

The HIRE Act and Health Reform: *What Do They Mean For Your Organization?*



October 22, 2010



The HIRE Act of 2010

*(The Hiring Incentives to Restore
Employment Act of 2010)*

Understanding the Employer Incentives



Today's Objectives

- Discuss the cornerstone of the HIRE Act that will provide employers with incentives to hire and retain employees.
- Review two key provisions: Social Security Forgiveness and Business Credit for Retention.
- Review and discuss qualified employers and employees.
- Discuss how the new payroll exemption may impact liability, tax deposits, and reporting.
- Review changes to payroll tax returns and reporting.
- Highlight most recent IRS guidelines.



HIRE Act Overview

The HIRE Act was signed into law on March 18, 2010 with an overall intent to encourage hiring and help small business owners.

- Social Security Tax Forgiveness

Exempts an **qualified employer** from paying the employer portion of social security taxes (6.2%), *up to the social security wage base*, for the remainder of the year on new hires which are **qualified employees** who are currently unemployed.

- Business Credit for Retention

If workers stay on the payroll for at least a year (52 consecutive weeks), the employer would also get up to a \$1,000 business tax credit per employee.



Social Security Tax Forgiveness: *Qualified Employers*

- Must be in a trade or business.
- Tax-exempt organizations qualify.
- Applies to employers in the U.S. District of Columbia, U.S. territories and possessions including Puerto Rico, and U.S. Virgin Islands.
- Government entities are **excluded** except for public institutions of higher education.
- May elect **not** to take the social security employer tax credit.



Social Security Tax Forgiveness



- The 6.2% employer portion of the Social Security tax would be exempt for any qualified individual hired after February 3, 2010 and before January 1, 2011.
- For wages **paid** between March 19, 2010 and December 31, 2010 up to the \$106,800 social security wage base limit.
- There is no limit to the total number of hires during this period.



Social Security Tax Forgiveness: *Qualified Individual*

- Employed by a qualified employer after February 3, 2010, but before January 1, 2011.
- Has NOT been employed for more than a total of 40 hours during the previous 60 days.
- Can be hired into a new position, or may replace another employee only if the previous employee separated from employment voluntarily or for cause.
- Is not a family member of the business owner. For non profits, can't be related to a fiduciary.
- Is not a household or government employee.
- Must sign an affidavit attesting to the employer that he was not employed for more than 40 hours over the previous 60 days. New IRS Form W-11, Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit, may be used.



Form W-11, Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit

Form W-11 <small>(Rev. June 2010)</small> <small>Department of the Treasury</small> <small>Internal Revenue Service</small>		Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit		<small>OMB No. 1545-2173</small>
<p align="center">Do not send this form to the IRS. Keep this form for your records.</p>				
<p>To be completed by new employee. Affidavit is not valid unless employee signs it.</p>				
<p>I certify that I have been unemployed or have not worked for anyone for more than 40 hours during the 60-day period ending on the date I began employment with this employer.</p>				
Your name _____		Social security number ► _____		
First date of employment _____ / ____ / ____		Name of employer _____		
<p>Under penalties of perjury, I declare that I have examined this affidavit and, to the best of my knowledge and belief, it is true, correct, and complete.</p>				
Employer's signature ► _____		Date ► _____ / ____ / ____		
<p>Instructions to the Employer</p> <p>Section references are to the Internal Revenue Code.</p> <p>Purpose of Form</p> <p>Use Form W-11 to confirm that an employee is a qualified employee under the HIRE Act. You can use another similar statement if it contains the information above and the employee signs it under penalties of perjury.</p> <p>Only employees who meet all the requirements of a qualified employee may complete this affidavit or similar statement. You cannot claim the HIRE Act benefits, including the payroll tax exemption or the new hire retention credit, unless the employee completes and signs this affidavit or similar statement under penalties of perjury and is otherwise a qualified employee.</p> <p>A "qualified employee" is an employee who:</p> <ul style="list-style-type: none"> • begins employment with you after February 3, 2010, and before January 1, 2011; • certifies by signed affidavit, or similar statement under penalties of perjury, that he or she has not been employed for more than 40 hours during the 60-day period ending on the date the employee begins employment with you; • is not employed by you to replace another employee unless the other employee separated from employment voluntarily or for cause (including downsizing); and 		<ul style="list-style-type: none"> • is not related to you. An employee is related to you if he or she is your child or a descendant of your child, your sibling or step sibling, your parent or an ancestor of your parent, your stepparent, your niece or nephew, your aunt or uncle, or your in-law. An employee also is related to you if he or she is related to anyone who owns more than 50% of your outstanding stock or capital and profits interest or is your dependent or a dependent of anyone who owns more than 50% of your outstanding stock or capital and profits interest. <p>If you are an estate or trust, see section 51 (01) and section 132(d)(2) for more details.</p> <p>Do not send this form to the IRS. Keep it with your other payroll and income tax records.</p> <p>Paperwork Reduction Act Notice. The Paperwork Reduction Act of 1980 requires that when we ask you for information we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary, required to obtain a benefit, or mandatory under the law. You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Copies or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as stated in Code section 6103.</p>		
<p>Our legal right to ask for information is Internal Revenue Code section 6001 and the purpose of the form is stated in the instructions. This collection of the information is required to obtain certain tax benefits.</p> <p>If you do not retain this record or give fraudulent information, we may have to disallow certain exemptions and credits, and you also may be charged penalties and be subject to criminal prosecution. This could make the tax higher or delay any refund. Interest may also be charged.</p> <p>The time needed to complete this form will vary depending on individual circumstances. The estimated average time is:</p> <p>Recordkeeping 1 hr., 25 min. Preparing the form 25 min. Learning about the law or the form 24 min.</p> <p>If you have comments regarding the accuracy of this time estimate or you have suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:OMB:WFT:SPF:1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the form to this address.</p> <p>Please keep this notice with your records. It may help you if we ask you for other information. If you have any questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.</p>				



Common Questions Related to Qualified Individual Determination

- No minimum hours worked required.
- Full-time or part-time.
- New hires for a new start-up business may be eligible.
- Laid off workers rehired after 60 days.
- Seasonal employees.
- High school, college, and graduate students.
- Related to business owner or fiduciary.
- Termination for cause – new guidance 7/23/10.



Social Security Tax Forgiveness Potential Impact

- An employer can save up to \$6,622 in employer social security tax for each qualified hire. ($\$106,800 \times 6.2\%$)
- No limit to the total new hires.



Social Security Tax Forgiveness Sample Potential Impact

- Employee start date is March 1, 2010
- Paid \$500 weekly.

$$\$500 \times 6.2\% = \$ 31$$

$$\$31 \times 41 \text{ weeks} = \$1,271 \text{ potential savings}$$

(starting March 19th, not March 1st which would be 44 weeks)



Tax Liability, Deposits, and Quarterly Filing

Receiving the Exemption

- Claim as a credit at the end of the quarter on Form 941 .
- Reduce federal tax liability throughout the quarter.
- Claiming the tax credit begins with second quarter Form 941.
- First quarter qualified exempt wages and credit are reported on second quarter Form 941.



Tax Liability, Deposits, and Quarterly Filing

Reporting and Form Modifications

- Form 941 was revised in April 2010 to account for the tax credits beginning with the second quarter form.
- First quarter wages and credits will also be reported on the second quarter form as a separate line item.
- The Schedule B will be impacted, but the form is not being modified. Liability and deposits will be reduced.
- Forms 944 and 943 are expected to closely mirror Form 941.
- Form W-2 and W-3 being modified to include a new box 12 code of "CC" to report exempt wages and tips for qualified employees.



Employer Retention Credit

- Employer can claim a credit up to \$1,000 for each new worker retained at least 1 year (52 consecutive weeks)
- Credit = lesser of \$1,000 or 6.2% of employee's wages over 52 consecutive weeks
- Nonprofits are not generally eligible for the credit unless they have UBIT and the credit is not refundable



Potential Tax Savings

- Employee start date is March 1, 2010.
- Paid \$500 weekly.

<u>Employer's Social Security Calculation</u>	<u>Savings</u>
\$500 x 6.2% = \$ 31	
\$31 x 41 weeks = \$1,271	\$1,271
<u>Business Tax Calculation</u>	<u>Savings</u>
\$31 x 52 weeks = \$1,612	\$1,000
Total Potential Tax Savings	\$2,271



A Little About JM&Co.

- Three offices – Daytona Beach, Gainesville and Tallahassee, Florida
- 110 people firm-wide
- Voted one of “The Best Companies to Work For” in Florida by *Florida Trend* magazine in 2009 and 2010
- Provide accounting, auditing and Information Systems Consulting services
- Currently serve over 200 nonprofit organizations



Questions

By Suzanne Forbes, CPA

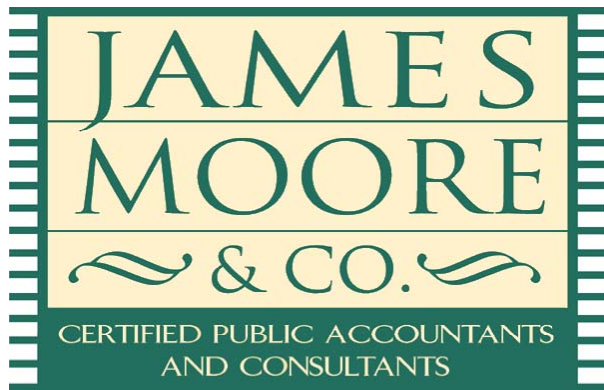
James Moore & Co., P.L.,
CPAs and Consultants

(386) 257-4100

suzanne@jmco.com

Thank you!





**The HIRE and Health Reform:
*What Do They Mean For Your
Organization?***



Why are we here ?

- On March 23, 2010 Patient Protection & Affordable Care Act of 2010 was Signed into Law.
- What does this mean for my business?



Health Reform Effective today

- High Risk Pools
- Indoor Tanning Tax



High Risk Pools

Established June 23

- Website for Florida is up and running
 - www.pcip.gov/stateplans.html
 - Premiums are listed on the website and will be due once application is received
- Specifically for People with pre-existing conditions and are currently uninsurable
 - Must have been uninsured for 6 months or more

Pre-Existing Condition Insurance Plan

HOME | LEARN MORE | ELIGIBILITY | FIND YOUR STATE | APPLY | Q&A | CONTACT US [En Español](#)

State Information

Pre-Existing Condition Insurance Plan: Florida

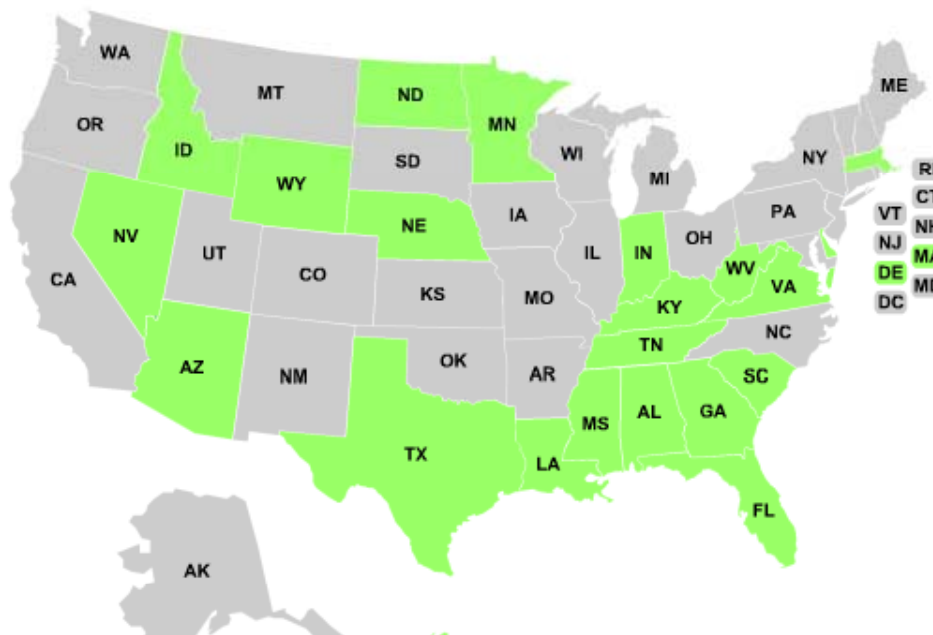
PCIP will cover a broad range of health benefits, including primary and specialty care, hospital care, and prescription drugs. All covered benefits are available for you, beginning on your coverage effective date, even if it's to treat a pre-existing condition - there are no waiting periods.

The monthly premiums for your state are:

Age	00-34	35-44	45-54	55+
	\$363	\$435	\$556	\$773

In addition to your monthly premium, you will pay other costs. Covered in-network services are subject to a \$2,500 annual deductible (except for preventive services) before the plan starts to pay benefits. Once you've met the deductible, you will pay a \$25 copayment for doctor visits, \$4 to \$30 for most drugs at a retail pharmacy for the first two prescriptions and 50% of the cost of the prescriptions after that. If you use mail order, you

Select a State





Indoor Tanning Tax

- Effective July 1st, 10% excise tax on all indoor tanning services
- Tanning providers must collect and remit the tax on the IRS Form 720, Quarterly Federal Excise Tax Reform
- Outdoor tanning is still tax free!



Upcoming Changes Small Business Health Care Tax Credit

- Eligibility
 - Must provide health coverage and cover at least 50% of the employee only rate (most insurers in our area require that in a small group arena anyway)
 - Must have less than the equivalent of 25 full time workers
 - Average annual wages need to be under \$50,000
 - The IRS has a 3 step process to determine if you meet this requirement (See handout)
 - Owners and their family members are excluded from this credit



Small Business Health Care Tax Credit Example

Foster Care Non-Profit with 9 Employees Gets \$18,000 Credit for 2010

First Street Family Services.org:

- Employees : 9**
- Wages \$198,000 total, or \$22,000 per worker**
- Employee Health Care Costs: \$72,000**

2010 Tax Credit : \$18,000 (25% Credit)

2014 Tax Credit : \$25,200 (35% Credit)



How Tax-Exempt Organizations Claim the Credit

- A revised Form 990-T will be made available for the 2011 filing season
- Even organizations that owe no tax on unrelated business income will be able to claim the credit



Extended Coverage for Adult Children

Effective Sept 23, 2010

- Extended coverage for adult children
 - Any adult child can be covered under their parents plan to age 30 in Florida (Florida is already using that age in place of the federally mandated 26).
 - This begins with new or renewing policies after September 23, 2010.
 - There are tax implications to discuss with your accountant for children age 27 to age 30.
 - Any dependent is adult child is eligible regardless of marital student residency or financial dependency status



Additional Changes

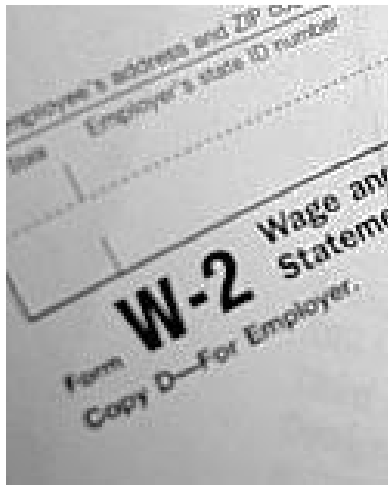
Effective Sept. 23, 2010

- Annual and Lifetime Limit Changes
 - New or renewing policies after September 23, 2010 will no longer have lifetime or annual dollar limits on essential benefits.
- Pre-existing Conditions
 - Plan years after September 23, 2010 there can be no pre-existing limitation on children under the age of 19.
 - Insurers can still reject to cover those children outright until 2014



Medical Loss Ratio

- Medical Loss Ratios (MLR)
 - What is a loss ratio?
 - A simple definition is the amount of premium taken in divided by the amount of claims expense incurred
 - Health Reform Changes
 - Health Insurance Plans must report loss ratios in 2010
 - Establish an 85% MLR for large group and 80% for small groups (100 and below) and individual plans effective in 2011
 - Carriers will have to issue premium rebates if they fail to meet minimum MLR requirements
 - Enactment
 - Department of Health and Human Services (DHHS) and National Association of Insurance Commissioners (NAIC) will complete guidelines for calculation standards and rebate calculation for application in the 2011 plan year.



W – 2 Reporting

- Employers must include the aggregate cost of employer sponsored health benefits for **informational purposes only**
- This reporting begins for the 2011 tax year.

Over-the-Counter Restrictions



- Effective 1/1/2011, Over-the-Counter Medication will no longer qualify, without a physicians prescription, for reimbursement under the following.
 - Employer sponsored health plans
 - H R A's
 - H S A's
 - F S A's
 - M S A's

List of items that still qualify without a Prescription



- Band Aids
- Brace and supports
- Catheters
- Contact lens supplies and solutions
- Denture adhesives
- Diagnostic tests and monitors
- Elastic bandages and wraps
- First aid supplies
- Insulin and diabetic supplies
- Ostomy products
- Reading glasses
- Wheelchairs, walkers, canes



2012 & 2013 - Mandatory Employer Notifications

Effective Date: 3/23/2012 - Explanation of Coverage

- Employers must provide participants a HHS-approved summary of benefits and coverage explanation prior to enrollment and/or re-enrollment

Effective Date: 1/1/2013 - FSA Limits

- Annual employee contributions to Flexible Spending Accounts will be capped at \$2,500. This amount will be indexed to the CPI starting in 2014

Effective Date: 3/1/2013 - Employer Notice Requirements

- Employers must provide employees w/ notice concerning the following:
 - The existence of the health insurance exchange;
 - The potential eligibility for federal assistance



2014 – Most Significant Changes Take Effect

Effective Date: Plan years beginning on or after 1/1/2014

Guaranteed Issue and Renewal

- Insurers must accept every employer that applies for coverage in the State where the insurer writes policies for health coverage and must renew/continue such coverage at the plan sponsor's option

Pre-existing Condition Exclusions (Ages 18+)

- Pre-existing condition exclusions prohibited



2014 – Continued

Health Insurance Exchanges

- Virtual marketplace where individuals and eligible employers may purchase health insurance
- Employers, w/ 100 or less employees may purchase coverage through an Exchange if they offer it to all f/t employees

Individual Mandate

- All citizens and legal residents required to purchase health insurance
- Those not in compliance will be subject to a tax penalty of either a flat dollar amount or % of the income
- There are exceptions



2014 – Continued

Free Choice Vouchers

- Employers that offer health coverage to their employees may also have to provide “free choice vouchers” for certain employees that would rather purchase health insurance through an Exchange

Waiting Periods Restricted

- For employers that have a waiting period for coverage for new employees, no waiting periods of more than 90 days



2014 – Continued

Coverage of Full-time Employees

- Companies that employ more than 50 eligible employees must offer affordable coverage to employees who work over 30 hours a week or face a penalty
- Employers of 200+ employees must auto-enroll newly eligible employees

Employer Penalties

- Large employers who don't offer coverage will face a penalty equal to \$2K multiplied by the total number of f/t employees, subtracting 30 from the total number of f/t employees

2014 – Continued

Standards for qualified coverage

Required coverage- Fully insured plans offered must include “essential health benefits.” Examples include:

- Emergency services
- Hospitalization
- Maternity & newborn care
- Prescription drug coverage
- Lab services
- Ambulatory patient services
- Mental health and substance abuse
- Rehab services
- Pediatric services (including dental and vision care)
- Chronic disease management
- Preventive care & wellness

Cost Sharing - All health plans, individual and group, must meet defined benefit standards in regards to cost sharing and out-of-pocket expense limits

2018 – Health Reform Fully Implemented



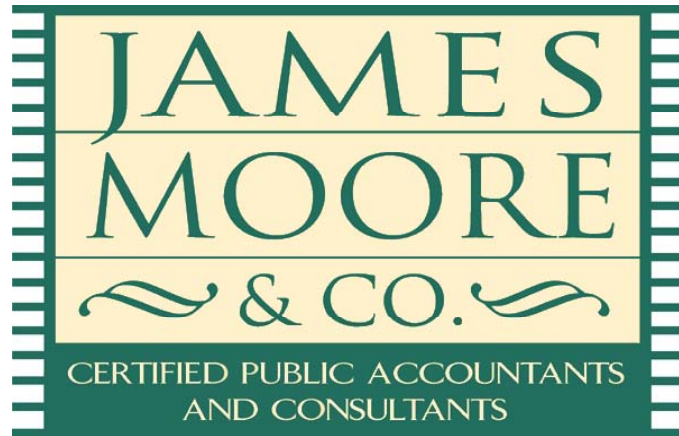
“Cadillac Plan” Tax

- 40% excise tax on the value of coverage over \$10,200 for individual and \$27,500 for family coverage
- Full premium for employer based health coverage, contributions to FSA’s and contributions to HSA’s subject to the tax
- Employers must calculate the tax and notify the providers of the share each is responsible for





Questions ????



Thank You !