

HEALTH CARE REFORM ACT

The recently enacted health care reform legislation includes both historic changes to the health care industry, as well as, some tax related provisions. This legislation is complex and includes many changes for both individuals and businesses. The following is a summary by year of some of the major changes:

2010

- Effective for plan years beginning after 9/23/2010, plans that provide dependent coverage must extend coverage to adult children (married or unmarried) up to age 26. Certain limited exceptions for grandfathered plans.
- For plan years beginning after 9/23/2010, pre-existing condition exclusions for children under 19 are prohibited.
- For plan years beginning after 9/23/2010, preventative care must be covered with no cost-sharing if provided through an in-network provider. Grandfathered plans are not required to comply with this requirement.
- Provide a \$250 rebate (nontaxable) to Medicare beneficiaries who reach the Part D coverage gap in 2010 and gradually eliminate the Medicare Part D coverage gap by 2020.
- Provide tax credits to employers with no more than 25 employees with average annual wages under \$50,000 who provide health insurance for employees. Phase-out between 11 and 25 employees and/or \$25,001 and \$50,000 average annual wages. Credit (before phase-out) is equal to 35% of the lesser of: a) total non-elective contributions made by the employer for qualifying health coverage, or b) amount employer would have paid if health plan premiums were equal to the average premium for the small group market in the state. This credit increases to 50% in 2014. For Non-Profits, the credit is 25%. Employer must pay at least 50% of the premium.

2011

- Exclude the costs for over-the-counter drugs not prescribed by a doctor from being reimbursed through an HRA, FSA, HSA or MSA. This does not apply to items for medical care, such as crutches or diabetes care.
- Increase the penalty to 20% on nonqualified distributions from an HSA or an MSA.
- Simple Cafeteria Plan - employers with fewer than 100 employees may set up pre-tax medical expense plans for employees. Contribution requirements by employers - either Uniform Percentage (not less than 2% of employees' compensation) or amount equal to the lesser of 6% of employees compensation or 2 times the amount of employee contributions. Employee eligibility limits – must work at least 1,000 hours per year. May exclude employees under age 21, union employees, nonresident aliens, and employees with less than one year of service.

2012

- Increase Medicare Tax on Wages - an additional 0.9% tax imposed on wages for individuals with adjusted gross income over \$125,000 if filing married filing separate, \$250,000 if filing married filing joint, and \$200,000 for all others.
- Increase Medicare Tax on Self-employed Income - an additional 0.9% tax imposed on self-employment income in excess of \$125,000 if filing married filing separately, \$250,000 if filing married filing jointly, and \$200,000 in all other cases.
- Form W-2: Employers will be required to report the value of premiums paid on the employee's W-2 for Form W-2s due January 2013. This amount is NOT taxable to the employee.
- Expanded Form 1099 reporting of all payments totaling in excess of \$600 to all for-profit companies (begins with payments in 2012 reportable on Forms 1099 issued in January 2013). This includes payments for rents, salaries, wages, services, and amounts in consideration for property, premiums, annuities, and gross proceeds. Employers need to obtain each payee's Federal tax identification number.

2013

- The maximum amount reimbursable under a health-care flexible spending account ("FSA") offered through a cafeteria plan will be reduced to \$2,500.
- Additional 3.8% tax is imposed on the lesser of (i) unearned income or (ii) modified adjusted gross income over \$125,000 for married filing separate taxpayers, \$250,000 for married filing joint taxpayers, and \$200,000 for all others. Unearned income includes interest, dividends, capital gains, annuities, rents and passive activity income. It does not include distributions from retirement plans and tax-exempt interest.
- Increase the threshold for the itemized deduction for unreimbursed medical expenses from 7.5% of AGI to 10% of AGI for regular tax purposes. The old 7.5% AGI limit is maintained for individuals age 65 and older (2013-2016).
- Mandated reporting for large employers (50 or more full-time employees), beginning June 30, 2013. These employers will be required to submit a return detailing employee data, status, and health benefits.

2014

- Annual limits on covered medical expenses prohibited for all insurance policies.
- Pre-existing conditions exclusions are prohibited for all.
- Refundable Tax Credit - eligible taxpayers can use this credit to help cover the cost of health insurance premiums for individuals and families who purchase health insurance through a state health benefit exchange. Eligibility for the credit is based on the individual's income for the tax year ending two years prior to the enrollment period. The credit is available for individuals (single or joint filers) with household incomes up to 400% of the federal poverty level who do not receive health insurance through an employer.
- Require U.S. citizens and legal residents to have qualifying health coverage. Penalty phased in between 2014 – 2016. Penalty maximum \$695 for singles or \$2,085 families. Exemptions available. Those below income tax filing limit not subject to penalty.
- A non-deductible penalty is assessed on large employers (50 or more full-time employees) that do not offer coverage and have at least one full-time employee who receives a premium tax credit or cost sharing reduction. The excise tax is equal to \$2,000 per full-time employee, excluding the first 30 employees from the assessment. Large employers that offer coverage but have at least one full-time employee receiving a premium tax credit, will pay the lesser of \$3,000 for each employee receiving a premium credit or \$2,000 for each full-time employee, excluding the first 30 employees from the assessment. This also requires employers with more than 200 employees to automatically enroll employees into health insurance plans offered by the employer. Employees may opt out of coverage.

2018

- Cadillac Tax on high-cost employer-sponsored health coverage - a 40% non-deductible excise tax will be levied against insurance companies and plan administrators for any health coverage plan to the extent that the annual premium exceeds \$10,200 for singles, \$27,500 for families.

In addition to the implementation of these new rules, state health care exchanges will be available to individuals and small groups to assist in selecting health care coverage and evaluating the various plans. There will also be federal high risk pool insurance plans for those who qualify. Finally, there are new measures being developed to help curb health care costs and make health care insurance industry more transparent to the consumer.