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## The Patient Protection Act Includes Many Tax Provisions

Representing a sweeping overhaul of the U.S. health care system, the Patient Protection and Affordable Care Act was signed into law on March 23, and its companion reconciliation act will be signed into law early next week. Here's a brief summary of the main tax provisions affecting individuals and businesses.

### Individual tax provisions

Important tax provisions affecting individuals include:

**Penalties for the uninsured.** Beginning in 2014, most individuals who aren't eligible for Medicaid, Medicare or other government-provided coverage will have to purchase minimum essential health coverage. Those who fail to do so will be hit with a penalty (with exceptions for the poor and certain others).

**Premium assistance for those with lower incomes.** Beginning in 2014, people with income between 133% and 400% of the federal poverty level (FPL) are eligible for tax credits or cost-sharing subsidies on a sliding scale to help pay insurance premiums.

**Higher taxes on the affluent.** To help offset the act's cost, affluent taxpayers will face higher taxes. Beginning in 2013, taxpayers with more than \$200,000 in earned income (\$250,000 for families) will pay an additional 0.9% Medicare tax on the excess. In addition, those with an adjusted gross income (AGI) over \$200,000 (\$250,000 for joint filers) will pay a new, 3.8% Medicare tax on unearned income, such as interest, dividends, rents, royalties and certain capital gains. The tax doesn't apply to retirement plan distributions.

Also starting in 2013, the act raises the threshold for deducting unreimbursed medical expenses from 7.5% to



10% of AGI and limits contributions to flexible spending accounts for medical expenses.

## **Business tax provisions**

Key tax provisions affecting businesses include:

**Penalties for failure to provide coverage.** The Patient Protection act doesn't require employers to provide insurance coverage, but starting in 2014 it imposes tax penalties on certain employers that don't provide it. Employers with 50 or more full-time-equivalent workers (FTEs) that don't offer coverage and have at least one full-time employee who receives a premium tax credit are subject to an annual fee of \$2,000 per FTE (not including the first 30 FTEs).

**Tax credits for small businesses.** Starting this year, small businesses are entitled to tax credits for purchasing group health coverage. For tax years 2010 to 2013, the maximum credit is 35%, provided the employer contributes at least 50% of the total premium or 50% of a benchmark premium. Starting in 2014, a maximum credit of 50% is available for two years for employers that purchase coverage through a state exchange and contribute at least 50% of the total premium. Smaller credits are available for tax-exempt businesses.

**Excise tax on "Cadillac" plans.** Starting in 2018, high-cost group plans will be subject to a 40% nonrefundable excise tax. The tax applies to annual premiums in excess of \$10,200 for individual coverage and \$27,500 for family coverage (excluding stand-alone dental and vision plans). The thresholds are higher (\$11,850 and \$30,950, respectively) for retirees and employees in certain high-risk professions. These amounts will be indexed for inflation.

## **An all-encompassing act**

The tax provisions of the Patient Protection act will have an impact on most taxpayers, as well as on how employers deal with health care insurance for their employees. Please contact us if you have questions about how the provisions may affect you or your business.

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