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Dear Client:

We're writing to provide you with further information on legislation in the *Patient Protection and Affordable Care Act* (Health Care Act, P.L. 111-148), as amended by the *Health Care and Education Reconciliation Act of 2010* (Reconciliation Act, P.L. 111-152), that will impose additional information reporting requirements on employers, and revise the Medicare tax rate computation on high wage earners.

Information Reporting

Form W-2. The legislation requires the aggregate cost of employer-sponsored health insurance coverage to be reported on employee W-2s beginning with the 2011 tax year. For this purpose, aggregate cost is determined under rules similar to the rules in IRC §4980B(f)(4), and accompanying IRS regulations, on determining the employee's cost for COBRA coverage.

If an employee enrolls in employer-sponsored health insurance coverage under multiple plans, the employer will have to disclose the aggregate value of all such health coverage (excluding the value of a health flexible spending arrangement). Thus, for example, if an employee enrolls in employer-sponsored health insurance coverage under a major medical plan, a dental plan, and a vision plan, the employer is required to report the total value of the combination of all of these health-related insurance policies. For this purpose, employers generally use the same value for all similarly situated employees receiving the same category of coverage (such as single or family health insurance coverage).

This reporting requirement does not apply to coverage for amounts contributed by an employer to any Archer medical savings account of an employee or the employee's spouse, or for amounts contributed by an employer to a health savings account of an employee or the employee's spouse.

Corporate information reporting. The legislation requires payers to file an annual information return if they make any payments for property or services totaling \$600 or more in a calendar year to a corporation, other than a tax-exempt corporation. The law is effective beginning with payments made after 2011.

Medicare Tax Computation on High Wage Earners

The new legislation includes a provision that, effective for tax years beginning after 2012, increases the Medicare tax rate by 0.9% for taxpayers (other than corporations, estates, or trusts) receiving wages with respect to employment in excess of \$200,000 (\$250,000 for married couples filing jointly, and \$125,000 for married couples filing separately). The tax is in addition to the regular Medicare (health insurance; HI) tax rate of 1.45% on wages received by employees with respect to employment. Thus the HI tax rate will be: 1.45% on the first \$200,000 of wages (\$125,000 on a separate return, \$250,000 of combined wages on a joint return); and 2.35% (1.45% + 0.9%) on wages in excess of \$200,000 (\$125,000 on a separate return, \$250,000 of combined wages on a joint return). This change doesn't affect the HI tax imposed on employers.

Employer's obligation to withhold. An employer's obligation to withhold the additional 0.9% HI tax applies only to wages in excess of \$200,000 that the employee receives from the employer. The employer may disregard the amount of wages received by the employee's spouse. Thus, the employer is only required to withhold the additional 0.9% HI tax on wages in excess of \$200,000 for the year, even though the tax may apply to a portion of the employee's wages at or below \$200,000, if the employee's spouse also has wages for the year, they are filing a joint return, and their total combined wages for the year exceed \$250,000.

Illustration : For 2013, H has wages of \$250,000, and W has wages of \$100,000. H's employer must withhold the additional 0.9% HI tax on the \$50,000 of H's wages in excess of \$200,000. W's employer isn't required to withhold any portion of the additional 0.9% HI tax, even though H and W's combined wages are over the \$250,000 threshold.

Other

The legislation also increases the maximum amount that may be excluded from an employee's income for employer-provided adoption assistance in the 2010 tax year from \$12,170 to \$13,170. In addition, the legislation will limit the amount that employees may contribute to a health flexible spending account through salary reduction beginning in 2013 to \$2,500.

Please do not hesitate to contact us if you would like further information on any of the above provisions, or any other aspect of the new law.

WEINHOLD, NICKEL & COMPANY, LLP