Affordable Care Act: the mandate begins

The Affordable Care Act (ACA) is more than a benefits law. It is a tax law that may significantly impact a company's strategies and operations. Leading CFOs are focusing on the legislation and its potential implications.The ACA's employer mandate for businesses with at least 100 full-time equivalent (FTE) employees took effect on January 1, 2015. Going forward, employers could face excise taxes if they do not offer these workers coverage that meets the law's requirements.The Congressional Budget Office (CBO) projects that between 2015 and 2024, employers will pay $139 billion in excise taxes for failing to comply with the ACA. It is vital that CFOs act immediately to mitigate unintended tax liabilities.For many companies, the workforce fluctuates. Businesses are still struggling with how to meet their reporting obligations to quantify the number of FTEs on their payrolls.Addressing the provisions of the law will take an integrated approach, with participation from functions that include human resources, finance, information technology, internal audit and tax.

Defining and tracking "full time" under the ACA

The ACA – also called Obamacare by supporters and critics alike – affects companies that do business in the US. While companies with 100 or more FTEs are the first who have to comply with the law, the mandate will expand in 2016 to encompass employers with 50 to 100 FTEs.The mandate applies regardless of whether the company is public, privately held or headquartered overseas.As the employer mandate took effect for larger companies in 2015, some companies had to offer coverage to more employees. The ACA sets the threshold for full-time status at 30 hours per week, a significantly lower standard than employers historically used.This change in practice is a key challenge for companies that requires new processes and controls to help ensure that coverage is offered to employees who meet the new standard for full-time status.

Reevaluating levels of health coverage

With plans in place for compliance with the ACA's employer mandate, CFOs are beginning to work with cross-functional teams to determine when their health insurance offerings could trigger the "Cadillac tax." The non-deductible 40% excise tax would apply to the cost of employer-sponsored coverage over a certain threshold amount: $10,200 for individuals and $27,500 for families when it takes effect in 2018.

The organizations most at risk are those with:

- Historically generous health benefit packages
- Less healthy populations
- Older populations
- Unionized workforces
- Operations in regions with high health care costs

Many companies are taking steps now to determine options for mitigating their potential exposure to the Cadillac tax. More employers' health benefits packages will trigger the tax over time.

Some key figures to remember:

- 2018: year the Cadillac tax takes effect
- $149 billion: revenue the CBO projects the Cadillac tax will generate through 2025
- 25%: percentage of revenue the Cadillac tax is projected to generate through 2025

The ACA and the CFO

Many forward-focused CFOs are taking a leadership role in looking at the ACA holistically, recognizing that it will take a cross-functional approach to meet the demands.Companies will be responsible for reporting their workforce numbers to the IRS. Executives are still struggling with how to track the figures. In an EY survey of more than 2,000 businesses, 45% of respondents said the ACA's reporting requirements are the biggest challenge.CFOs must work with their C-suite colleagues to decide whether to build new systems or upgrade existing ones.Some CFOs estimate that it may take up to 18 months to budget, plan and implement compliance-driven changes. That makes it difficult for companies who have delayed action.The ACA is law. CFOs need to make decisions now that will help them control current and future costs, avoid unintended tax liabilities and retain a productive workforce.

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