

Health Care Reform, Taxes and You

A brief overview: This is not intended to be a comprehensive review of the tax related provisions or to serve as tax advice for any situation.

The Health Care Reform Act of 2010 (PPACA) contains a number of tax related provisions that may affect you, your business or your employer. Certain large employers will be required to provide specified levels of health insurance coverage to their employees or face penalties in the form of excise taxes. Employers and providers will need to carefully consider plan design in light of a new excise tax on “Cadillac” health programs.

Although many of these provisions will not take effect for several years, some are immediate. For example, as of March 30, 2010, employees are permitted to exclude from income the reimbursement by employers for the cost of coverage of an employee’s child, and self-employed persons are permitted to take a deduction for the cost of coverage of the self-employed person’s child, in any tax year where the child has not yet attained age 27.

Other provisions of interest:

Employer Provided Insurance Benefits Information Reporting

- Employers that sponsor employee health insurance coverage must disclose the full cost of each employee’s coverage on the employee’s annual Form W-2.
- The reported cost must include amounts paid for the insurance coverage by both the employer and the employee and is to be “determined under rules similar to” those used to calculate premiums for COBRA continuation health coverage
- • Effective for tax years beginning after December 31, 2010.

Modified Threshold for Claiming the Itemized Deduction for Medical Expenses ¹⁹

- A taxpayer may deduct medical expenses to the extent such unreimbursed medical expenses exceed 10% (increased from 7.5%) of the taxpayer’s adjusted gross income.
- Individuals age 65 and older may continue to claim the itemized deduction for medical expenses exceeding 7.5% of their adjusted gross income through the 2016 tax year.
- Effective for tax years beginning after December 31, 2012.

3.8% Medicare Contribution Tax on Investment Income for High Income Households

- • A 3.8% unearned income Medicare contribution tax will be imposed on certain individuals, estates and trusts.
- For individuals, the tax is 3.8% of the lesser of :
 - - (a) net investment income or
 - (b) the excess of modified adjusted gross income over the applicable threshold amount, which is \$250,000 for joint returns or surviving spouses, \$125,000 for married filing separate returns, and \$200,000 in other cases. Capital gains are also investment income subject to this tax.
- Effective for tax years beginning after December 31, 2012.

Increase in Medicare Tax on Wages and Self-employment for High Income Workers

- The employee portion of the Medicare Hospital Insurance (“HI”) tax increases after 2012 from 1.45% to 2.35% on wages received in excess of the applicable threshold amount (\$250,000 for joint returns, \$125,000 for married individuals filing separately, and \$200,000 in all other cases).
- This increase also applies to self-employed individuals’ HI taxes.
 - First \$250,000 of combined wages; and 2.35%(1.45% + 0.90%) on wages in excess of \$250,000 of combined wages.
- Unlike the general 1.45% HI tax on wages, the additional tax 0.90% tax on a joint return is on the combined wages of the employee and the employee's spouse.
- The employer is required to withhold the additional 0.90% tax, but the employee is still liable for the tax if the employer fails to withhold.
- A married couple may need to make estimated payments to cover the tax where both spouses are employed and their combined income exceeds the \$250,000 threshold for joint filers.
- Effective for tax years beginning after December 31, 2012.

Employers’ Deduction for Retiree Prescription Drug Expenses Reduced

- Taxpayers who receive federal subsidies as sponsors of qualified retiree prescription drug plans may no longer exclude those subsidies from gross income for federal tax purposes, but may still deduct the plan’s cost as an ordinary and necessary business expense.

- This eliminates what essentially was a double tax benefit whereby taxpayers could deduct the full amount of their pre-subsidy costs even though, due to the subsidy
- Effective for taxable years beginning after December 31, 2012.

Large Employers Required to Provide Minimum Coverage

- A large employer with at least 50 full-time employees must offer minimum essential health coverage for full-time employees and their dependents. Failure to do so results in monthly penalties.
- In addition, employers who offer minimum essential health coverage, but do not offer free choice vouchers, face penalties for each employee receiving a premium tax credit or cost-sharing subsidy to purchase health insurance on an Exchange with the help of a premium tax credit or cost-sharing subsidy.
- Effective for months beginning after December 31, 2013.