The Individual Shared Responsibility Provision

What this means for you and your family

Under the *Affordable Care Act*, the Federal government, State governments, insurers, employers, and individuals share the responsibility for health insurance coverage beginning in 2014. Many people already have qualifying health insurance coverage (called minimum essential coverage) and do not need to do anything more than maintain that coverage.

The individual shared responsibility provision requires you and each member of your family to either:

- Have minimum essential coverage; or
- Have an exemption from the responsibility to have minimum essential coverage; or
- Make a shared responsibility payment when you file your 2014 federal income tax return in 2015.

You will report minimum essential coverage, report exemptions, or make an individual shared responsibility payment when you file your 2014 federal income tax return in 2015.

Minimum Essential Coverage

If you and your family need to acquire minimum essential coverage, you have several options. They include:

- Health insurance provided by your employer;
- Health insurance purchased through the Health Insurance Marketplace;
- Coverage provided under a government-sponsored program (including Medicare, Medicaid, and health care programs for veterans);
- Health insurance purchased from an insurance company; and
- Other health insurance coverage that is recognized by the Department of Health & Human Services.

Exemptions

You may be exempt from the requirement to maintain minimum essential coverage and will not have to make a shared responsibility payment when you file your 2014 federal income tax return as long as you meet any of the following criteria:

- You have no affordable coverage options because the minimum amount you must pay for the annual premiums is more than eight percent of your household income;
- You have a gap in coverage for less than three consecutive months;
- You qualify for one of several exemptions for hardship or belong to a group explicitly exempt from the requirement;
- You are a member of a recognized health care sharing ministry; or
- You are a member of a recognized religious sect with religious objections to insurance, including Social Security and Medicare (Ex: 4029 Exempt).

Shared Responsibility Payment

If you or any of your dependents are not exempt and do not have minimum essential coverage, you will need to make a shared responsibility payment on your tax return.

The shared responsibility payment (or penalty) for 2014 is the greater of:

- 1% of your yearly household income exceeding the filing threshold ($10,150 for an individual). The maximum penalty is the national average premium for a bronze plan ($208/month).
- $95 per person for the year ($47.50 per child under 18). The maximum penalty per family using this method is $285.

The percentages and flat dollar amounts will drastically increase over the next three years. In 2015, the income percentage increases to 2% of household income and the flat dollar amount increases to $325 per adult ($162.50 per child under 18). In 2016, these figures increase to 2.5% of household income and $695 per adult ($347.50 per child under 18). After 2016, these figures increase with inflation.

It is important to remember that choosing to make the individual shared responsibility payment instead of purchasing minimum essential coverage means you will also have to pay the entire cost of all your medical care. You will not be protected from high medical bills which could lead to bankruptcy.

Doing Business in More than One State?

It is time to take a closer look

For a long time, "doing business in another state" simply meant setting up shop in a state other than your state of residency. These days, there is a lot more to it. Do you have customers in other states? Do you sell your goods online? Do you have an employee who telecommutes from another state?

The state where your principal business activities occur is where you should register your business. If you want to operate in another state, generally you should obtain a certificate of authority to do business from that state's Secretary of State. A certificate of authority usually costs about $150, but can vary.

How a state defines business activities and what is considered "doing business" varies state to state. For detailed information on a particular state's requirements, contact that state's business registration office or state Secretary of State. Examples of what constitutes doing business in a state may include:

- Establishing physical presence by opening a new business location.
- Hiring employees.
- Soliciting business, which could mean using the Internet, mail, telephone, or print or media advertisements to conduct sales.

Many states will subject your business to state and local income and sales taxes. Due to budget strains, many states are now enforcing their laws in order to raise revenue.

Some states maintain a list of safe harbor activities that do not constitute "doing business." A type of activity that is often included on these lists is maintaining a bank account within a state's borders. However, many state statutes do not specifically define what they consider to be "doing business" in their jurisdiction. It usually depends on the facts of each case. Let me know if you think you may be doing business in more than one state. I can take a look at your situation and the possible state tax implications.

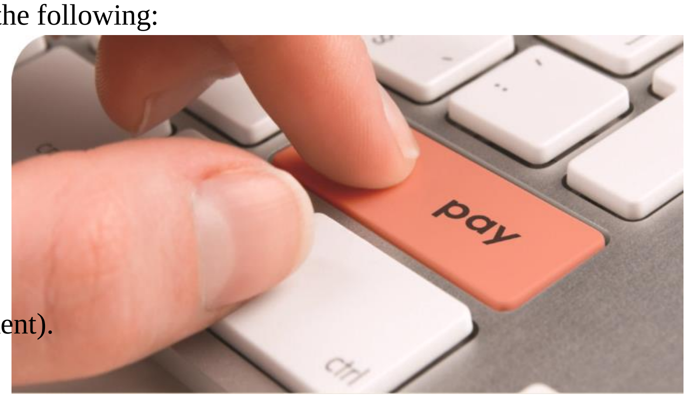
IRS Direct Pay

The most secure way to make your personal tax payments

You have been able to pay a balance due or schedule estimated tax payments electronically with your tax return for years. The IRS recently unveiled a web based tool to make electronic payments anytime. The IRS uses the latest encryption technology and does not store your banking information. When you use the IRS Direct Pay option, it puts you in control of paying your tax bill and gives you peace of mind. You determine the payment date. It is easy and secure, and much quicker than mailing a check or money order. Plus, you will receive an immediate confirmation from the IRS.

IRS Direct Pay offers 30-day advance payment scheduling, payment rescheduling or cancellations, and a payment status search. Future plans include an option for e-mailed payment confirmation, a Spanish version and one-time registration with a login and password to allow quick access on return visits. Here are a few more things you will want to know about the service:

- It is available 24/7.
- To use Direct Pay, you must have a valid SSN. Direct Pay cannot accommodate ITINs.
- To get into the system, you need to verify your identity by entering your SSN, name, address, date of birth, and filing status from a prior return. You can select 2008 through 2013 as the tax year for identity verification. This is helpful if you did not have to file a return last year.
- To make a payment, enter the bank routing number and the account number. This bank information is not retained in IRS systems after the payment is made.
- After you make a payment, you can use **Payment Look Up** to do the following:
    - Cancel the payment.
    - Reschedule the date or change the amount.
    - Check the status of a payment.



Taxpayers can pay the following taxes using Direct Pay:

- Installment agreement (20 years back).
- Tax return (20 years back).
- Estimated tax.
- Proposed Tax Assessment (for example: CP 2000 or audit assessment).
- Extension.
- Amended return (20 years back).

Perks and Parties

How year-end gifts are taxed

During the holiday season, it is not uncommon for businesses to treat employees with vacation time, holiday parties and bonuses. The type of gift—not the reason for it—determines whether it will be taxable to your employees.

Fruit baskets, turkeys, wine or other inexpensive items are considered noncash gifts. As long as the noncash gift is of nominal value and given infrequently, the gift will be considered a de minimis fringe benefit and will not be taxable.

The IRS has not set a specific dollar limit but has indicated in a ruling that $100 is not de minimis. *(CCA Memorandum 200108042)*

Expensive noncash gifts, such as watches or iPads, are considered taxable as wages.

Cash, checks and gift certificates are also considered taxable as wages. This means that the fair market value of the gifted item or amount must be added to the employee's payroll wages and is subject to typical payroll taxes including FICA and FUTA.

Another way to show appreciation to your employees is by throwing a company party. Good news! The cost is 100% deductible to the business—not just 50% deductible, like typical meals and entertainment expenses. The party cannot be lavish and extravagant and must be primarily for employees who are not highly compensated. Attending the party is a nontaxable de minimis fringe benefit to your employees.

Section 179

Limited deduction available for 2014, but still valuable

Section 179 allows you to immediately deduct the entire purchase of new or used depreciable business equipment, instead of capitalizing it and depreciating the asset over its useful life—which usually is several years. For 2012 and 2013, this deduction was allowable up to $500,000. Because Congress failed to extend the provision, however, Section 179 reverted back to the deduction limit of $25,000 going forward.

Most small- and medium-sized businesses will remain unaffected by this lower limitation. Large businesses should not worry too much though. Many experts believe that Congress at the last minute will ultimately decide to pass a tax extender, thereby increasing this deduction. We will notify you of further developments.

Bike to Work

Commuting Reimbursement could be a win-win

An employer can reimburse reasonable expenses of qualified bicycle commuting. Reasonable expenses include the purchase of a bicycle, improvements or repairs to a bicycle, and storage. The IRS allows you to offer your employees a nontaxed employee fringe benefit of $20 per qualified bicycle commuting month during that year. A qualified commuting month is any month the taxpayer uses the bicycle regularly for a substantial portion of the travel between his or her residence and place of employment.

Why should you offer this benefit to your employees? Bicycling provides the doctor recommended 30 minutes of moderate exercise a day, which keeps employees fit. Healthy workers are almost three times more effective at work than unhealthy workers, thereby reducing health insurance costs and lowering unproductive sick days. And, offering more optional benefits to your employees is a great morale booster!

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