

Tax Provisions of the Affordable Care Act and 990-T

**Alan Gregerson
Senior Stakeholder Liaison
Lana Schaffer
Internal Revenue Agent**

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Social Security Taxation

- The employer tax rate for social security remains unchanged at 6.2%
- Medicare rate is 1.45% for both employee and employer
- Employers should implement 4.2% of employee social security tax as soon as possible, but no later than January 31, 2011.



New Rules for Purchases with FSAs, HSAs, and Other Workplace Health Plans

Limits on Over-the-Counter Medicines

- Prescription required for drugs and medicines except insulin
 - To qualify as a reimbursable expense for FSAs and Health Reimbursement Arrangements
 - To qualify as a tax-free distribution from a Health Savings Account (HSA) or an Archer Medical Savings Account (MSA)
 - Effective for purchases beginning on January 1, 2011
- Additional Taxes on Non-Qualified Medical Expenses
 - Tax percentage on HSAs/MSAs increases as of January 1, 2011
 - Does not apply to individuals who are disabled or over age 65



Tax-free Insurance Coverage for Older Children

- Tax-free coverage can be extended immediately
- Applies to employees' children under age 27
- Workplace and retiree plans are eligible
 - Also includes individuals eligible for the self-employed federal health insurance deduction on their return
- Employers may permit employees to begin making pre-tax contributions under a cafeteria plan extending this coverage
 - Employers have until the end of 2010 to amend their cafeteria plan language to incorporate this change



W-2 Reporting on Employer-Provided Insurance Coverage

- Optional for Tax Year 2011
- Draft Form W-2 for 2011 available for employers to report the value of coverage provided to employees on Form W-2
- Reporting is for information only
 - Employer contribution remains excluded from income
 - Value of employer contribution is not taxable



Relief Provisions

- **IRS Releases Draft W-2 Form for 2011; Announces Relief for Employers**

- IR-2010-103, Oct. 12, 2010

WASHINGTON — The IRS today issued a [draft Form W-2](#) for 2011, which employers use to report wages and employee tax withholding. The IRS also announced that it will [defer the new requirement for employers](#) to report the cost of coverage under an employer-sponsored group health plan, making that reporting by employers optional in 2011.

- The Treasury Department and the IRS have determined that this relief is necessary to provide employers the time they need to make changes to their payroll systems or procedures in preparation for compliance with the new reporting requirement. to 2011,
- The new reporting requirement is intended to be informational only, and to provide employees with greater transparency into overall health care costs.
- IRS Notice 2011 – 28



Increase in the Adoption Credit

- Increases to \$13,170 per child
- Refundable
 - Includes carry-forwards from 2009
- Credit is based on reasonable and necessary expenses
 - Adoption fees
 - Court costs
 - Attorney's fees
 - Travel expenses
- Requires filing Form 8839 and required adoption-related documentation with Form 1040
 - Cannot be filed electronically



Information Returns Update

- 1099-MISC for 2012



Form 990-T

- Taxable Income
 - Trade or business
 - Regularly carried on
 - Not substantially related
 - Does it contribute importantly to accomplish exempt purpose?
 - No = taxable
 - Yes = not taxable



Form 990T

- Issues
 - Allocation of expenses
 - Reasonable basis [1.512(a)-1(c)]
 - Advertising
 - Exploits exempt purpose
 - Sale & repair of appliances
 - Debt financed income
 - Controlled organizations



The End

