Small Business Health Care Tax Credit

This credit helps small businesses and small tax-exempt organizations afford the cost of covering their employees and is specifically targeted for those with low- and moderate-income workers. For 2010 through 2013 it is worth up to 35 percent of premium costs for small employers and up to 25 percent of premium costs for tax-exempt employers. For tax years beginning after December 31, 2013, this credit increases to 50 percent for small employers and 35 percent for tax-exempt employers. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

Employer-Provided Health Coverage — Not Taxable; Reporting is Voluntary for All Employers for 2011 and for Small Employers for 2012

Starting in tax year 2011, the ACA requires employers to report the value of the health insurance coverage they provide their employees on each employee's annual Form W-2. To give employers more time to update their payroll systems, IRS Notice 2010-69 made this requirement optional for all employers for 2011. This applies to the 2011 Forms W-2 generally given to employees in January 2012. IRS Notice 2011-28 also provided that for 2012 the reporting requirement was optional for employers filing fewer than 250 2011 Forms W-2 and will not be required of those small employers until further guidance is issued. Notice 2011-28 includes information on how to report, what coverage to include and how to determine the cost of that coverage.

The 2011 Form W-2 is available on www.irs.gov. This is the Form W-2 that most employees will receive in early 2012. The form includes the codes that employers may use to report the cost of coverage under an employer-sponsored group health plan.

The revised Forms W-2 will show employees the value of their health care benefits so they can be more informed consumers. The amount reported does not affect tax liability; the value of the employer contribution to health coverage remains excluded from an employee's taxable income.

For additional information:

Visit **www.irs.gov** for the most up-to-date information on the Affordable Care Act tax provisions.

For tips, fact sheets, questions and answers, videos and more, check the Affordable Care Act of 2010: News Releases, Multimedia and Legal Guidance page on www.irs.gov. IRS continues to issue the legal guidance and public communications taxpayers need to prepare for health care tax changes. You can always find out the latest updates on **IRS.gov** and now you can Follow **Twitter**. You can find consumer updates about health insurance and health care policy provisions on the HHS websites HealthCare.gov or Medicare for Medicare changes at **Medicare.gov** and the Spanish-language **CuidadoDeSalud.Gov**.

Información en Español: Disposiciones del Acta del Cuidado de Salud de Bajo Precio

Other helpful websites:

- www.medicare.gov
- www.healthcare.gov
- www.cuidadodesalud.gov - *Información en Español*

Free Tax Return Assistance:

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites offer free tax return preparation to individuals with low to moderate income. To find free tax help near you, call IRS at **1-800-906-9887** or AARP TaxAide at **1-888-227-7669**.

Publication 4894 (Rev. 11-2011) Catalog Number 55911U
Department of the Treasury **Internal Revenue Service** www.irs.gov

AFFORDABLE CARE ACT

IRS

Affordable Care Act Tax Provisions and the IRS

On March 23, 2010, the President signed into law the Patient Protection and Affordable Care Act which is also known by the short title Affordable Care Act (ACA). The new law, later amended by the Health Care and Education Reconciliation Act (HCERA) on March 30, 2010, enacts significant changes to America's health care system.

The IRS administers the various tax law provisions, which take effect over the next several years. The Department of Health and Human Services is the lead agency for health insurance and health care policies under the new law.

Tax Law Changes You Should Know About Now

The tax provisions in the ACA affect nearly every individual and employer. Below are some changes that may impact you in the coming year. Please note that this list does not summarize every tax provision in the ACA.

Health Coverage for Older Children

Since March 30, 2010, health coverage for an employee's children under 27 years of age is generally tax-free to the employee. This expanded health care tax benefit applies to various work place and retiree health plans. These changes immediately allow employers with cafeteria plans — plans that allow employees to choose from a menu of tax-free benefit options and cash or taxable benefits — to permit employees to begin making pre-tax contributions to pay for this expanded benefit. This also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return.

Expanded Tax Benefit to Health Professionals Working in Underserved Areas

Since 2009, health care professionals who receive student loan relief under state programs that reward those who work in underserved communities may qualify for an annual tax cut going forward. If you are a health care professional who receives forgiveness for your student loans in exchange for working in an underserved community, you may now qualify for tax relief for the portion of the loan that was forgiven. Previously, the amount of the forgiven loan was considered income and was subject to tax. Consult your state loan program office to determine whether the program is covered by the ACA. You may submit an amended return to claim this tax benefit for 2009 and 2010.

Changes to Healthcare Savings Programs

Since Jan. 1, 2011, over-the-counter drugs, like nonprescription pain relievers, are reimbursable through healthcare savings programs, only if the OTC drugs are prescribed. This means that a distribution from a healthcare savings program account for an OTC drug will be tax-free only if you have a prescription. Tax-favored healthcare programs include Health Savings Accounts, Archer Medical Savings Accounts, Health Flexible Spending Arrangements, and Health Reimbursement Arrangements.

The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles. IRS Announcement 2011-14 states that money spent on breast pumps and other devices to assist lactation can qualify as deductible medical expenses. This means that FSA, HSA and HRA funds can now be used to pay for these items.

In addition, if you have an HSA or an Archer MSA, distributions for expenses that are not qualifying medical expenses, including over-the-counter medicines and drugs purchased without a prescription, will be included in your gross income and subject to an additional 20% tax. The income tax and additional tax are reported on Form 8889 for an HSA distribution and on Form 8853 for an Archer MSA distribution. You complete these forms and attach them to your Form 1040 when you file your 2011 income tax return in 2012. Distributions from an HSA or an Archer MSA are not included as taxable wages and do not affect your Form W-2.

Excise Tax on Indoor Tanning Services

A tax applies to indoor tanning services paid for after June 30, 2010. The tax is 10% of the amount paid for the services. Indoor tanning service means a service employing any electronic product designed to incorporate one or more ultraviolet lamps and intended for the irradiation of an individual by ultraviolet radiation, with wavelengths in air between 200 and 400 nanometers, to induce skin tanning. The term does not include phototherapy service performed by, and on the premises of, a licensed medical professional (such as a dermatologist, psychologist, or registered nurse). There's also an exception for certain physical fitness facilities that offer tanning as an incidental service to members without a separately identifiable fee.

The person who receives payment for indoor tanning services must file Form 720, Quarterly Federal Excise Tax Return, and remit the tax for any quarter in which that person receives payment for the services. If the person who receives the payment does not collect the tax, that person liable for the tax itself.

Expanded Adoption Credit – Available in Tax Year 2011

You may qualify for the adoption credit if you adopted or attempted to adopt a child and paid qualified expenses relating to the adoption. The maximum amount of the tax credit is $13,360 for 2011. For a domestic adoption, you may be able to claim the credit even if the adoption does not become final. If you adopt a special needs child, you may qualify for the full amount of the adoption credit even if you paid few or no adoption-related expenses.

For 2011, you may not take the full amount of the adoption credit if your modified adjusted gross income (MAGI) is $185,210 or more; the credit is completely phased out if your MAGI is $225,210 or more.

The ACA also makes the credit refundable, meaning that eligible taxpayers can receive the credit even if they owe no tax for 2011. In general, the credit is based on your payment of reasonable and necessary expenses related to a legal adoption, including adoption fees, court costs, attorney's fees and travel expenses. Income limits and other special rules apply.

If you are eligible for the credit, in addition to filling out Form 8839, Qualified Adoption Expenses, you must include with your 2011 tax return one or more adoption-related documents. See the Instructions to Form 8839 for additional information.

The documentation requirements, designed to ensure that taxpayers are eligible to properly claim the credit, mean that taxpayers claiming the credit will have to file paper tax returns. Normally, it takes about three weeks to get a refund claimed on a complete and accurate paper return where all required documents are attached. The IRS encourages taxpayers to use direct deposit to speed their refund.

Eligible taxpayers claiming the credit will still be able to use IRS Free File to prepare their returns, but the returns must be printed out and mailed to the IRS, along with all required documentation.