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What's the latest on health care reform?

Taxes and government spending are on the agenda in Washington this year, and a major component of both taxes and spending are the changes mandated by the 2010 health care reform law. This law, known as the *Affordable Care Act*, will have far-reaching effects as its provisions are gradually implemented.

Here's a quick update reviewing provisions that have already gone into effect and those that, absent any changes made in the coming months, will go into effect in future years.

The following provisions took effect prior to 2013:

- A 10% tax is assessed on indoor tanning services.
- Small businesses with fewer than 25 full-time employees may qualify for a tax credit for the cost of purchasing health insurance for their employees.
- Children can remain on their parents' insurance policies up to age 26. Private lending for student loans is replaced with loans directly from the federal government, cutting loan fees.
- A 50% discount on brand-name drugs for those with Medicare drug coverage helps to offset costs in the "donut hole."
- Over-the-counter medications can no longer be paid for with funds in health savings accounts (HSAs), flexible spending accounts (FSAs), and health reimbursement accounts (HRAs).
- The additional tax on nonqualified distributions from health savings accounts (HSAs) increases from 10% to 20%.

The provisions that became effective in 2013 include the following:

FSA limits

- The amount that can be contributed to a health flexible spending account (FSA) is limited to $2,500 per year, indexed annually for inflation.

Medical expense deduction

- The 7.5% income threshold for deducting unreimbursed medical expenses increases to 10% for those under age 65. Those 65 and older may continue to take an itemized deduction for medical expenses exceeding 7.5% of adjusted gross income through the year 2016.

Executive pay limit

- The compensation deduction for certain health insurance companies is limited to $500,000 per year for high-level executives.

Medicare tax increase

- The payroll Medicare tax will increase from 1.45% of wages to 2.35% on amounts above $200,000 earned by individuals and above $250,000 earned by married couples filing joint returns. The income threshold levels are not indexed for inflation.
- A new 3.8% Medicare tax will be imposed on unearned income for single taxpayers with income over $200,000 and married couples with income over $250,000. Examples of unearned income: interest, dividends, royalties, rental income.

Medical device tax

- A 2.3% excise tax is imposed on the sale of certain medical devices such as pacemakers and hip implants.

Provisions scheduled to take effect in years after 2013 include the following:

Coverage required starting in 2014

- Individuals who are not covered by Medicare, Medicaid, or other government health insurance are generally required to maintain health insurance coverage or pay a penalty. Penalties are calculated using a percentage of the taxpayer's income or a flat dollar amount. Subsidies and tax credits are available to help lower-income taxpayers pay for coverage.
- Health insurance exchanges are established by states to enable people to comparison shop for coverage.
- Large employers generally must provide coverage for employees or face penalties.
- Tax credits increase from 35% to a maximum 50% of premiums paid by qualifying small businesses that provide coverage for their workers. The credit available to nonprofit employers increases from 25% to 35%.

Health industry fee in 2014

- An annual fee is assessed on the health insurance industry, starting at $8 billion in 2014 and increasing over the following years.

Tax on "Cadillac plans" in 2018

- Insurance companies will be assessed a 40% excise tax on health insurance plans with annual premiums exceeding $10,200 for individual coverage and $27,500 for family coverage. An increase in the threshold amount is allowed for retired persons who are age 55 or older (an additional $1,650 for single coverage and $3,450 for family coverage). These increased thresholds also apply for plans that cover those engaged in high-risk occupations.

Certain provisions in the original health reform legislation have already been changed or repealed. For example, the law originally required Form 1099 reporting for payments over $600 made to corporations. That requirement has been repealed, and reporting is again generally required only for payments over $600 made to unincorporated businesses.

Congress may amend or repeal provisions in the health care reform law, either before their scheduled effective date or retroactively. Or the law may survive largely intact. Clearly, the massive law will affect every taxpayer. For guidance in your individual and business tax planning under the often-complicated health reform legislation, contact our office.