

Health Care Reform

A summary of some of the major tax provisions that will come into play over the next seven years



By Attorney Rick A. Flugaur

When the Patient Protection and Affordable Health Care Act passed in 2010, there was a flurry of speculation about what it meant, what it would cost, and who would be footing the bill. That initial excitement soon died down when everyone learned that much of the law would not take effect for a year or longer.

Some of the major tax provisions may soon impact your business. Many of the significant tax provisions will come into play over the next seven years. Here are a few, listed by year of impact.

[2011 - Credit for Small Employers Providing Employee Health Insurance.](#) Starting in 2010 and continuing through 2013, small employers with no more than 25 full-time equivalent (FTE) employees may be able to claim a 35% tax credit on the cost of providing health insurance for employees. The full credit is available only to employers with ten or fewer FTEs who have average annual full-time equivalent wages of less than \$25,000. Partial credit may be given when annual full-time equivalent wages average between \$25,000 and \$50,000.

[2012 - Employer Reporting of Health Insurance Value.](#) Beginning in 2011, certain employers will be required to report the annual cost of health insurance coverage on employee W-2 forms. For small employers filing fewer than 250 W-2 forms a year, the reporting requirement remains optional through

2012. At this time, this is only a reporting requirement; there is no change in the tax-free treatment of employer-provided health coverage.

[2013 - Medicare Surtax on Earned Income.](#) Effective for years after 2012, an additional .9% Medicare surtax will be added to wages or self-employed income amounts exceeding \$250,000 for married couples. The threshold for single taxpayers is \$200,000 and \$125,000 for married persons filing separately.

Also, beginning in 2013, a 3.8% Medicare surtax will be imposed on all or part of the net investment income (interest, dividends, annuities, royalties, rents) of married couples with a modified adjusted gross income of \$250,000 or more or single taxpayers with income of \$200,000 or more. In the past, the Medicare tax was only imposed on an employee's wages or a self-employed person's earned income.

[2014 - Penalties for Failing to Carry Health Insurance.](#) Starting in 2014, individuals who do not have "minimum essential health coverage" will be subject to a penalty, which will be paid when an income tax return is filed. The maximum annual penalty is generally the greater of \$95.00 per uninsured adult in the household or 1% of household income in excess of a threshold. This penalty is scheduled to increase in 2015 and 2016.

Beginning in 2014, to assist low and middle income taxpayers in purchasing health insurance, a refundable tax credit is available to qualified individuals who purchase coverage through a state-run insurance exchange. To qualify, the individual will enroll in the state plan and report his or her income to the health insurance exchange. Based on this information, the Premium Assistance Credit will be paid by the IRS.

2018 - Excise Tax on Cadillac Plans. Beginning in 2018, a 40% excise tax will be imposed on group insurers if annual premium payments for so called “Cadillac Plans” exceed an inflation-adjusted \$10,200 for individual coverage and \$27,500 for family coverage. By this time, employers will be reporting the value of employer-provided health insurance on each employee’s annual form W-2. The tax will only be imposed when the employer’s plan is self-funded, which is typically seen at larger companies.

There has been substantial discussion and debate on whether some or all of these major tax provisions should be amended or repealed. However, currently these major tax provisions are to go into effect over the next seven years and may have a substantial impact on employers providing health care to their employees.



ATTORNEYS AT LAW
Est. 1886

1257 Main Street, Stevens Point
715-344-0890 • www.andlaw.com

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