# Understanding and Navigating Individual Tax Changes Resulting From Health Care Reform Legislation

The Patient Protection and Affordable Healthcare Act contains a host of tax changes and over $400 billion in revenue raisers, including new taxes on individuals. Portions of the new law are effective immediately while others loom on the horizon and will be phased in over the next several years. Tax planning activities for 2010 and beyond should consider both the immediate and substantial forthcoming changes as a result of the new legislation, many of which have been highlighted below.

| Tax Changes Retroactively Effective for 2009 | |
|---|---|
| **Individual Provision** | **Description** |
| Health Professionals - Income Exclusion for Student Loan Repayment or Forgiveness | The gross income exclusion for amounts received under the National Health Services Corps loan repayment program or certain state loan repayment programs is modified to include any amount received by an individual under any state repayment or loan forgiveness program that is intended to provide for increased availability of health care services in underserved areas or areas in which there is a shortage of health care professionals. |

| Tax Changes Taking Effect in 2010 | |
|---|---|
| **Individual Provisions** | **Description** |
| Extended Dependent Coverage | Effective March 30, 2010, the new law extends the general exclusion for reimbursements for medical care expenses under an employer-provided accident or health plan to any child of an employee who has not attained age 27 as of the end of the tax year. Additionally, self employed individuals may take a deduction for health insurance costs of any child who had not attained age 27 as of the end of the tax year. |
| Adoption Credit and Assistance | The new law raises the credit by $1,000 from $12,170 to $13,170 for 2010, makes the credit refundable, and extends the credit through 2011, with a scheduled adjustment for inflation in 2011. The adoption assistance exclusion (from gross income of the employee when provided by the employer) is also increased by $1,000 to $13,170. |

| Tax Changes Taking Effect in 2011 | |
|---|---|
| **Individual Provisions** | **Description** |
| Limit on Reimbursements for Over-the-Counter Medications | Costs for over-the-counter medications not prescribed by a doctor will no longer qualify for reimbursement from health reimbursement accounts (HRA), health flexible savings accounts (FSA), health savings accounts (HSA) or Archer Medical Savings Accounts (MSA). |
| Increased Penalties on Nonqualified Distributions from HSAs and Archer MSAs | Distributions from an HSA or Archer MSA not used for qualified medical expenses will be subject to a 20% penalty. The previous penalties were 10% and 15%, respectively. |

| Tax Changes Taking Effect in 2013 | |
|---|---|
| **Individual Provisions** | **Description** |
| Increased Medicare Tax | Individuals earning more than $200,000 and married couples earning more than $250,000 will pay an additional 0.9% on wages exceeding those base amounts for a total Medicare tax of 2.35%. Self-employed persons will pay 3.8% on earnings exceeding the same thresholds. Employers will not pay additional Medicare tax. |
| Medicare Tax on Investments | Single and joint taxpayers with adjusted gross income (AGI) over $200,000 and $250,000, respectively, will be subject to additional tax of 3.8% on net investment income exceeding the AGI limits. Investment income includes interest, dividends, royalties, rents, net gain from disposition of property (including residential real estate) and gross income from passive activities, but may be reduced by allocable investment expenses. The additional tax will not apply to the gain on a sale of a principal residence for the first $250,000 of profit for single taxpayers and $500,000 for taxpayers filing jointly. |
| Limit on Medical Expense Deductions | Itemized deductions for medical expenses are currently deductible to the extent they exceed 7.5% of AGI. The new law raises the AGI floor from 7.5% to 10%. The AGI floor will remain at 7.5% for individuals age 65 and over, including their spouses through 2016. |
| Limit on Contributions to FSAs | Currently, flexible spending accounts allow an employee to set aside an unlimited portion of earnings to pay for qualified expenses, usually for medical or dependent care. Beginning in 2013, contributions will be limited to $2,500 but will be indexed for inflation annually. |

| Tax Changes Taking Effect in 2014 | |
|---|---|
| **Individual Provisions** | **Description** |
| Individual Mandate | Requires individuals to maintain minimum health coverage or be subject to a tax penalty. Those without qualifying coverage will pay the greater of $95 (increasing to $695 by 2016), up to a maximum of $285 (increasing to $2,085 by 2016) per family, or 1% of household income (increasing to 2.5% by 2016) over the threshold amount of income required to file a tax return. After 2016, the penalty will be indexed annually for inflation. Certain exceptions are available to those with financial hardship, religious objections, American Indians, non-US citizens, incarcerated individuals and those without coverage for less than 3 months. Additionally, if the lowest cost plan available exceeds 8% of household income, those families will be exempt from penalties. |
| Premium Assistance Credit | A refundable tax credit is available to low or moderate income families who enroll in a qualified health plan through a State-established American Health Benefit Exchange. The credit is available on a sliding scale basis, based on income level, for incomes up to 400% of the federal poverty level. The tax credit is paid directly to the insurance exchange plan. This is effectively a subsidy to the insurer when insurance is purchased through an exchange since the individual will pay the difference between the premium assistance credit and the cost of the policy through the insurance exchange. |

For additional information on any of the tax-related issues referenced on this page, please contact Michael A. Gillen, director of the Tax Accounting Group, or the Duane Morris attorney with whom you are regularly in contact.