

A New Option for Controlling Healthcare Costs

by Mark E. Battersby

There is a new option available to every pressure cleaning business owner, whether seeking healthcare insurance coverage for themselves and their families or affordable options for their employees—thanks to the Medicare Prescription Drug Improvement and Modernization Act of 2003. Signed into law in December 2003, it contains a unique provision that every equipment dealer, supplier, or contractor may benefit from, whether used for them and their families or as an employee healthcare fringe benefit. The new law permits eligible individuals to establish so-called “Health Savings Accounts” or HSAs.

The question of affordable healthcare insurance has been a troubling one for many contractors, dealers, and other small business owners. Today, everyone can begin to benefit from an HSA. An HSA is established to receive so-called tax-favored contributions by—or on behalf of—eligible individuals. Amounts paid into an HSA may be accumulated over the years or they can be distributed on a tax-free basis to pay or reimburse qualified medical expenses.

Think IRA (Individual Retirement Account). When contributions are made by an employer to an employee’s IRA, the

contributions are tax deductible by the employer but don't increase the tax bill of the employee. Where those contributions are made directly by the individual, they may be excluded from income. In every case, the income from the funds that remain in those accounts remain in the IRA without impacting the tax bill of the individual.

When it comes to an employer's contributions to an HSA, those contributions are treated as employer-provided coverage for medical expenses under an accident or health plan. In other words, those amounts are tax-deductible by the pressure cleaning operation.

However, although the contributions are fully deductible by the employer, the amounts contributed are, at the same time, excludable from the employee's gross income. What's more, contributions aren't subject to income tax withholding for FICA or FUTA. That's right. No withheld amounts for social security, unemployment taxes, and the like. Without withholding, no employer matching contributions are necessary.

The new HSA differs from an Archer Medical Savings Account or MSA that have been kicking around for a number of years. MSAs were created under a pilot program and were available only to small businesses, employers, and self-employed individuals to pay healthcare expenses. Individuals had to be covered under a high deductible health insurance plan. However, the program was limited and the number of individuals who created MSAs was much less than anticipated.

Under flexible spending accounts (FSAs), such as those MSAs, unused balances may not be rolled over from year-to-year. The balances that remain in an HSA account, however, can be rolled over. This provides the potential for creating a sizable nest egg for a healthy worker and his or her family—or for the pressure cleaning contractor or dealer. What's more, those funds can be withdrawn

after retirement penalty-free for non-medical purposes. Unfortunately, non-medical withdrawals in later years will not always be tax-free.

According to many experts, HSAs will flourish as individuals and businesses learn about them and the many benefits they offer. In fact, those same experts expect Congress to make HSA compatible with traditional flexible savings accounts (FSAs) and health reimbursement arrangements (HRAs) before the end of 2004.

The Nitty-Gritty

Whether utilized by the owner of a pressure cleaning business that does not provide healthcare insurance to its workers or a business that wishes to reduce the costs of providing such insurance to the owner as well as the workers, HSAs offer a number of benefits.

An HSA is a tax-exempt trust or custodial account, much like an IRA, established exclusively for the purpose of paying the qualified medical expenses of the account beneficiary.

Under the new rules, a so-called "eligible individual" is considered

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to be any person who is covered under a high-deductible health plan (HDHP). The individual cannot also be covered by any other health plan that is not HDHP nor can they be entitled to benefits with Medicare.

When the new rules refer to an HDHP (high-deductible health plan), they mean a health plan that requires high deductibles and out-of-pocket

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expenses. Specifically, for self-only coverage, an HDHP must have an annual deductible of at least \$1,000 and annual out-of-pocket expenses required to be paid (deductibles, co-payments, and other amounts, but not premiums) not exceeding \$5,000.

For family coverage, an HDHP is a plan that has an annual deductible of at least \$2,000 and annual out-of-pocket expenses required to be paid not exceeding \$10,000.

An individual doesn't fail to be eligible for a HSA merely because they have other coverage. In fact, in addition to an HDHP, coverage relating to liabilities incurred under workers' compensation laws, tort liabilities relating to ownership or use of property, insurance for a specified disease or illness, or insurance that pays a fixed amount per day of hospitalization, is permissible.

Insurance coverage that is permitted under the HSA rules also includes accident, disability, dental care, vision care, or long-term care insurance. Having these types of insurance will not result in the loss of HSA eligibility.

Contributions

While any eligible individual may contribute to an HSA, when it comes to an HSA established by an employee, either the employer or the employee may contribute. For an HSA

established by a self-employed pressure cleaning contractor or equipment dealer (or unemployed individual), only the individual may contribute to the HSA. And, naturally, there are limits to the amounts that may be contributed to an HSA.

The maximum annual contribution to an HSA is the sum of the limits determined for each month, based on status, eligibility, and health plan coverage as of the first day of the month.

For calendar year 2004, the maximum monthly contribution for eligible individuals with self-only coverage under an HDHP is 1/12th of the lesser of 100 percent of the annual deductible under the HDHP (minimum of \$1,000) but not more than \$2,600.

For eligible individuals with family coverage under an HDHP, the maximum monthly contribution is 1/12th of the lesser of 100 percent of the annual deductible under the HDHP (minimum \$2,000) but not more than \$5,150.

Individuals who reach age 55 by the end of the tax year can boost their annual contributions by \$500 for 2004, \$600 next year, \$700 for 2006, \$800 for 2007, \$900 for 2008, and \$1,000 for 2009 and thereafter. Contributions cannot be made after the participant retires.

John Smith begins self-only coverage under an HDHP on June 1,

2004 and continues to be covered for the rest of the year. The amount deductible is \$5,000 for the HDHP. Thus, the contribution allowed is the lesser of the annual deductible of \$2,600. The monthly contribution limit is \$216.67 (\$2,600 divided by 12). His annual contribution limit is \$1,516.69 (7 months x \$216.67).

The Self-Employed Option

Even before the Medicare law was signed, existing tax law permitted self-employed contractors or dealers to deduct amounts paid for health insurance premiums. For 2003 and thereafter, self-employed contractors and dealers may deduct from their gross income 100 percent of amounts paid during the year for health insurance for themselves, spouses, and dependents.

The deduction is limited to the taxpayer's net earned income derived from the pressure cleaning business for which the insurance plan was established, minus the deduction for 50 percent of the self-employment tax and/or the deduction for contributions to a Keough, self-employed SEP or SIMPLE plan.

Amounts eligible for the deduction do not include amounts paid during any month, or part of a month, that the self-employed contractor or dealer was eligible to participate in a subsidized health plan maintained by his or her employer or spouse's employer.

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An HSA in Everyone's Pocket

Thanks to the Medicare Prescription Drug Improvement and Modernization Act of 2003, signed into law on December 8, 2003, contractors, dealers, employers, employees, and other workers have another tax-deferred method of coping with rising health care costs. Healthcare Savings Accounts or HSAs, a new tax-saving tool, enable workers with high-deductible health insurance to make pre-tax contributions of up to \$2,600 each year (\$5,150 for families) to cover healthcare costs.

The Medicare Act also provides a 28 percent excludable subsidy for employers that maintain retiree prescription drug coverage once the Act's new drug benefits start in 2006. But it is those HSAs that so many pressure cleaning business owners will benefit from.

Anyone may set up an HSA after January 1, 2004. Employers who have undertaken regular medical plan elections for 2004 may terminate that traditional health plan at any time and start offering the combination HSA/high-deductible health plan immediately in 2004. If an existing plan makes a promise to provide a certain benefit for a period of time, the contractor- or dealer-employer must, of course, honor that commitment before switching.

HSAs provide another option in the arsenal of weapons available to every pressure cleaning contractor and equipment dealer fighting the high costs of healthcare protection. Its flexibility permits everyone to benefit while, if desired, contributing funds to the HSAs of their employees—with the accompanying tax breaks, of course.

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Product News



Gardner Denver Unveils New 300 hp Waterblaster

Gardner Denver Water Jetting Systems recently unveiled its 800X Series Liqua-Blaster unit, offering a range of standard features including galvanized, corrosion-resistant skid, pump mounts, fenders, and water tank stand; a 120-gallon-capacity stainless steel water tank; triplex plunger pump; 325 hp at 2,200 rpm John Deere diesel engine; heavy-duty 10,000 Lb. stabilizer jack; adjustable height lunette hitch; recessed tail and brake lights; compact V-belt drive; interchangeable fluid end assemblies rated for 10, 20, and 40 KPSI; and 9,800 Lb. gross vehicle weight.

Circle 801

Hydra-Cell Introduces Horizontal Belt Drive Baseplates & Guards

Hydra-Cell Industrial Pumps, Wanner Engineering Inc., introduces HBD Baseplates and Guards designed to facilitate easy pump and motor installation for horizontal belt drives. HBD baseplates and guards are available for NEMA motor frame sizes 56 through 286. They feature heavy gauge construction of epoxy powder coated steel or 304 grade stainless steel. The baseplate/guard comes as a complete, ready-to-assemble package and includes fully threaded mounting holes. Custom versions are available.



Circle 802



500 hp Waterblaster from Jetstream

The 500 hp quintuplex pump delivers a maximum of 20,000 psi for applications such as boiler washing and stack cleaning in power plants, where high pressures and high volume flows are needed for optimum cleaning. Flows range from 40 gpm at 20,000 psi to 100 gpm at 8,000 psi. The 500-hp unit is available in PTO or transmission drive. Additional product offerings include a complete line of skid- and trailer-mounted pump units, control guns, valves, hoses, replacement parts, and nozzles.

Circle 803

General Pump Announces New HT Pumps

General Pump introduces the new Emperor line of pumps featuring patent-pending technology, called HT for both "high temperature" valve design and "high tech" packing. The nickel-plated manifold and valve plugs provide corrosion-resistant operation and help prevent damage due to cavitation.

The Emperor is available in a variety of different size pumps for car washes, carpet cleaning, and other high pressure cleaning applications, as well as industrial plant systems where hot water is required.

Circle 804



New 7300 PSI Rated Product Line at Suttner

Suttner America Company introduces numerous stainless steel components rated 7300 PSI. Spray guns, lances, turbo nozzles, quick couplers, screw couplers, and screw nipples are among the new additions.

Lances are available in lengths from 18 to 48 inches, including the new ST-154 dual lance for use when extreme high and low pressures are needed. A turbo nozzle with zero-degree rotation is also available.

Circle 805