



PMC Consultants to Health Professionals, Inc.

June 21, 2010

Dear Client:

In March 2010, President Obama signed comprehensive health reform, the Patient Protection and Affordable Care Act, into law. The new law is full of new taxes and tax increases that will affect many individuals and businesses, but it will be years before most of these are implemented. The law also has tax breaks to help both individuals and small businesses pay for insurance.

For 2010, it provides small employers with no more than 25 employees and average annual wages of less than \$50,000 that purchase health insurance for employees with a tax credit. Tax credit is up to 35% of the employer's contribution toward the employee's health insurance premium if the employer contributes at least 50% of the total premium cost or 50% of a benchmark premium. The full credit will be available to employers with 10 or fewer employees and average annual wages of less than \$25,000. The credit phases-out as firm size and average wage increases. If you have a net loss, credits cannot be carried over to subsequent tax years.

Other changes taking effect in future years:

- A requirement that businesses include the value of the health care benefits they provide to employees on W-2s. Employers must include on annual Forms W-2 the aggregate cost of group health plan benefits (excluding FSA, HSA, or Archer MSA contributions, or the cost of long term care, and certain other excepted benefits) provided to employees. Employers can calculate the reportable value based on a methodology similar to that used under COBRA (minus the 2% COBRA administrative fee, if charged). If the plan provides for the same COBRA continuation coverage premium for both individual coverage and family coverage, the plan would be required to calculate separate individual and family premiums for this purpose. (Effective January 1, 2011)
- Increase the tax on distributions from a health savings account or an Archer MSA that are not used for qualified medical expenses to 20% (from 10% for HSAs and from 15% for Archer MSAs) of the disbursed amount. (Effective January 1, 2011)
- A ban on using funds from flexible spending accounts, health reimbursement arrangements or health savings accounts for the cost of over-the-counter medications. (Effective January 1, 2011)
- A limit on the amount that employees can contribute to health care flexible spending accounts to \$2,500 a year. (Effective January 1, 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. (Effective January 1, 2013)
- 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. Tax is calculated and reported on your individual income tax returns. (Effective January 1, 2013)
- A hike in the 7.5% floor on itemized deductions for your medical expenses to 10%. But if you are age 65 and over you are exempt from the cutback through 2016. (Effective January 1, 2013)
- A new tax on individuals who don't obtain adequate health coverage. The tax is 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 income, in 2016. (Effective January 1, 2014)
- Assess employers with 50 or more employees that do not offer coverage and have at least one full-time employee who receives a premium tax credit a fee of \$2,000 per full-time employee, excluding the first 30 employees from the assessment. Employers with more than 50 employees that offer coverage but have at least one full-time employee receiving a premium tax credit, will pay the lesser of \$3,000 for each employee receiving a premium credit or \$2,000 for each full-time employee, excluding the first 30 employees from the assessment. Employers with fewer than 50 employees are exempt from the penalties. (Effective January 1, 2014)
- A new 40% excise tax on high-cost health plans, levied on the portion that exceeds \$10,200 for individuals and \$27,500 for families. (Effective January 1, 2018)

Please contact us if you have any questions about these changes.

Sincerely,

Lance W. Lee, CPA