HEALTH CARE REFORM'S TAX PROVISIONS

The massive health care legislation, signed into law by President Obama, contains provisions that will affect every employer.

We have compiled the most relevant provisions of the bill that will affect dealerships and their owners/employees.

Tax credit for small dealerships offering Health Coverage

Beginning in 2010 through 2015, small employers may qualify for a more lucrative credit to reimburse a portion of the cost of employer-provided insurance.
In general, an eligible small employer is one who meets three criteria:

- An employer with no more than 25 full-time equivalent employees (FTEs) for the tax year
- Average annual wages per employee do not exceed $50,000
- The employer contributed at least 50 percent of the premiums for employee health care

Expanded 1099 information reporting requirements

Effective for payments made in 2012 and after, the health care legislation expands 1099 reporting to include amounts paid "in consideration for property. This would include any inventory, material, equipment, or merchandise. Further, the new legislation requires a 1099 be issued to any corporation (other than a tax-exempt entity) for payments for property or services over $600 in a calendar year.

Health Insurance Coverage Mandate

Beginning in 2014, employers with at least 50 full-time employees during the preceding calendar year will face a non-deductible excise tax if they fail to offer employee health insurance, or if they provide a plan with minimum coverage that is either unaffordable or incurs less than 60 percent of the cost of benefits.

Employers Providing No Health Insurance

The excise tax is $2,000 annually per employee for employers not offering a health care plan or offering a plan without "minimum essential coverage" and for which at least one employee is eligible for federal subsidies. However, the tax excludes the first 30 employees in the computation.

High-income employee Medicare rate

Effective in 2013, an additional 0.9 percent Medicare HI tax is imposed on the employee share, but only to the extent that an individual's wages exceed $200,000. Although the 0.9 percent HI increase is on the employee share, the employer is required to withhold the tax and remit it to the IRS. Similarly, the self-employment HI tax is increased by 0.9 percent.

For joint returns, the extra 0.9 percent HI tax is calculated on wages and self-employment income in excess of $250,000, by considering both spouses as one for this computation. Accordingly, if the withholding has been inadequate (e.g., one spouse is over $200,000 of salary with 0.9 percent withholding on the excess, but the other spouse is under $200,000 of wages with no withholding), the additional 0.9 percent HI tax must be remitted via the Form 1040.

Medicare surtax on unearned income

In addition to the 0.9 percent Medicare increase on earned income, there is a new 3.8 percent surtax on net

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investment income of higher income individuals that also becomes effective in 2013. The surtax is 3.8 percent of the lesser of:

- Net investment income, or
- The excess of the taxpayer's Form 1040 modified AGI over a threshold of $200,000 ($250,000 if married filing jointly).

Net investment income includes interest, dividends, and rents. It also includes passive income (from a business in which the taxpayer does not personally materially participate). This provision could have significant impact on dealerships that rent property they own to their own business or own companies they don't actively work in.

Individual penalty for failure to maintain health insurance

Beginning in 2014, the law imposes a penalty on any individual who fails to maintain "minimum essential coverage" for health care. When fully phased in by 2016, the penalty is the greater of:

- 2.5 percent of the taxpayer's household income over the threshold for filing a 1040 for that year, or
- $695 per uninsured adult plus half of that amount per uninsured child under age 18, but capped at $2,085 per household.

The big picture on tax rates for upper-income filers

The Obama administration's budget calls for taking the present top 1040 rate from 35 percent to 39.6 percent and bringing back the phaseout of personal exemptions and itemized deductions. This will push the top rate in 2011 to roughly 42 percent, and this is the same group that is being taxed to help fund health care reform (single filers over $200,000 and joint filers over $250,000).

To come up with an effective tax planning strategy, the two sets of rate hikes need to be seen as one.

TAX TIP

HEALTH COVERAGE ON FORM W-2

Starting in 2011 the W-2 tax form sent by your employers will be required to report the value of health insurance that they provide to their employees. Many taxpayers were misinformed that the value was taxable, the amount will not be taxed as income in 2011. Presumably, the reason Congress required the value to be shown on their W-2's is to give workers a better appreciation of the amount spent to cover them.

Unfortunately, all of the things that get reported on those Forms W-2 have just gotten so extensive, and who knows what else has to be reported. This may just be a precursor to having the cost of applicable employer-sponsored group health coverage to be taxable in years 2012 and/or 2013.

Consult with your ATA representative for any misunderstandings or misinterpretations of the new Health Care Legislation. Some changes in the law become effective immediately while others will not kick-in until as late as 2017.

When these Medicare tax hikes arrive in 2013, those with high salary or self-employment income paying the 0.9 percent will be at roughly a 43 percent top rate, and those with investment income incurring the 3.8 percent surtax will reach about 46 percent. Those are the rates we need to consider in looking at alternative business entities and investments.

As you can see, tax planning over the next several years will become more important than ever. For expanded discussion of the Health Care Reform Act please contact your local Auto Team America member today.

GO GREEN, CREATE SOME GREEN

7 ways to help the environment and your bottom line

Adopting sustainable business practices isn't only the right thing to do — it also makes financial sense. You can reduce your dealership's operating costs with simple facility upgrades and everyday changes. Here are seven ways to do just that:

1. Do a cosmetic makeover. Going green can be as easy as putting blinds on westward-facing windows to lower air conditioning bills and reducing water consumption with toilet inserts, low-flow aerators on faucets, or pressure-reducing valves near the water meter.

2. Invest in upgrades. Replace drafty windows and install solar panels to help lower heating and air conditioning bills. Ask your CPA about the availability of federal stimulus money or tax credits for energy-conservation projects initiated in 2010.

3. Adopt green habits. Ask your employees to help brainstorm changes to old habits. Some ideas: Set energy-saver modes on computers, install motion detectors on lights, turn off equipment at day's end, and file titles and liens electronically.

4. Bring it outside. Improve water retention by mulching flower beds. Lower sprinkler consumption by as much as 10% with soil moisture sensors.

5. Get an energy audit. Most utility companies offer an energy consumption audit for a small fee. They evaluate where you spend the most money — and what the expected financial payback will be for upgrades. Your gas or electric company also may offer rebates or low-interest loans for improvements.

6. Check with your manufacturer. Ford launched a voluntary "Go Green" program to help dealers reduce energy consumption. For a small fee, it assesses a dealer's energy use and recommends ways to improve efficiency. Your factory may have a similar initiative.

7. Keep it up. Once you turn over a new (green) leaf, make sure you maintain it. Track your progress by comparing utility bills year to year, and make note of the savings, which mount up fast.