

Health Insurance & the Affordable Care Act: Breaking News



Just when you thought you had things figured out and could finally just forget about health insurance and compliance with the Affordable Care Act (ACA), the IRS pulled the rug out from under you again. On February 18, 2015, the IRS issued new guidance regarding employer payment plans and health reimbursement arrangements. This

guidance was issued after more than a year of constant questions and requests for answers on the application of the ACA in churches and small businesses.

Here are the highlights:

- Employers with only one employee can continue to reimburse individual health insurance premiums on a pre-tax basis. NOTE: An employee covered by this arrangement is ineligible for the premium assistance tax credit through the Marketplace.
- Employers with more than one employee and less than 50 full-time equivalent employees can reimburse individual health insurance premiums pre-tax through June 30, 2015. This is retroactive for 2014 as well.
- Employers with more than 50 full-time equivalent employees should file Form 8928 if they violated ACA. You will likely qualify for relief from penalties, if you correct the violations within 30 days of discovering them and demonstrate you were unaware of the violation at the time.
- Employers who do not wish to sign up for group insurance but want to help employees pay for insurance, only have one option after June 30, 2015. They may increase their employees' taxable wages but not require the increase to be used to purchase health insurance.
- Employers should not include individual health insurance premiums paid or reimbursed as taxable compensation to employees.
- Employers should consider amending payroll tax returns to change health insurance premiums included as taxable compensation to non-taxable. A minister having \$5,000 of health insurance premiums removed from taxable income could save \$1,500 in taxes. Keep in mind that correcting payroll tax and individual income tax returns may be costly and the value of the tax benefit should be closely considered.

Examples

1. Example A: The church has one pastor and a part-time secretary. The church reimburses only the pastor's individual health insurance premiums through a health reimbursement arrangement. The church is not subject to ACA and this arrangement is a tax free fringe benefit for the pastor.
2. Example B: The church has two full time pastors, a full time janitor and a part time secretary. The church reimburses the pastors' and the janitor's individual health insurance premiums. This plan covers more than one employee. It is subject to ACA and fails to meet its guidelines. The church can safely continue this arrangement through June 30, 2015 without risk of penalty from the IRS. If continued after June 30, 2015, the church is vulnerable to heavy penalties.

As you have seen, the IRS and lawmakers continue to make drastic changes to the application of ACA. Stay tuned as we continue to keep you updated on major changes that affect you and your Church. I recommend you attend our seminars for churches for the most up-to-date information on this and other important financial and tax issues. We can help answer your questions, protect your ministry and provide great benefits for your employees.

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References

1. IRS Notice 2015-17 <http://www.irs.gov/pub/irs-drop/n-15-17.pdf>
2. IRS Q & A on Health Care Arrangements <http://www.irs.gov/Affordable-Care-Act/Employer-Health-Care-Arrangements>