Newsletter
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TYLER ✦ LYNCH PC

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

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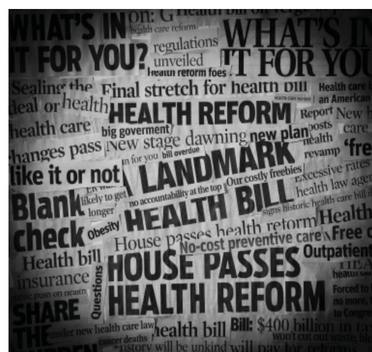
Patient Protection and 'Affordable' Care Act

SOME OF THE PORTIONS OF THE ACT THAT WERE SCHEDULED TO BECOME EFFECTIVE ON JANUARY 1, 2014 HAVE BEEN POSTPONED TO JANUARY 1, 2015.

The Patient Protection and Affordable Care Act, when implemented, will change the way health insurance premiums are priced. There are two significant ways in which small businesses may be affected: the merging of the small group insurance market with the individual market and premium limits for older individuals and smokers.

Small Group Insurance Market and Increasing Premiums

Individual health insurance coverage is typically more expensive than group health insurance. There is no actuarial averaging of the risks that helps reduce the individual costs of group insurance programs. The small group market, historically 50 employees or less, but in the case of health care reform, 100 employees or less, is significantly less risky and thus has lower premiums.



Legally required health benefits will also drive the cost of individual and small business insurance premiums higher.

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The Difference Between an S Corp and LLC

Both the 'S Corporation' and the 'Limited Liability Company' have benefits and drawbacks, depending on the particular situation of your business and the state or states in which you do business.

The Internal Revenue Code generally treats LLCs as partnerships for tax purposes. The rules define S corporations as corporations established for any legal business, but which elect subchapter S treatment under federal tax laws. These rules treat S corporations for tax purposes in a manner similar to the tax treatment of partnerships. Both LLCs and S corporations limit the liability of the owners for business debts, yet neither type of entity limits the liability of the owners for their personal professional malpractice.

There are several similarities in regard to LLC's and S corporations. Three of the major similarities are as follows:

1) Tax rate - The Code does not tax LLCs or S corporations at the entity level. Instead the income of LLCs and S corporations flows through to their members and shareholders.

2)Treatment of losses - Neither LLCs nor S corporations deduct losses at the entity level, but instead pass the losses through to the members/shareholders for the members/shareholders to deduct.

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However this effect is not predictable across state lines, since regulations issued by the Department of Health and Human Services late in 2011 granted the states considerable flexibility in designing their own mandated benefits or benchmark plans.

Premium Limits for Older Individuals and Smokers

In addition to the permitted merger of the individual and small group health insurance markets, the other two most significant changes to insurance premium rate settings involve the following:

1) Limiting the amount insurers can charge older individuals to no more than three times what they charge younger individuals.

2) Limiting to 1.5 times what insurers can charge smokers versus nonsmokers.

As the flood of actuarial analysis on the market in 2013 now indicates, health insurance costs for those between the ages of 20 to 30 may increase by at least 30%.

This has significant added impact on small businesses that employ a lot of young people.

READ FINANCIAL ARTICLES WRITTEN BY FOUNDER & PRESIDENT, JOHN A. TYLER

www.TylerLynchPC.com/articles.php

Clients, beware that the IRS does not ordinarily use e-mail as a means of communication. If you receive an e-mail from the 'IRS', please consult us before responding.

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3) Treatment of fringe benefits — For both LLCs and S corporations, the Code allows only a partial deduction for health insurance provided to member-employees or shareholder-employees.

Although they are similar in many aspects there are many differences, as well. A few of the key differences are as follows:

1) Professional malpractice of associates — In LLCs, state law generally does not impose liability on the owners for acts of malpractice committed by their associates. In S corporations, the liability of owners for the malpractice of their associates varies depending on state law.

2) Special allocations — State law generally allows LLCs to make special allocations of tax benefits to specific members of the LLCs, and there is no contrary rule in the Code. However, the Code requires that S corporations allocate all tax items to its shareholders based on the shareholders' percentage of ownership.

3) Employment taxes — LLC members pay self-employment tax on the net income of an LLC which is passed-through to its members. S corporations pay one-half of the employment tax for their shareholder-employees, and the shareholder-employees pay the other half, for wages paid by the S corporation to the shareholder-employees.

4) Shareholders — The rules do not place limits on who or what types of entities can be shareholders of LLCs. The rules limit the number of shareholders in an S corporation to 100 persons.

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www.TylerLynchPC.com/Blog

Company Mileage Allowance

A company reimbursement policy should meet Internal Revenue Service requirements as an "accountable plan". If a business's procedures don't comply with IRS rules, reimbursements are treated as compensation. This means payroll taxes have to be withheld from reimbursed funds and the company must pay the employer share of Social Security and Medicare taxes. With an accountable plan, reimbursements are treated as a business expense and not compensation. Neither the business nor the employee incurs a tax liability for mileage allowances paid.

Below are the steps that should be taken when accounting for a company's mileage allowance:

Step 1 - Choose a mileage reimbursement allowance for your company's employees. The standard rate is adjusted periodically by the IRS to reflect average vehicle operating costs. For example, the 2013 standard rate for business use of vehicles is 56.5 cents per mile. There's no rule that says a company can't pay a mileage allowance that is more than the standard rate, but the excess must be treated as compensation and therefore subject to all payroll taxes.

Step 2 - Establish recordkeeping procedures for employees. The IRS requires that mileage reimbursements be documented. Typically, companies ask employees to keep a mileage log. An entry for each business trip must be made in the log that states the date, purpose and destination of the trip. Employees should record the beginning and ending odometer readings and the miles driven.

Step 3 - Inform employees who use their personal vehicles for work-related driving what mileage qualifies as business driving. A mileage allowance must be for exclusively business-related travel to qualify as tax-exempt under IRS rules. Employees cannot claim commuting mileage between their homes and regular work location. In addition, employees may not conduct personal business other than necessary stops such as lunch breaks.

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THESE TOPICS OR IF YOU WOULD LIKE TO READ UP ON OTHER RELEVANT TOPICS,
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