

IRS releases new updates on auto deductions and Affordable Care Act

There is a new update from the IRS regarding 2016 auto deductions. The auto mileage allowance in lieu of depreciation, gas, maintenance and licenses (everything except parking) is 54 cents per mile. This lower rate is the result of the low gas prices early this year, which seem to be disappearing now. The IRS has revised the figures in the past sometime around mid-year, so be aware of that possibility.

The medical travel allowance has dropped to 19 cents per mile. If the choice is to depreciate the auto, the allowances for autos weighing less than 6,000 lbs. are: first year - \$11,160 (if used, only \$3,160); second year - \$5,100; and third year - \$3,050. Thereafter, the allowance is \$1,875 annually until fully depreciated. Vans and trucks under 6,000 lbs. have slightly higher depreciation amounts — first year - \$11,560 (used - \$3,560); second year - \$5,700; third year - \$3,350; and thereafter - \$2,075 annually.

Affordable Care Act

Companies with 50 or more full-time employees are now required to offer medical insurance coverage to at least 95 percent of employees and their dependents, and they must produce form 1095-C at the end of the year showing each employee's monthly coverage. They also must file form 1094-C with the IRS, which is a transmittal form (similar to a W-3) to which all 1095-C forms are attached. Remember that the IRS considers 30 hours to be "full-time." Penalties for failing to do this will result in fines.

If just one employee goes to the Health Insurance Exchange and obtains coverage, the employer could be subject to one of two types of fines: first, if the employee (or his or her dependents) was not offered coverage; and second, if the coverage is not minimally sufficient — it must be both affordable and have "minimum value."

Affordable: The employee must not be required to pay more than 9.66 percent of his "annual household income." This alone is absurd because the employer likely has no insight into the income of other family members. If there are different coverage choices, a penalty will be applied only if the lowest cost option is still too high.

Minimum value: The IRS provides guidance on this and most insurance companies know what it is. The technical requirement is that insurance must cover 60 percent of the

medical costs and "substantial" hospitalization and physician costs.

The penalties in both cases are determined as follows: the monthly total of eligible workers minus 30, times the monthly penalty rate. If insurance is not offered (first penalty), the cost is based on an annual rate of \$2,160 per employee. If the insurance is not affordable (second penalty), the annual rate is \$3,240. The amounts are adjusted annually for inflation.

Let's say that a company employing 90 people failed to offer insurance to an employee for five months, so the employee went to the exchange. The penalty would be $90 - 30 = 60$ times \$2,160 divided by 12 and multiplied by five — or \$54,000. If there were 650 employees, the penalty would be \$558,000 for one employee for five months.

Does the penalty fit the crime? Think of the harassment a disgruntled employee can cause even if he can be proven wrong. The effort here seems to be to drive companies out of business. Oh, one other thing — the penalties are NOT tax deductible. Parts of the Affordable Care Act really need fixing.

Individual insurance: If an individual does not have insurance, there is a penalty to be paid with the filing of form 1040. This penalty is also incurred monthly. For 2016, the annual penalty amount is \$695 per adult plus \$347.50 for each dependent child (whether or not claimed on the taxpayer's return). The basic maximum per tax return is \$2,085. However, the penalty is based on the greater of that computation or 2.5 percent of the "household income," which is the income of the above defined group after a subtraction. That subtraction is the amount under which you do not have to file a return. For single individuals in 2016, it is \$10,350 and for joint returns, it is \$20,700. Like the maximum basic premium of \$2,085, there is a maximum on the 2.5 percent calculation, and that figure for 2015 was \$2,484 per person for less than five household members. It has not been determined for 2016 (The average can't be calculated until year-end).

As you can see, the rules for everyone, including the insurance companies, are complicated. As many readers know, the IRS does not have collection rights on individuals owing these penalties, but they can withhold from refunds now or in the future.



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