

Health Care Reform— Health Care Tax Issues



NEW TAXES

2.1 SCHEDULE A PERSONAL DEDUCTION

This threshold will be raised from 7.5% of Adjusted Gross Income to 10% in 2013 (waiver applies to those age 65 or above in 2016).

2.2 EARNINGS SURCHARGE FOR MEDICARE

Earnings will be raised from 1.45% to 2.35% for those earning over \$200,000 (over \$250,000 if filing jointly)—for self employed also. Thus, the overall additional liability to such taxpayers is .9%. This begins in 2013.

2.3 CALCULATING WAGES

When calculating wages, net investment income is also counted. Therefore, an employee will owe 2.35% on all income, subject to definitions (below).

2.4 OVERALL

Self-funded plans have had non-discrimination rules that apply for many years, under IRC §105(h). The health care reform legislation added the same rules to fully insured plans.

New taxes or credits for some Americans

Health Care Tax Issues

The imposition of new taxes is to help offset the cost of expanded coverage offered by the government, as well as the subsidies that it will create simultaneously. The Medicare tax only applies to the employee and not the employer portion.

Inflation

There is an inflation adjustment for 2018 and 2019 only—then it will be adjusted using base CPI, but the threshold will be included automatically in 2018 if the CBO was incorrect in their forecast of premium inflation rate.

Credits

Individuals earning between 100% and 400% of the Federal Poverty Level will qualify for subsidies on a sliding scale, paid in the form of tax credits. The 2010 FPL is \$10,830 for a single and for a family of four it is \$22,050. **(Tax credits for certain small employers for paying for group health insurance are analyzed separately.)**

Net Investment Income

Interest, royalties, rents gain from disposing of property (e.g. sale of house), from passive activity, from income from a trade or business of trading financial instruments of commodities as defined by existing mark to market tax rules, income on investment of working capital.

Exempt from net investment income are distributions from qualified plans, tax exempt interest (since the new tax is on gross income), and any item taken into account in determining self employment income. The tax also would not apply to nonresident aliens or trusts for which all

of the unexpired interests are devoted to charitable purposes.

Key Points

The employer obligation only extends to the amount that can be withheld for an employee whose wages exceed \$200,000. The amount earned by a spouse or through other income (other employment, net investment) may be ignored by the employer. The employee is personally responsible for payment of the additional. Modified adjusted gross income exclusion over the deductions and exclusions disallowed with respect to that income.

The threshold for married filing jointly (\$250,000) also applies to married filing separately (cut to \$125,000 each.)

The Medicare and new health care tax will be subject to estimated quarterly rules.

The tax credits are not limited to consideration of the premium paid for coverage but also include the cost sharing provisions and resulting expenses of the plan itself.

Future liability for the credit cannot yet be foreseen, as only the 2010 levels were used in calculating potential liability.

Due to the “Hyde Amendment” the subsidies will not be used to purchase coverage nor pay for abortion if that extends beyond saving the life of the woman or in cases of rape.

Self employed individuals who elect to reduce self employment income by an amount equal to half of the combined self employment tax rate do not include the additional Medicare tax in the rate used to make such computations.