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Health Care Reconciliation Act of 2010

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NEWSLETTER
AUGUST 2010

President Signed Health Care and Education Reconciliation Act of 2010 (H.R. 4872)

Congress passed the Health Care and Education Reconciliation Act of 2010, completed a massive overhaul of the nation's health insurance and health delivery systems. It amends the Patient Protection and Affordable Care Act of 2010. President signed it on March 30, 2010. The two new laws include more than \$400 billion in revenue raisers and new tax-

IMMEDIATE CHANGES

Many of the key provisions in the health care package take effect in 2010:

- Small business tax credit;
- Temporary high-risk pool for individuals who are uninsured because of a preexisting condition;
- Temporary reinsurance program for early retirees;
- No discrimination against children with pre-existing conditions;
- No lifetime limits on coverage;
- Coverage for young persons until age 26 through parents' insurance;
- A \$250 rebate to Medicare beneficiaries who are affected by the "donut hole."

INDIVIDUALS

Individuals who fail to maintain minimum essential coverage will be liable

for a penalty. The monthly penalty by the individual. Penalties would be imposed for failure to file an information return.

coverage is equal to 1/12 of the greater of the:

- flat dollar amount, or
- applicable percentage of income.

EMPLOYERS

Large employers and other entities providing minimum essential coverage would be required to file information returns with the IRS identifying the individual, the coverage and the amount of premium, if any, paid

SMALL BUSINESS

Beginning in 2010, the qualified small employer must contribute at least one-half of the cost of health insurance premiums for coverage of its participating employees. In 2010 through 2013, tax credit is up to 35%; after 2013, it may up to 50%.

Small employers with 10 or fewer employees and average annual wages of less than \$25,000 would be eligible

INDIVIDUAL RESPONSIBILITY		
Year	Penalty	Percent of Income*
2014	\$95	1%
2015	\$325	2%
2016	\$695**	2.5%

* In lieu of the flat penalty if greater

** Indexed for inflation thereafter

ADDITIONAL MEDICARE PAYROLL TAX

Starting in 2013, the health care reform package broadens the Medicare tax base for higher-income taxpayers by:

1. Imposing an additional Hospital Insurance (HI) tax rate of 0.9 percent on earned income in excess of \$200,000 for individuals and \$250,000 for married couples filing jointly; and
2. Imposing a 3.8 percent "unearned income Medicare con-

The 3.8 percent is imposed on the lesser of:

- (i) Net investment income or
- (ii) The excess of modified adjusted gross income (AGI) over the threshold amount





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TAX ON HIGH-COST INSURANCE

Beginning in 2018, the health care reform package will impose a 40 percent nondeductible excise tax on insurance companies or plan administrators for any health insurance plan with an annual premium in excess of an inflation adjusted \$10,200 for individuals and an inflation-adjusted \$27,500 for families.

MARKET SECTOR FEES

The health care reform package imposes annual nondeductible fees on pharmaceutical manufacturers and importers and health insurance providers. The annual fees would be allocated across industry sectors according to market share.

Certain small pharmaceutical manufacturers and importers and health insurance providers, including nonprofit insurance providers service lower income and other targeted groups, are exempt from the fees.

FSAs and HSAs

The health care reform package modifies the definitions of qualified medical expenses for health FSAs, HSAs, and HRAs to conform them to the definition used for the medical expense itemized deduction beginning in 2011.

The health care package also caps health FSA contributions at \$2,500 per year after 2012, which is indexed annually for inflation after 2013. The health care reform package also in-

creases the additional tax on non-qualified distributions from HSAs from 10% to 20% and from Archer MSAs from 15% to 20% beginning in 2011.



MEDICAL EXPENSE DEDUCTION

The health care reform package raises the threshold for the itemized medical expense deduction from 7.5 percent of adjusted gross income (AGI) to 10% of AGI for regular income tax purposes effective for tax years beginning after December 31, 2012. However, individuals age 65 and older (and their spouses) will be temporarily exempt from the increase. The exemp-

Cost of living adjustments

The threshold amounts for 2018 are indexed using CPI-U. For 2019 only, an additional one percent is added to the cost of living adjustment. Thereafter, the amounts will be adjusted only using the base CPI-U.

tion for seniors applies to tax years beginning after December 31, 2012 and before January 1, 2017.

ADULT CHILDREN COVERAGE

The health care reform package extends the employer-provided health coverage gross income exclusion to coverage for adult children under age 27 as of the end of the tax year. Self-employed individuals are allowed a deduction for the premiums paid on such dependent coverage.

OTHER REVENUE RAISERS

In addition to health-care related taxes and fees, several other areas have been targeted to raise more revenue as an offset to the overall cost of the entire reform package. These additional provisions are estimated to raise \$28.1 billion over the 2010-2020 scoring period.

If you have any questions, please don't hesitate to call. We are at your service.

