SOLUTIONS

August ◆ 2012

Dear Clients and Friends

Supreme Court Upholds Health Care Law

On June 28, 2012, the U.S. Supreme Court upheld the constitutionality of President Obama's 2010 health care legislation, clearing the way for the Patient Protection and Affordable Care Act (PPACA, also known as the ACA) and the Health Care and Education Reconciliation Act (HCERA) to move forward on schedule. While concerns still remain about how the IRS will interpret parts of the law, all taxpayers — including businesses and individuals — must prepare for new regulations that will go into effect in 2013, 2014, and beyond, or risk being unprepared to fully comply in time for the law's complex provisions.

The tax provisions of PPACA and HCERA, fully preserved by the Supreme Court in its landmark ruling, result in the largest set of tax law changes in more than 20 years. As the IRS works to issue guidance on these provisions, we will continue to update our clients on procedures and compliance with the new laws.

INDIVIDUAL TAX PROVISIONS: The Individual Mandate

Beginning in calendar year 2014, the PPACA's "individual mandate" requires applicable individuals to carry "minimum essential health coverage" for themselves and their dependents or pay a shared responsibility penalty for each month of non-compliance. Individuals who are not exempt and do not receive health insurance through a third party will be required to purchase insurance from a private company. Minimum essential coverage generally includes (but is not limited to) coverage under an eligible employer-sponsored plan, an individual marker plan, a grandfathered health plan, coverage under Medicaid and Medicare, and other government-sponsored coverage, subject to some exceptions. Individuals who are exempt from the

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Professionally Speaking

WELCOME to **Matt Fitzsimmons** and **Paul Schmid**, who have joined the professional accounting team at St. Clair CPAs, P.C.

CONGRATULATIONS to…

Colleen E. Levin, CPA, recently promoted from Manager to Principal at St. Clair CPAs., P.C.

Madeline G. Weinrebe, CPA an Intuit Certified QuickBooks ProAdvisor®, on her successful completion of the Dale Carnegie Skills for Success Training program.

All of our dedicated employees, who helped **St. Clair CPAs, P.C.** earn recognition from *Times Herald* readers as one of the **Best Accounting Firms in Montgomery County.**

2012 READERS' BEST of MONTCO 2012 CHOICE AWARDS

St. Clair CPA Solutions is equally proud to be named among the "Philadelphia Business Journal Top Corporate Charitable Contributors of 2012." This top recognition acknowledges our firm's commitment to promoting the well-being of our community.

Philadelphia Business Journal Corporate Charitable Contributions Top 50 2012

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Wondering How the New Health Care Law & Expiring "Bush Tax Cuts" Will Affect Your Business?

SAVE the DATE and JOIN US for an informative presentation:

TECHNICAL TAX INSTRUCTIONS & PRACTICAL BUSINESS SOLUTIONS

presented by St. Clair CPAs, P.C. for the benefit of our clients

For your convenience, this complimentary presentation will be offered three times. Choose the date, time and place that serves you best, and RSVP early to reserve your seat. Your guests are welcome to join you.

CHOOSE ONE:

- **Thursday, October 4, 2012 ◆ 8:30 to 10:30 am (includes light breakfast)**
  St. Clair CPAs, P.C. , 101 W. Elm St., Conshohocken PA – Ground Floor Conference Room
- **Tuesday, October 16, 2012 ◆ 12:00 to 2:00 pm (includes lunch)**
  The Blue Monkey, 2 South Centre Street Merchantville, NJ – 2nd Floor Private Dining Room
- **Tuesday, November 13, 2012 ◆ 12:00 to 2:00 pm (includes lunch)**
  St. Clair CPAs, P.C. , 101 W. Elm St., Conshohocken PA – Ground Floor Conference Room

There is no charge for this complimentary program, but seating is limited.
Please RSVP to Kimberlee Via at 856-482-5600 or kvia@stclaircpa.com.

Supreme Court Upholds Health Care Law, cont.

mandate include those covered by Medicaid and Medicare and others meeting certain defined criteria. Generally, individuals with employer-provided health insurance, if it satisfies minimum essential coverage and affordability requirements, are also exempt. Other provisions impacting individuals include, but are not limited to, the following:

- **Employer-sponsored coverage:** The final regulations treat an employer-sponsored plan as affordable for an employee and related individuals if the portion of the annual premium the employee must pay for self-coverage does not exceed the required contribution percentage (9.5% for tax years beginning before January 1, 2015) of the taxpayer's household income.
- **Medical Deduction Threshold:** The PPACA increases the threshold to claim an itemized deduction for unreimbursed medical expenses from 7.5% of adjusted gross income (AGI) to 10% of AGI for tax years beginning after December 31, 2012. However, individuals (or their spouses) age 65 and older before the close of the tax year are exempt from the increased threshold, and the 7.5 percent threshold continues to apply until after 2016.
- **Additional Tax On HSA/MSA Distributions:** Distributions from a Health savings account (HSA) or Archer medical savings account (Archer MSA) not used for the beneficiary's qualified medical expenses are generally included in the beneficiary's gross income. Distributions included in gross income are subject to an additional tax of 10% of the included amount, unless made after the beneficiary's death, disability, or attainment of the age of Medicare eligibility. Effective for distributions made after December 31, 2010, the additional tax on HSAs and Archer MSAs increases from 10% to 20%, in the case of HSAs, and from 15% to 20%, in the case of Archer MSAs, of the amount included in gross income.
- **Additional Medicare Tax:** For tax years beginning after December 31, 2012, an additional 0.9% Medicare tax is imposed on wages and self-employment income of higher-income individuals. The additional Medicare tax applies to individuals with remuneration in excess of $200,000; married couples filing a joint return with incomes in excess of $250,000; and married couples filing separate returns with incomes in excess of $125,000.
- **Medicare Tax on Investment Income:** The PPACA imposes a 3.8% Medicare contribution tax on unearned income effective for tax years beginning after December 31, 2012. The tax is imposed on the lesser of an individual's net investment income for the tax year or modified adjusted gross income in excess of $200,000 ($250,000 for married couples filing a joint return and $125,000 for married couples filing a separate return). Net investment income includes interest, dividends, rents, royalties, and income from certain passive activities.

BUSINESS TAX PROVISIONS:
The Employer Mandate for Large Employers

The PPACA's employer shared responsibility provisions (also known as the "employer mandate") specify that an applicable large employer may be subject to a shared responsibility payment (also known as an "assessable payment") if any full-time employee (FTE) is certified to receive an applicable premium tax credit or cost-sharing reduction payment. Generally, this may occur where either the employer does not offer to its FTEs (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan; or the employer offers its FTEs (and their dependents) the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan that either is unaffordable relative to an employee's household income or does not provide minimum value (that pays at least 60% of benefits). This provision applies to months beginning after December 31, 2013.

For purposes of the employer shared responsibility payment, an applicable large employer is an employer that on average employed 50 or more full-time equivalent employees on business days during the preceding calendar year. An FTE is an employee who is employed on average at least 30 hours per week. The IRS has posted questions and comments on the issue of who is an FTE, including a potential "look-back/stability period safe harbor method for determining full-time employee status. The IRS also described a safe harbor allowing employers to use an employee's Form W-2 wages (as reported in Box 1) instead of household income in determining whether coverage offered is affordable. Please contact us to discuss how these and related provisions will affect your large employer business.

BUSINESS TAX PROVISIONS:
The Health Insurance Tax Credit for Small Employers

For employers with fewer than 25 FTEs for the tax year, whose average annual wages of its employees for the year are less than $50,000 per FTE, and who maintain a "qualifying arrangement," the PPACA created the temporary Code Sec. 45R small employer health insurance tax credit. For tax years 2010 through 2013, the maximum credit is 35% of health insurance premiums paid by small business employers (25% for small tax exempt employers). The credit is scheduled to increase to 50% for small business employers (35% for small tax-exempt employers) after 2013 (but will terminate after 2015). However, in tax years that begin after 2013, an employer must participate in an insurance exchange in order to claim the credit, and other modifications and restrictions on the credit apply. The PPACA requires each state to establish an American Health Benefit Exchange and Small Business Health Options Program (SHOP Exchange) to provide qualified individuals and qualified small business employers access to health plans. Exchanges will have four levels of coverage: bronze, silver, gold, or platinum.

Find a Special Report ("Supreme Court Upholds Health Care Law") on the these and other tax provisions proscribed by the PPACA under Resources at www.cpasolutions.net.
Our tax professionals are available to guide you and/or your business through health care reform legislation, and to assist you in meeting compliance deadlines. Please contact us at your earliest convenience to begin this process.

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Announcing Legislative Updates Affecting Pennsylvania and Philadelphia Corporate Income Tax

PENNSYLVANIA UPDATES

Legislation has been signed into law that enacts several changes to the Pennsylvania corporate income tax, including a single sales factor apportionment formula, an automatic extension of time to file, and changes to existing credits. Finally, changes are made to personal income tax provisions relating to the filing of returns for deceased individuals.

Apportionment Formula

A sales factor apportionment formula will be used for calculating Pennsylvania corporate income tax, beginning with the 2013 tax year. Previously, business income was apportioned to Pennsylvania by multiplying the income by a fraction, the numerator of which was the sum of five times the property factor, five times the payroll factor and ninety times the sales factor and the denominator of which was 100.

Extension of Time to File

For corporate income tax purposes, if the federal government grants an extension of time for filing reports the department will automatically grant an extension of 30 days after the termination of the federal extension. For a calendar year corporate filer, if the federal government grants the extension to September 15th then the corporate filer has an automatic Pennsylvania extension to October 15th.

Research and Development Tax Credit

The total amount of the research and development tax credit available against the corporate net income tax, personal income tax, and capital stock/franchise tax is increased to $55 million (previously $40 million). The amount set aside for small business use is increased to $11 million (previously $8 million). Further, the December 31, 2015 expiration date is repealed.

Educational Improvement Tax Credit

The educational improvement tax credit is amended by expanding the definition of an "educational improvement organization" to include an entity that contributes at least 80% of its annual receipts to a chartered school or a private school. The definition of a "nonprofit entity" is also expanded to include a school district foundation, public school foundation, charter school foundation or cyber charter school foundation.

The amount of the income allowance after June 30, 2013, and through June 30, 2014, is increased to $15,000 (previously $12,000), and after that it will be adjusted annually based on the consumer price index. Further, for fiscal year 2013-2014 and each subsequent year the tax credit cannot exceed $750,000 (previously $400,000) annually per business firm for contributions made to scholarship organizations or educational improvement organizations. The total amount of approved credits available per year is increased to $100 million (previously $67 million).

Educational Opportunity Scholarship Tax Credit

An educational opportunity scholarship tax credit available to business firms against the corporate net income tax, the personal income tax, the capital/stock franchise tax, the bank and financial company shares tax, and the insurance gross premiums tax is created. The credit is for contributions to a nonprofit entity that provides scholarships to an eligible student to pay tuition and school-related fees necessary to attend a participating nonpublic school, or a participating public school located in a school district that is not the recipient's school district. An "eligible student" is one with a disability who resides within a low-achieving school district and that lives in a household that meets certain income requirements.

The credit is limited to 75% of the total amount contributed during the tax year by the business firm. The amount of the credit for 2012-2013 is limited to $400,000 per business firm for contributions. For 2013-2014 and each following year the credit is limited to $750,000 per business firm for contributions.

PHILADELPHIA UPDATES

Use and Occupancy Tax Rates

Effective July 1, 2012, the Philadelphia use and occupancy tax rate is increased to $5.51 per $100 (previously, $4.62 per $100) of the assessed value of real estate. Returns were mailed to taxpayers prior to the approval of the ordinance that increased the rate. A new bill containing the correct rate will be mailed and should be received well in advance of the July 25, 2012 due date.

If you have any questions regarding these changes to Pennsylvania or Philadelphia tax filings, or if you want to know more about qualifying and/or applying for the credits listed above, please contact us in NJ at **856-482-5600** or in PA at **610-862-1998.**

Important Update on New Retirement Plan Disclosure Requirement: If you are a sponsor of an "ERISA" retirement plan, this new requirement applies to you!

Fee disclosures have been a hot topic in the 401(k) world for several years. Now, the Department of Labor has announced the following disclosure requirements for 408(b)(2) and 404(a)(5) Plans.

408(b)(2) Disclosures to Plan Sponsors

Effective July 1, 2012, certain service providers should have provided you (as the plan sponsor) with fee disclosure information. In general, this would apply to providers receiving direct and indirect compensation from the Plan, such as record keepers, third party administrators, investment advisors, and providers of personal brokerage accounts.

The Plan sponsor or trustees must then evaluate the information to determine that compensation is reasonable for the services provided, and that the appropriate services are being provided. They must also determine that any conflicts of interest have been appropriately handled.

404(a)(5) Disclosures to Participants

In addition, initial participant fee disclosures are required to be disseminated to plan participants by August 30, 2012. These disclosures are investment-related information in a form that encourages and facilitates a comparative review among a plan's investment alternatives, as well as the fees and expenses associated with the Plan's investment alternatives. This notice is to be provided to active participants, eligible employees who are not participating, terminated employees with a balance in the plan and beneficiaries with a balance in the plan. The notice can be electronic, hand delivered or by mail. In addition to the initial notice, the plan sponsor will need to implement various quarterly and annual reporting disclosures on an ongoing basis.

If you have not received information from your service provider or have additional questions, please contact Michael Mostochuk, CPA, at **610-862-1998** or ***mmostochuk@stclaircpa.com*.**