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The Financial impact of healthcare reform on construction firms

How will construction firms absorb the financial impact of healthcare reform? The answer is complicated, multi-faceted and must be understood in order to properly plan for the effects the legislation will have on construction businesses. The alternative is a financial strain that, if not planned for properly, can shut down a small business.

While not meant to be all-inclusive, following are three significant tax provisions of the legislation that will directly affect construction firms:

New penalty for employers not offering health coverage

Beginning in 2014, employers with 50 or more full-time employees that do not offer affordable minimum essential health coverage for all full-time employees will have to pay a penalty if any full-time employee is certified to the employer as having purchased health insurance through a state exchange with respect to which a tax credit or cost-sharing reduction is allowed or paid to the employee. Minimum essential coverage is coverage for which the employer's share of the total cost of benefits is at least 60 percent of the total. The penalty would be $2,000 per year, per employee for every employee over a 30-employee threshold. Additionally, if employers offer qualifying coverage, but have one or more full-time employees certified by the state exchange, they are subject to the penalty. The penalty in this case would be the lesser of: $3,000 per year, per employee entering the exchange or receiving the premium assistance credit or $2,000 per year for every employee over a 30 employee threshold. This could really add up.

EXAMPLE 1

In 2014, Gama Corporation fails to offer minimum essential coverage and has 90 full-time employees, 10 of whom receive a premium tax credit for the year for enrolling in a state exchange offered plan. For 60 of its full-time employees (90 full-time employees, less 30), Gama owes $2,000 per employee, for a total assessable payment of $120,000 ($2,000 x 60 full-time employees), which is assessed on a monthly basis.

EXAMPLE 2

In 2014, Omega Corporation offers health coverage and has 100 full-time employees, 10 of whom receive a tax credit for the year for enrolling in a state exchange offered plan. For each employee receiving a tax credit, Omega owes $3,000, for a total assessable payment of $30,000 ($3,000 x 10 employees). The maximum amount of the assessable payment for Omega is capped at the amount of the assessable payment that it would have been assessed for a failure to provide coverage, or $140,000 [$2,000 x 70 full-time employees (100 full-time employees, less 30)]. Since the calculated assessable payment ($30,000) is less than the overall limitation ($140,000), Omega owes the $30,000 assessable payment, which is assessed on a monthly basis.

Effective now, a small business health tax credit is available to small businesses purchasing health insurance for their employees. Employers are eligible for a 35 percent tax credit for years 2010, 2011, 2012 and 2013. For purposes of the credit, a small business is defined as having 25 full-time equivalent employees or less, with average annual wages of $50,000 or less, and the business must pay 50 percent or more of the insurance premiums. Beginning in 2014, the credit percentage rises from 35 to 50 percent.

New reporting responsibilities

Employers will have to disclose the value of the benefit provided for each employee's health insurance coverage on the employee's annual Form W-2. This applies to the 2011 Forms W-2 which will be filed in early 2012. The IRS recently made this provision optional for 2011. For employees participating in multiple plans, employers will have to disclose the aggregate value of all plans. For example, an employee may enroll in a major medical plan, a dental plan and a vision plan. In that case, employers report the total value of the combination of all health-related insurance plans. Another new reporting responsibility for employers that has received less attention, but whose impact will be significant, relates to IRS Forms 1099. The exception to reporting requirement for payments of $600 or more made to a corporation in the course of a trade or business, is eliminated other than for corporations exempt from tax under Code Sec. 501(a), such as not-for-profit and religious organizations. Also, the type of payments for which reporting is required has also been expanded to include all amounts paid for property, and other proceeds for both property and services. The amount of such gross proceeds is required to be shown on the information return. If a contractor spends more than $600 during the year at Home Depot, a Form 1099 would need to be issued to Home Depot. The provision applies to payments made after Dec. 31, 2011.

New Medicare taxes

An additional 0.9 percent Medicare tax is imposed on the wages and self-employment income of certain high-income taxpayers received with respect to employment for tax years beginning after Dec. 31, 2012. This applies to an individual earning over $200,000 or $250,000 for married couples filing jointly.

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In addition to the new tax on wages and self-employment income, beginning in 2013, individuals, estates and trusts will be required to pay a new 3.8 percent tax on net investment income such as interest, dividends, annuities, royalties, rents, capital gains and income from passive activities. This applies to the amount of income in excess of $250,000 for joint returns, $125,000 for married filing separate and $200,000 for all others.

Overall, the most significant impact of this legislation is an increased labor burden for construction firms not already providing health coverage. It will impact ongoing construction project costs that fall into the year the legislation takes effect. It will increase the tax burden from passive activities such as facility leases held by related parties of the construction firms. And, it will increase the time spent on administrative responsibilities and compliance required under these new laws. Employers in the construction industry must prepare for the coming changes, if they are to survive. CM

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