

The Truth about the Health Care Act

There have been many misconceptions about the effects of some of the provisions of the Health Care Act and therefore we will take a look at some of the provisions in the bill by chronology. These elements are the ones that may affect your tax return. There are other sections of the Health Care Act that are not discussed here because they have nothing to do with the tax return.

The basic idea of the health care bill is the creation of state insurance exchanges. These exchanges will be an alternative to the insurance companies we currently use and must be created by the year 2014.

Currently, the government has set up a program at the national level to insure uninsurable individuals. This is a temporary fix, since these individuals will be able to secure insurance through the exchanges in the future. This plan sets premiums at a more affordable level because there is a maximum formula for these premiums.

Beginning in 2010, children under the age of 26 are allowed to be covered under their parent's insurance if the parent's employer has a group plan that provides family coverage. This increased benefit to the taxpayer will be nontaxable, just as the current coverage provided by the employer is nontaxable. The child need not be a dependent to qualify.

In the year 2011, employers will be required to disclose the cost of health care insurance for its employees on the W-2. You may have seen emails that have been going around indicating that this inclusion will be taxable. The truth is that the number is informational only. The insurance cost will be included in W-2, Box 12, using the code DD. This is the same box that contains the amount of 401k contributions and other information that is required to be disclosed. The amount will not increase the wages subject to tax. The future use of the data gathered through the disclosure of this information is not known at this time.

Additionally in 2011, taxpayers will no longer be allowed to pay for nonprescription over-the-counter drugs such as aspirin, Tylenol, cold medicine and the like using the flex spending account (FSA). These changes may require you to rethink your FSA contribution for coming years. There has been some relief given: if your doctor prescribes an over-the-counter drug, you may still purchase that with a health savings account (HSA) or FSA monies. If the flex account operates using a debit card, the pharmacist will have to assign a prescription number to the drug in order to use the debit card. The key is to obtain the prescription from the doctor.

The FSA accounts will undergo another change in 2013 that will limit the maximum amount that may be contributed to \$2,500. This may require planning if the flex account is being used to fund large expenses such as braces.

The health care bill increases the maximum adoption credit and employer provided adoption exclusion by \$1,000, bringing it to \$13,170. In addition, the credit will now be refundable in the same manner as the earned income credit. Any credit that remains from prior years will be refundable. There will be a special attachment to the tax return proving the adoption. Because of this extra attachment, the tax returns containing this credit will need to be paper filed rather than electronically filed. This will slow the refund time for returns with this credit.

In 2010, Medicare recipients who have drug expenses that are not paid for by Medicare because they entered the donut hole may have received a payment of \$250. This payment is meant to offset some of the costs that are not covered by Medicare. In the future, the donut hole will shrink and will eventually disappear. Your overall drug expenses will need to be reduced by the \$250 before claiming the remainder on Schedule A. You will need to mention the \$250 payment at your tax appointment.

In 2013, it will be more difficult to deduct medical expenses. Deductible medical expenses will be the amount that exceeds 10% of adjusted gross income rather than the former 7.5% level. This change is deferred until 2017 for taxpayers age 65 or older.

By the year 2014, all individuals will be expected to have health care. The health care will be either a personal policy or an employer-provided policy. Individuals who are not exempt from this will be penalized if they do not have health care coverage. At the same time, companies employing 50 or more full-time employees will be required to provide health care coverage for their employees.

There is a potential taxability to health insurance. In the year 2017, individuals who are the recipient of health insurance policies commonly known as "Cadillac plans" will include the employer-provided benefit in income. Currently under the health care bill, these are the only individuals who must include the benefit in income.

There are costs associated with providing the changes within this bill. Beginning in the year 2014, high income individuals will be assessed an additional amount of Medicare tax. There are two situations where this additional tax will apply. The first instance is a .09% Medicare tax on the excess wages earned over the following limits. The limits are wages of \$200,000 for single taxpayers and \$250,000 for married taxpayers filing jointly.

The other Medicare tax of 3.8% applies to high income taxpayers who have certain investment-type income. This income includes interest, dividends, capital gains, annuities, and business activities such as partnerships and S corporation interest where there is not material participation. Once again, this applies to high income earners. The investment income in excess of adjusted gross income of \$200,000 for singles and \$250,000 for joint filers will be subject to the new tax.

Businesses as well as individuals have been affected by the Health Care Act. Beginning in 2010, certain small businesses may qualify for a credit of 35% of the employer's out-of-pocket health insurance costs. There are various conditions which may apply. If you

have a small business that pays health insurance for employees other than the owners or related parties, you may want to discuss the potential benefits.

There are various other provisions of the Health Care Act that may affect you over the coming years of implementation that do not necessarily have tax ramifications. One very important thing to watch for is a repeal or modification of this law over the implementation time.