

Changes to Healthcare Law May Benefit Families

A new era of health insurance is set to begin on January 1, 2014. The Patient Protection & Affordable Care Act (also known as "ObamaCare") will usher in dramatic changes to coverage requirements and policy procurement. This month, The Legal Review takes on a different look as we demystify our new universal healthcare system and examine its effect on household employment.

Coverage Requirements

Next year, every U.S. citizen will be required to have health insurance coverage - either their own policy or through a spouse, parent or group plan. The consequences for not having coverage will be a fine, which will become increasingly punitive over the next few years. Unfortunately, many household employees currently don't have health insurance - due to expense, difficulty obtaining coverage or simply a lack of perceived need.

Beginning October 1, 2013, each state will provide access to an online health insurance exchange, which will provide a marketplace where individuals can compare health insurance plans and purchase a policy that suits their needs. Links to the exchange in each state can be found on our [state-specific web pages](#).

How Employers Can Help AND Save Money

While household employees will be required to have health insurance coverage, household employers are NOT required to offer or pay for the coverage. However, Congress has created incentives for employers to make health insurance contributions part of the compensation package.

First, the employer contribution is considered non-taxable, so neither the employer nor the employee is required to pay any taxes on that portion of the compensation.

Second, families are eligible for a health insurance tax credit (HITC) - as long as they pay for at least half of their employee's health insurance premium and the annual wages they pay to the employee (or average annual wages if they have more than one employee) is less than \$50,000. Currently, the HITC provides a tax credit of up to 35% of the employer's health insurance contributions. However, this credit will increase to a maximum of 50% starting in 2014.

The combination of non-taxability and tax credit make employer-paid health insurance a very attractive benefit option for most families. Take a look at the following example to see how a nanny's income and a family's cost can be affected by the family covering the full cost of a health insurance policy at \$300 per month (or \$3,600 annually):

For the Nanny

Compensation Without Health Insurance

Gross Wages	\$30,000
Taxes Withheld	<\$4,000>
Health Insurance	<\$3,600>

Disposable Income	\$22,400
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Compensation With Health Insurance

Gross Wages	\$26,400
Taxes Withheld	<\$3,400>

Disposable Income	\$23,000
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For the Family

Cost Without Health Insurance

Nanny's Wages	\$30,000
Employer Taxes	\$3,000

Total Cost	\$33,000
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Cost With Health Insurance

Nanny's Wages	\$26,400
Employer Taxes	\$2,640
Health Insurance	\$3,600
Tax Credit	<\$1,080>

Total Cost	\$31,560
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How Families Can Pay for Insurance and Receive the Credit

Generally, a household employer is not able to set up a group health insurance policy to offer their employee. Instead, the employee should find and purchase an individual policy of their choosing. The family may pay up to the entire monthly premium for their employee and should make payments directly to the health insurance company in order to keep accurate records of their contributions. At tax time, the family will file Form 8941 with their personal income tax return to claim the tax credit for their health insurance contributions.

What if the Employee Purchases Insurance on Their Own?

If a family does not wish to contribute to their employee's health insurance premiums or the employee wishes to purchase coverage on their own, they can still be eligible for a subsidy to offset the financial burden if they purchase a policy through their state's exchange. The amount of the subsidy is based on the employee's income level and will usually be credited to them at tax time. (In certain circumstances the employee may be able to receive their subsidy earlier)

How We Can Help

At Breedlove & Associates, we're always happy to provide free phone consultations to your clients and counselors to help everyone understand the tax benefits of including health insurance in the compensation package and how to handle the payroll logistics. Saving families and caregivers money is our favorite part of the business!