

New Health Care Reform Legislation Includes Many Tax Changes

MARCH 22, 2010

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The House of Representative passed the Senate's Patient Protection and Affordable Care Act last evening and it is expected that President Obama will sign this bill into law. In addition, the House of Representative passed the Health Care and Education Reconciliation Act of 2010, which is expected to be put to vote by the Senate this week. Both pieces of legislation make significant changes to the country's health care laws. Following is a summary of the major changes to working individuals, employers and seniors.

Individuals and seniors:

- Children will be able to remain on their parent's health insurance coverage until they are 26.
- For children, effective six months after the legislation becomes law, insurance companies will not be allowed to deny coverage for pre-existing health conditions. Adults will have to wait until 2014.
- Lifetime caps on insurance coverage will be eliminated. All new insurance policies will have to make certain preventive-care visits and screenings exempt from health plans' deductibles and co-payments.
- Beginning in 2014, all citizens and legal residents will be required to purchase health insurance coverage, with financial assistance available to those who cannot afford coverage. Those failing to obtain coverage would face a penalty of the greater of \$95 or 1% of income, increasing to \$695 or 2.5% of income by 2016.
- Starting in 2013, contributions to flexible spending accounts will be limited to \$2,500 and this cap will increase with inflation thereafter.
- Beginning in 2011, the penalty for non-qualified distributions from Health Savings Accounts will increase from 10% to 20%.
- Currently, medical deductions are limited to those expenses in excess of 7.5% of an individual's Adjusted Gross Income (AGI). Beginning in 2013, this AGI limitation increases to 10% for taxpayers under age 65. For those age 65 and over, the 10% limitation becomes effective in 2016.

**THE RECENTLY PASSED
HEALTH CARE REFORM
LEGISLATION MAKES MANY
CHANGES TO HEALTH CARE
IN THE COUNTRY AND
INCLUDES MANY TAX LAW
CHANGES DESIGNED TO
OFFSET THE COST OF
REFORM.**

Questions or comments?
E-mail us at taxbriefs@withum.com



WithumSmith+Brown, PC
Certified Public Accountants and Consultants
New Jersey. New York. Pennsylvania. Maryland. Florida. Colorado.

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- Starting in 2013, the Medicare payroll tax will increase by 0.9% on earnings greater than \$200,000 for individuals and \$250,000 for married couples filing a joint return. Additionally, a new 3.8% Medicare tax will be levied on investment income for individuals with AGI in excess of \$200,000 and \$250,000 for married couples.
- Seniors will receive a \$250 rebate for Part D prescription drug expenses that fall into the coverage gap of \$2,700 and \$6,154 in 2010. Next year, those seniors who incur expenses in the coverage gap will receive a 50% discount on brand-name prescriptions. The coverage gap is expected to close by 2020.

Employers:

- For the next four years, businesses with 10 or fewer full-time employees with average earnings less than \$25,000 a year will be eligible for a tax credit of 35% of health insurance costs. Partial credits will be available to employers with 11 to 25 employees and an average wage of up to \$50,000.
- The so called "Cadillac" insurance plans, plans costing more than \$10,200 a year for individuals or \$27,500 for family coverage (not including dental or vision plans), will be subject to a 40% tax on the excess cost beginning in 2018. The tax would be incurred by the insurance companies, which may result in higher premiums for the plan holders.
- Beginning in 2014, individuals and small business will have the option of purchasing health insurance through state-based exchanges. Businesses with more than 50 employees will be required to either offer healthcare coverage or pay a penalty of \$750/year per full-time employee. The coverage offered will be required to meet minimum benefits or employers would face additional penalties.
- Starting in 2011, employers will be required to disclose the cost of health coverage on their employees Form W-2s.

We invite you to contact your local WS+B advisor to discuss the impact these new laws may have on your business and/or individual income taxes.

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If you have any questions, please contact the WS+B Tax Services Group.

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