

# Leif Jensen and Associates

Newsletter

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August was named after the Roman Emperour Augustus. Previously it was called Sexillis in Latin meaning sixth in the ten month Roman year.

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## The Future of Health Care?

Last week I was meeting with a prospective client and we were discussing how to treat his medical expenses. As a small business owner this is pretty well spelled out, the basics include medical insurance is deductible on the front of his 1040; the out of pocket expenses are listed on Schedule A. He probably knew from his existing CPA how everything is treated.

Our back and forth discussions on where the future of health care lies was an interesting one. The prospective client believes that with the advent of "Obama Care" that we will be moving to a distinctive two tiered medical system.

The first will be the catch all of the masses with insurance bought through exchanges or minimal coverage purchased through the employers. With ever increasing costs the coverage will be spotty and rationed, with high out of pocket costs; especially for out of the ordinary procedures.

The second will be a throwback to the olden days when cash was paid for services rendered. The wealthy will be the ones buying the best medical care that is available, from the doctors that flee the exchange service plans due to the poor reimbursement rates and overwhelming red tape required for standard procedures. Try to get a decent HMO doctor at this point in time. Just wait five years from now and see who is available.

I have to agree with the concerns raised. I believe that they are valid and that this may not be the intention of the current administration, but I can see it as a possible result.

## Dates to Remember

- Extended Not-for-Profit Tax Returns Due

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## This Month's Featured Service

### Incorporation Services

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## Some New Health Care Rules

In 2013 for those who itemize; on Schedule A will find the 7.5%-of-AGI floor for deducting medical expenses will increase to 10% for filers under age 65. This increase will not apply to those 65 and over until 2017.

Contributions to the health flexible spending accounts will be capped at \$2,500 a year.

The federally-subsidized part of retiree drug plan costs will be nondeductible on tax returns. And a 2.3% excise tax on medical devices takes effect. Items are commonly sold at retail, such as glasses, contact lenses and hearing aids, are exempt from the tax.

In 2014, individuals who remain uninsured will owe a penalty tax equal to the larger of \$95 or 1% of income above the filing threshold; this is were everyone finds out the government does not believe them to be as poor as they believe themselves to be. It is the income level that triggers the requirement to file.

For families, the penalty will be capped at \$285 for 2014 only. The tax then increases sharply for the next two years. In 2016, the top fine will be \$2,085. Lower- and middle-incomers will get an income tax credit to help them afford coverage. Again this will also probably be a surprise to many, when they find the government does not believe them to be a poor as they believe themselves to be.

Businesses with 50 or more full-employees that have no health plan will owe an excise tax if even one employee gets the credit. The tax is \$2,000 times the number of employees, with a 30-employee offset. I expect that employers on the bubble may make changes downward to staffing, to give them flexibility in their decision making.

The taxes will also due if an employer offers health insurance coverage that is deemed substandard or is too costly for employees. If any employee buys coverage through an exchange, the tax rate rises to \$3,000. Employers cannot deduct the tax.

So you can see where the owners will want control. I have a client that has medical costs that are \$3,000 per month for family coverage and \$2,000 for husband and spouse coverage. It is taken to market every year, and no major savings are available without significantly reducing benefits coverage, that will be subject to the penalties due to cost. These are not the "Cadillac" plans described next.

In 2018, self-insurers with "Cadillac" plans get hit with a 40% tax on the cost of plans in excess of \$10,200 for individual coverage and \$27,500 for family plans in most cases. Dental and vision coverage are excluded. These 2018 thresholds will rise if medical inflation between 2010 and 2018 tops 55%.

This is what happens when you let the IRS have a role in your health care decisions. The IRS's role will only get larger and I have been sent an e-mail from a client stating that the IRS will be hiring 16,500 more agents to handle the aspects of health care within your taxes. I have not verified this number, but now is the time to plan for the future.

## New Medicare Bookkeeping Requirements

Employers will now have the privilege of collecting additional Medicare taxes in 2013. As part of the increase in taxes for those deemed to be the wealthy there will be an increase in Medicare tax rates (luckily for business owners they do not have to match this fee) by 0.9% on wages over \$200,000 for single filers, \$250,000 for joint filers and \$125,000 for spouses who file separately.

Since employers don't know and probably don't care what each worker's filing status is, the IRS has new instructions for firms on how to address this issue. They must start withholding the extra 0.9% on wages over \$200,000. When the workers file their individual returns, they will make up any underwithholding or claim a credit for any overwithholding on their personal taxes.

However, since this unearned income Medicare contribution tax rate is a tax imposed on individuals, and so no deduction is allowed for self-employed persons for this additional Medicare tax.

But, employers may be subject to penalties and interest for not withholding the additional Medicare tax. So they are forced to comply.

### Featured Client



Impact. Some make it, others miss the opportunity. Our focus is project specific creative thought and execution that encompasses the character and personality of the idea we are looking to encapsulate.

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