  - Up to 50 percent (from 35) of premiums paid for small business employers
  - Up to 35 percent (from 25) of premiums paid for small tax-exempt employers.
  - Based on a sliding scale, smaller businesses receive higher credit rate.

Individual Tax Issues

- Insurance Premium Tax Credit
- 2 New surtaxes
- Exemption & Deduction Reduction

Tax Credits for Health Insurance

- Premium tax credits generally are available to individuals:
  - If they don't have “affordable” coverage from their employer and
  - Their household income doesn't exceed 400% of the federal poverty limit.
- Impact of premiums paid by charitable organization on behalf of an individual?

New Surtaxes Beginning in 2013

- Net Investment Income Tax
  - AKA The Unearned Income Medicare Contribution Tax

- Additional Medicare Tax

Net Investment Income Tax

- 3.8% tax on net investment income
- Only applies to individuals if they have modified adjusted gross income over the following thresholds:
  - Married filing jointly $250,000
  - Single $200,000
  - Head of household (with qualifying person) $200,000

What is Net Investment Income?

- Investment income includes, but is not limited to:
  - Interest, dividends, capital gains
  - Rental and royalty income
  - Non-qualified annuities (not your pension, 401K or IRA)
  - Income from businesses involved in trading of financial instruments or commodities, and
  - Businesses that are passive activities to the taxpayer.

Deductible investment expenses in computing Net Investment Income

- Deductions that reduce gross investment income include:
  - Investment interest expense,
  - Investment advisory and brokerage fees,
  - Expenses related to rental and royalty income,
  - Tax preparation fees,
  - Fiduciary expenses (in the case of an estate or trust) and
  - State and local income taxes.

Additional Medicare Tax

Will I have to pay both the 3.8% Net Investment Income Tax and the additional 0.9% Medicare tax?

- You may be subject to both taxes, but not on the same type of income.
- The 0.9% Additional Medicare Tax applies to:
  - Individuals’ wages
  - Compensation
  - Self-employment income over certain thresholds,
  - But, does not apply to income items included in Net Investment Income.

When are individuals liable for Additional Medicare Tax?

- An individual is liable for Additional Medicare Tax if the individual's wages, compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the threshold amount for the individual's filing status:
  - Married filing jointly $250,000
  - Single $200,000
  - Head of household (with qualifying person) $200,000

What wages are subject to Additional Medicare Tax?

- All wages that are currently subject to Medicare Tax are subject to Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual's filing status

Are non-cash wages, such as fringe benefits, subject to Additional Medicare Tax?

- Yes. The value of taxable wages not paid in cash, such as:
  - Noncash fringe benefits, are subject to Additional Medicare Tax, if,
    - In combination with other wages, they exceed the individual's applicable threshold, or
    - In combination with other wages paid by the employer, they exceed the $200,000 withholding threshold.

Additional Medicare Tax Withholding

- The Additional Medicare Tax Withholding is not voluntary.
  - Your employer must withhold Additional Medicare Tax on wages it pays to you in excess of $200,000 in a calendar year.
    - Your employer cannot honor a request to cease withholding Additional Medicare Tax if it is required to withhold it.
    - You will claim credit for any withheld Additional Medicare Tax against the total tax liability shown on your individual income tax return (Form 1040).

Exemption & Deduction Reduction

- The personal exemption is being phased out based on income
- Reduced itemized deduction for high income taxpayers

Personal Exemption Phase-out

- Personal exemption for 2014 is $3,950
- Phase-out begins at:
  - $305,050 for joint filers
  - $254,200 for single filers
- Completely phased-out at:
  - $427,550 for joint filers
  - $376,700 for single filers

Reduced Itemized Deduction

- Itemized deduction limitation threshold for 2014:
  - $305,050 for joint filers
  - $254,200 for single filers
- Deductions are reduced by the lesser of:
  - 3% of AGI over the threshold, or
  - 80% of itemized deductions*

Planning for Reduced Itemized Deductions

- Lower “above the line” income through contributions to retirement plans or health savings accounts
- Refinance or pay down your mortgage
  - Lowers not only your interest but also your overall itemized deductions
- Plan: spread deductions over multiple years to minimize current year impact

Exemptions & Deductions

Income	Wages, Investment Income, Business Income, IRA & Pension
Above-the-line Deductions	HSA & IRA contributions, Student loan interest, Tuition, Self employed health insurance
AGI	Income less Above-the-line Deductions
Exemptions	Taxpayer, Spouse, Dependents $3,950 per person
Itemized Deductions	a) State & Property Tax, Mortgage Interest, Charitable Contributions b) Medical, Investment Interest, Miscellaneous
Taxable Income	AGI less exemptions & deductions
Calculated Tax	Based on taxable income
Credits	Directly reduce taxes

Thank You