MONEY MATTERS — Tax and financial planning strategies

How the health care reform act affects you

By Mike Slotopolsky

THE PATIENT PROTECTION AND Affordable Care Act – commonly referred to as the Health Care Reform Bill – was signed into law by President Obama in March, takes effect this year, expands health care coverage to 31 million uninsured Americans, is estimated to cost $850 billion over ten years, and contains provisions that will affect every business and every U.S. citizen for years to come. Many of the act's reforms offers new rights and benefits to many of us, including covering children on health plans, allowing young adults to remain on their parents' plans until the age of 26, ending lifetime limits on coverage, prohibiting a health plan from stopping coverage except in cases of fraud, and expanding Medicaid eligibility. The act means more rights, more protection, more choices, and more benefits for most of us.

Starting in 2011, the act requires employers to report the value of the health insurance coverage they provide to their employees on the employee's W-2. This reporting is for informational purposes only, to show employees the value of their health care benefits. There is no tax implication to the employee because the employer contribution to health coverage is excluded from an employee's income.

The new small business health care tax credit helps small businesses afford the cost of covering employees. The credit is meant to encourage small business employers to offer coverage for the first time or maintain the coverage they already offer. This tax credit is available

Passed into law earlier this year, the Affordable Care Act includes many cost-saving provisions including subsidized premiums, incentives for small businesses, and expanded eligibility requirements.

to employers that pay at least half of an employee's coverage. The act provides for a 35% tax credit on premiums paid by the employer in 2010 through 2013; in 2014, the credit increases to 50%. There must be fewer than 25 full-time employees to quality for the credit. The credit is reduced if the number of full-time employees is more than ten or if average annual wages exceeds $25,000.

The act raises the adoption credit from $12,150 to $13,170; the credit is now refundable which means that even if the taxpayer has no tax liability they can get a refund. The credit is based on reasonable expenses and fees associated with adoption, including court costs, travel expenses, and attorney fees.

Health coverage for employees' children under the age of 27 is now tax free. Employers with cafeteria plans may permit employees to make pre-tax salary reduction contributions to provide coverage for children under 27.

The act also provides for a one-time non-taxable $250 rebate in 2010 to assist Medicare Part D recipients who have reached their Medicare drug plan's coverage gap. There are no forms to file; Medicare automatically sends a check.

Currently, medical deductions are limited to expenses that exceed 7.5% of an individual's Adjusted Gross Income (AGI). Beginning in 2013, the AGI limitation increases to 10% for those under 65. For those over 65, the 10% limitation starts in 2016. Beginning in 2013, there will be a .9% increase to the Medicare payroll tax on earnings greater than $200,000, for individuals, and $250,000, for married couples. In addition, there's a new 3.8% Medicare tax on investment income for individuals with an AGI over $200,000, and $250,000 for married couples.

In three years, all citizens and legal residents will be required to purchase health insurance coverage or face a penalty of $95 or 1% of income, whichever's greater, increasing to $695 or 2.5% of income by 2016. There will be financial aid assistance to those who cannot afford the coverage.

For most plans, there are new rules that stop insurance companies from imposing pre-existing condition exclusions on children, prohibiting insurance companies from rescinding or taking away coverage based on an unintentional mistake on the application, and banning insurers from setting lifetime limits on coverage as well as restricting the use of annual limits on coverage. Starting in July 2010, Americans locked out of the insurance market because of a pre-existing condition have been able to enrol in the Pre-Existing Condition Insurance Plan (PCIP). This program offers insurance without medical underwriting to people who have been unable to get insurance because of a pre-existing condition. ❑

Michael Slotopolsky, CPA, is the managing partner of Vision Financial Group CPAs, LLP, an accounting, tax, and consulting firm. He is also a member of the American Institute of CPAs.