

# 2015 Tax Update

Class Notes

**Financial  
Education**



**KAPLAN  
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2015 TAX UPDATE CLASS NOTES  
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Published in November 2014 by Kaplan Financial Education.

Printed in the United States of America.

ISBN: 978-1-4754-2861-2 / 1-4754-2861-8

PPN: 3200-5691

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# Course Overview

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Get ready for the latest and greatest changes with Chris Bird's 2015 Tax Update course! Here's your chance to learn how the tax environment of 2015 and beyond will affect you and your clients. Your tax expert explains the big changes in simple terms. In this annually updated course, you'll learn which bills are new and which bills have been extended, modified, or omitted. Don't miss this opportunity to get the inside scoop and learn how you and your business will be affected by what's new.

Topics include the following:

- Tax issues that expired at the end of 2013: What will Congress extend?
- Financial planning implications of recent changes to the tax code
- Tax-related ObamaCare issues
- The 15% tax rate conundrum
- Status of several significant tax write-offs
- Who really pays income taxes
- IRS news: Taxpayer advocate recommendations, offshore banking, and the Taxpayer Bill of Rights

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# Tax-Related ObamaCare Issues

## I. DATA ON HEALTH CARE EXCHANGES FROM THE FIRST OPEN ENROLLMENT PERIOD (OCTOBER 1, 2013–MARCH 31, 2014)<sup>1</sup>

### A. KEY MARKETPLACE ENROLLMENT STATISTICS

- Over 8 million people have selected a plan through the Health Insurance Marketplace (state-based marketplaces (SBMs) and the federally-facilitated marketplace (FFM)) through March 31 (including additional special enrollment period (SEP) activity reported through Saturday, April 19).
- 2.2 million (28%) of the people who selected a Marketplace plan during the initial open enrollment period were young adults between the ages of 18 and 34. A total of 2.7 million (34%) were between the ages of 0 and 34 (including additional SEP activity reported through Saturday, April 19).
- Nearly 3.8 million people selected a Marketplace plan during the March enrollment surge at the end of the initial open enrollment period, including nearly 1.2 million young adults (ages 18-34), or 31% of the total surge, who selected a Marketplace plan during March (including additional SEP activity reported through Saturday, April 19).
- 47% of the total number of people who selected a Marketplace plan and 52 percent of the young adults (ages 18-34) who selected a Marketplace plan did so during the last month of the initial open enrollment period (including additional SEP activity reported through Saturday, April 19).

<sup>1</sup> The Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, "Health Insurance Marketplace: Summary Enrollment Report for the Initial Annual Open Enrollment Period," [http://aspe.hhs.gov/health/reports/2014/marketplaceenrollment/apr2014/ib\\_2014apr\\_enrollment.pdf](http://aspe.hhs.gov/health/reports/2014/marketplaceenrollment/apr2014/ib_2014apr_enrollment.pdf).

- The number of young adults who selected Marketplace plans doubled during the last month of the initial open enrollment period, from nearly 1.1 million (during the first 5 months) to more than 2.2 million (including additional SEP activity reported through Saturday, April 19).
- Over the course of the initial open enrollment period, consumer interest in the Marketplace was high, as measured by 98 million website visits and 33 million calls to the call centers (FFM and SBMs combined, including additional SEP activity reported through Saturday, April 19).

## II. MAJOR TAX ISSUES FROM THE PATIENT PROTECTION AND AFFORDABLE CARE ACT OF 2010<sup>2</sup>

### A. REFUNDABLE TAX CREDIT PROVIDING PREMIUM ASSISTANCE FOR COVERAGE UNDER A QUALIFIED HEALTH PLAN

#### 1. Premium assistance credit

The provision creates a refundable tax credit (the “premium assistance credit”) for eligible individuals and families who purchase health insurance through an exchange. The premium assistance credit, which is refundable and payable in advance directly to the insurer, subsidizes the purchase of certain health insurance plans through an exchange.

Under the provision, an eligible individual enrolls in a plan offered through an exchange and reports his or her income to the exchange. Based on the information provided to the exchange, the individual receives a premium assistance credit based on income and the Treasury pays the premium assistance credit amount directly to the insurance plan in which the individual is enrolled. The individual then pays to the plan in which he or she is enrolled the dollar difference between the premium tax credit amount and the total premium charged for the plan.

Individuals who fail to pay all or part of the remaining premium amount are given a mandatory three-month grace period prior to an involuntary termination of their participation in the plan.

For employed individuals who purchase health insurance through a State exchange, the premium payments are made through payroll deductions. Initial eligibility for the premium assistance credit is based on the individual’s income for the tax year ending two years prior to the enrollment period. Individuals (or couples) who experience a change in marital status or other household circumstance, experience a decrease in income of more than 20%, or receive unemployment insurance, may update eligibility information or request a redetermination of their tax credit eligibility.

The premium assistance credit is available for individuals (single or joint filers) with household incomes between 100 and 400% of the federal poverty level (FPL) for the family size involved who do not received health insurance through an employer or a spouse’s employer. Household income is defined as the sum of: (1) the taxpayer’s modified adjusted gross income, plus (2) the aggregate modified adjusted gross incomes of all other individuals taken into account in determining that taxpayer’s family size (but only if such individuals are required to file a tax return for the taxable year). Modified adjusted gross income is defined as adjusted gross income increased by: (1) the amount (if any) normally excluded by section 911 (the exclusion from gross income for citizens or residents living abroad), plus (2) any tax-exempt interest received or accrued during the tax year. To be eligible for the premium assis-

<sup>2</sup> The Joint Committee on Taxation, “Technical Explanation of the Revenue Provisions of the ‘Reconciliation Act of 2010,’ As Amended, in Combination With the ‘Patient Protection and Affordable Care Act,’” <https://www.jct.gov/publications.html?func=startdown&id=3673>.

tance credit, taxpayers who are married (within the meaning of section 7703) must file a joint return. Individuals who are listed as dependents on a return are ineligible for the premium assistance credit.

The premium assistance credits are available on a sliding scale basis for individuals and families with household incomes between 100 and 400% of FPL to help offset the cost of private health insurance premiums.

#### 2014 Federal Poverty Level Guidelines<sup>3</sup>

Persons in Family	48 Contiguous States & D.C.	Alaska	Hawaii
1	\$11,670	\$14,580	\$13,420
2	\$15,730	\$19,660	\$18,090
3	\$19,790	\$24,740	\$22,760
4	\$23,850	\$29,820	\$27,430
5	\$27,910	\$34,900	\$32,100
6	\$31,970	\$39,980	\$36,770
7	\$36,030	\$45,060	\$41,440
8	\$40,090	\$50,140	\$46,110
For each additional person, add	\$4,060	\$5,080	\$4,670

## B. SMALL BUSINESS TAX CREDIT

### 1. Small business employers eligible for the credit

Under the provision, a tax credit is provided for a qualified small employer for nonelective contributions to purchase health insurance for its employees. A qualified small business employer for this purpose generally is an employer with no more than 25 full-time equivalent employees ("FTEs") employed during the employer's taxable year, and whose employees have annual full-time equivalent wages that average no more than \$50,000.

However, the full amount of the credit is available only to an employer with 10 or fewer FTEs and whose employees have average annual fulltime equivalent wages from the employer of less than \$25,000. These wage limits are indexed to the Consumer Price Index for Urban Consumers ("CPI-U") for years beginning in 2014.

Under the provision, an employer's FTEs are calculated by dividing the total hours worked by all employees during the employer's tax year by 2080. For this purpose, the maximum number of hours that are counted for any single employee is 2080 (rounded down to the nearest whole number). Wages are defined in the same manner as under section 3121(a) (as determined for purposes of FICA taxes but without regard to the dollar limit for covered wages) and the average wage is determined by dividing the total wages paid by the small employer by the number of FTEs (rounded down to the nearest \$1,000).

The number of hours of service worked by, and wages paid to, a seasonal worker of an employer is not taken into account in determining the full-time equivalent employees and average annual wages of the employer unless the worker works for the employer on more than 120 days during the taxable year. For purposes of the credit the term 'seasonal worker' means a worker who performs labor or services on a seasonal basis as defined by the Secretary of Labor, including workers covered by 29 CFR sec. 500.20(s)(1) and retail workers employed exclusively during holiday seasons.

<sup>3</sup> Kathleen Sebelius, "Annual Update of the HHS Poverty Guidelines: Doc. 2014-01303," Federal Register, <https://federalregister.gov/a/2014-01303>