

Tax Changes in the New Health Care Bill

By Kevin J. Bassett, CPA

On March 23rd the president signed the Patient Protection and Affordable Care Act. This health care reform act contains a credit for small businesses but also has over \$400 billion in revenue raisers and new taxes on both employers and individuals. The following is a summary of the tax provisions in the bill:

Small Employer Tax Credit:

- In 2010 – 2013, there is a 35% credit for employee's insurance premiums paid.
- In 2014 and beyond, for employers who contribute to insurance premiums will be eligible for a credit for two years of up to 50% of their contribution.
- Employer must have less than 25 employees and average annual wages less than \$50,000.
- This credit excludes salary reduction contributions.

Penalties for non-coverage:

- Employers with more than 50 employees must provide “minimum essential coverage” or pay an additional \$2,000 tax per employee (subtract 1st 30 workers).
- Requires automatic enrollment in health insurance plans sponsored by employer.
- After 2013, individuals must maintain “minimum essential coverage” unless eligible for medicare, medicaid, or other government sponsored coverage.
- Individual penalties:
 - 2014: \$ 95 or .5% - 1% of AGI
 - 2015: \$325 or 1% - 2% of AGI
 - 2016: \$695 or 2% - 2.5% of AGI

Flexible Spending Accounts & MSAs:

- 2011 – FSAs can no longer reimburse over-the-counter drug expenses
- 2013 – FSAs will be limited to \$2,500/yr.
- 2011 – MSA penalties will be raised from 10% to 20%.

Individual Tax Increases (2013):

- Medicare tax of 3.8% on **earned income** in excess of \$200k (\$250k if Married Filing Jointly)
- New **3.8%** Medicare tax on **investment income** if AGI > \$200k (\$250k MFJ)
- Includes interest, dividends, capital gains, royalties, rents and passive activities.
- Does NOT include retirement income and non-passive trade or business income.

Other tax changes:

- 2012 - 1099 reporting will be required for ALL providers receiving more than \$600 during the year (including corporations).
- Total health benefits paid on behalf of employees must be disclosed on W-2s.
- **Economic Substance Doctrine** is codified immediately! This means that a transaction must have economic purpose other than federal income tax savings. Taxpayers not in compliance will be assessed automatic “no fault” penalties of 20% or 40%.

Feel free to email or call us at (919) 303-1049 if you want to discuss how this bill will affect you and your business.

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