

Health Care Reform: Tax Hikes on the Way

Here are 13 changes in the massive overhaul that could impact your tax bill, for better or worse.

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This is an updated version of a March 23 story, incorporating the final changes signed into law by President Obama on March 30, 2010.

The new health care reform law is chock-full of new taxes and tax increases that will affect many individuals and businesses, but it will be years before most of these hikes take a bite out of your -- or your company's -- wallet. **The law also has tax breaks** to help both individuals and small businesses pay for insurance.

1. **A new 10% excise tax on indoor tanning services** on services provided after June 30, 2010.
2. **The new law gives small firms tax credits as incentives to provide coverage**, starting this tax year. Employers with 10 or fewer workers and average annual wages of less than \$25,000 can receive a credit of up to 35% of their health premium costs each year through 2013. The credit is phased out for firms larger than that and disappears completely if a company has more than 25 employees or average annual wages of \$50,000 or more.

Beginning in 2014, the system changes. The law requires each state to establish a health insurance exchange -- a marketplace where individuals, the self-employed and small businesses can buy health insurance coverage. The government-regulated exchanges would offer insurance policies with different levels of coverage and price tags. Small firms that sign up with one of the health exchanges to be created can receive a credit of up to 50% of their costs -- with the same phaseouts for average income and size as the earlier program. The credit disappears after 2015.

3. A requirement that businesses **include the value of the health care benefits they provide** to employees on W-2s, beginning with W-2s for 2011. The amount reported is not considered taxable income.
4. Elimination of a deduction employers now take for providing **Medicare Part D prescription drug coverage** to their retirees to the extent that the federal government subsidizes the coverage. This will not take effect until 2013.
5. Doubling the penalty for **nonqualified distributions from health savings accounts**, to 20%, beginning in 2011.
6. A limit on the amount that employees can contribute to **health care flexible spending accounts** to \$2,500 a year, but the cap won't take effect until 2013. This was previously left to the employer's discretion, with many firms choosing a limit of \$4,000 to \$5,000 or so

7. A ban on using funds from flexible spending accounts, health reimbursement arrangements or health savings accounts for the cost of **over-the-counter medications**, starting in 2011.

8. Starting in 2013, a **0.9% Medicare surtax** will apply to wages in excess of \$200,000 for single taxpayers and over \$250,000 for married couples. Also, **for the first time ever, a Medicare tax will apply to investment income of high earners**. The 3.8% levy will hit the lesser of (1) their unearned income or (2) the amount by which their adjusted gross income exceeds the \$200,000 or \$250,000 threshold amounts. The new law defines unearned income as interest, dividends, capital gains, annuities, royalties, and rents. Tax-exempt interest won't be included, nor will income from retirement accounts.

9. A **hike in the 7.5% floor on itemized deductions** for medical expenses to 10%, beginning in 2013. But taxpayers age 65 and over are exempt from the cutback through 2016.

10. A **new 40% excise tax, beginning in 2018, on high-cost health plans**, levied on the portion that exceeds \$10,200 for individuals and \$27,500 for families. The provision is aimed mostly at gold-plated plans offered by employers, although it can affect individual policies

11. A **new tax on individuals who don't obtain adequate health coverage by 2014 -- this is often referred to as the individual mandate..** The tax is to be phased in over three years, starting at the greater of \$95, or 1% of income, in 2014, and rising to the greater of \$695, or 2.5% of gross income, in 2016.

12. Providing a refundable tax credit, once the individual mandate takes effect in 2014, **to help low-income folks purchase coverage**. To be eligible, a person's household income must be between 100% and 400% of the federal poverty level, generally around \$11,000 to \$44,000 for singles and \$22,000 to \$88,000 for families. The credit is a sliding scale, based on income. Low-income earners get a credit for all costs. Then, as income rises, the credit phases out.

13. A **nondeductible fee charged to businesses with 50 or more employees** if the firms fail to offer adequate coverage. The fee will equal \$2,000 times the number of employees, though it won't count the first 30 workers in that calculation.