

# Tax Alert

PI & CERELLI, GILSTEIN  
COMPANY, LLP

Certified Public Accountants and Consultants

## Health Care Reform:

## Helping Individuals Understand the Impact

Edition 1, May 2010

**The Patient Protection and Affordable Care Act (Act) was passed by Congress and signed by President Obama on March 23, 2010. This Tax Alert is the first in a series of communications we have scheduled to help you understand this sweeping legislation.**

### Overview

The new law is designed to provide coverage to over 32 million uninsured or under-insured Americans by setting minimum requirements for individually-mandated and employer health coverage. Many of the law's key provisions will not take effect for two or more years and will be phased in gradually over the next ten years. Through regular communications such as this first edition, we will help guide you through the various aspects of this complex legislation.

### Provisions Taking Effect Immediately

#### Adult Children

Effective March 30, 2010, the Act enables more young adults to remain on their parents' health insurance policies. Generally, employer-sponsored group health plans covering dependent children will be required to provide coverage for adult children up to age 26. A special rule applies to health plan in place on March 23, 2010.

Employers with cafeteria plans may immediately allow employees to begin making pre-tax contributions to pay for the expanded benefit even if the plan has not yet been modified to cover children under 27.

### Adoption Credit

The dollar amount of qualified adoption expenses is increased to \$13,170. This limit is adjusted for inflation in 2011. The adoption credit is refundable and is extended through 2011.

### Paying for Health Care Reform

#### High Income Taxpayers

High income taxpayers should brace themselves for expanded taxes. Starting in 2013, the high income taxpayers will be hit with an increase in Medicare taxes on wages and a new levy on investments.

Single people earning more than \$200,000 and married couples earning more than \$250,000 will be taxed at an additional .9% rate on earnings over these base amounts. The total Medicare tax paid by the employee would be 2.35%. The employer rate remains at 1.45%.

Self employed persons will pay 3.8% on earnings over these same thresholds.

The Medicare tax is being expanded to include investment income. A new 3.8% tax will be imposed on net investment income of single taxpayers with adjusted gross income over \$200,000 and joint filers with adjusted gross income over \$250,000. Net investment income is interest, dividends, net rents, passive activity income and certain capital gain property.

These thresholds are not indexed for inflation.

(over)

## Paying for Health Care Reform (Continued)

### Other increases

**“Cadillac” plans:** Imposes a 40% excise tax insurance companies who provide “Cadillac” plans starting in 2018. Cadillac plans are plans with premiums greater than \$10,200 for individual coverage and \$27,500 for family coverage, indexed for inflation in later years. The excise tax is also paid by the employer for contributions to an FSA or HSA when the combined benefit exceeds the threshold amounts above.

**Itemized deductions:** Increases the threshold for itemized deductions from 7.5% to 10% starting in 2013.

**Flexible spending accounts:** Limits annual contributions to health flexible spending accounts (FSAs) to \$2,500 for tax years beginning in 2013.

**Non-qualified health account distributions:** Increases the tax on HSA and MSA distributions not used for medical expenses to 20%. Over the counter drugs no longer an allowable expense under FSA, HSA or HRA. Both of these provisions apply in 2011.

## Reporting and Notification Requirements

The new law imposes several reporting and disclosure requirements. Insurers will be required to report information about the coverage to the IRS and the covered individual. The report will include the individual employees, number of months covered, the coverage type, and the premium amount paid by the employer. This is effective in 2014.

**Form W-2, Wage and Tax Statement:** Employers that provide health insurance coverage must disclose the benefit’s cost on each employee’s annual Form W-2. This provision does not alter the tax-free treatment of employer-provided health coverage. This is effective for taxable years after December 31, 2010.

## Minimal Essential Coverage

Beginning in 2014, the new law imposes a penalty on individuals for each month they fail to have minimum essential health insurance coverage for themselves and their dependents. For 2014, the penalty is the greater of \$95 or 1% of income. This amount rises to \$695 in 2016 (indexed for inflation thereafter) and the percentage of income increases to 2.5%.

There are a number of exceptions to the individual mandate, including exceptions for individuals who have income below the tax filing threshold, incur hardships, have religious objections, are not lawfully present in the U.S., are incarcerated or are overseas.