

How Does the Affordable Care Act Affect You and Your Taxes?

The health care legislation, the Affordable Care Act (aka Obamacare), signed into law in 2010 affects virtually every individual in one way or another and significantly impacts the preparation of tax returns. The provisions take effect over a period of years and are categorized in this article by the year they became or will become effective. Some of the provisions include additional taxes to offset the cost of the health care benefits included in the legislation for lower-income individuals.

The following is an overview of the provisions that apply to individual taxpayers and small businesses.

2009

- **Student Loan Forgiveness for Health Professionals** – Excludes student loan debt forgiveness from income for certain medical professionals who work in health professional shortage areas.

2010

- **Tanning Services Excise Tax** – A 10% excise tax is imposed on the amount paid for any indoor tanning service.
- **Excludable Medical Reimbursements for Older Children** – An income exclusion for reimbursements of medical care expenses by an employer-provided accident or health plan is extended to any child of an employee who hasn't attained age 27.
- **Self-Employed Health Insurance Deduction** – Self-employed individuals may include children who have not attained age 27 in their tax-deductible health insurance.
- **Tax Credits for Small Employers Offering Health Coverage** – Provides a tax credit for an eligible small employer for non-elective contributions to purchase health insurance for its employees.

2011

- **Increased Tax on Nonqualifying HSA or Archer MSA Distributions** – The additional tax for making non-medical withdrawals from Health Savings Plans and Archer MSA plans is increased to 20%.
- **Over-the-Counter Medication Restriction for Employer Plans** – Over-the-counter medications no longer qualify for reimbursement.
- **Small Employer Simple Cafeteria Plans** – Small employers may provide employees with a "simple cafeteria plan."

2012

- **Employer W-2 Reporting Responsibilities** – Employers are required to disclose the aggregate cost of employer-sponsored health coverage to their employees on Form W-2 (for information purposes only). An exception applies for employers who were required to file fewer than 250 Forms W-2 for the preceding calendar year.

2013

- **Additional Medicare (Hospital Insurance) Tax for High-Income Taxpayers** – The Medicare (Hospital Insurance) tax rate (currently at 1.45%) is increased by 0.9 percentage points on incomes over a threshold. Applies to employees and self-employed individuals.

- **Surtax on Net Investment Income for High-Income Taxpayers** – A 3.8% surtax is imposed on net investment income of high-income individuals, estates, and trusts if their modified adjusted gross income exceeds a threshold amount.
- **Employer Health FLEX-Spending Plan Contributions Limited** – Contributions to health flexible spending plans is limited to \$2,500 (adjusted annually for inflation).
- **Medical Itemized Deductions Limited** – The AGI threshold percentage for claiming itemized medical expenses is increased from 7.5% to 10%, except remains 7.5% through 2016 for taxpayers age 65 or older.
- **Compensation Deduction Limit for Health Insurance Issuers** – Limits companies' deduction for certain employees' compensation.
- **Fee on Self-Insured Health Plans (Patient-Centered Outcomes Research Fee)** – a fee equal to \$2 (\$1 for plan years ending during physical year 2013) multiplied by the average number of lives covered under the plan. The fee amount is adjusted annually based on the percentage increase in the projected per capita amount of the National Health Expenditures published by Health and Human Services.
- **Employee Notices** – Beginning January 1, 2014 (October 1, 2013 for existing employees), certain employers must provide written notice to employees about health insurance coverage options available through the Marketplace (insurance exchanges).

2014

- **Mandatory Health Insurance Overview** – Many of the provisions of the health care legislation are linked to the mandate that everyone becomes insured. The chart provides an overview of how these provisions interact to achieve that goal.
- **American Health Benefit Exchanges** – By 2014, each state was to establish an exchange (Marketplace) to help individuals and small employers obtain coverage. Because many states chose not to do so, the federal government established a federal Marketplace for these individuals to use.
- **Penalty For Not Being Insured** – Non-exempt U.S. citizens and legal resident taxpayers will be penalized for failing to maintain at the least the minimum essential health coverage, unless the individual qualifies for an exemption specified in the law or meets the criterion for a hardship exemption.
- **Premium Tax Credit** – Tax credits will be available for low-income individuals who obtain health insurance coverage with a qualified health plan (QHP) through an "Exchange." The credit may be taken on the individual's income tax return or in advance as a subsidy to help pay for the insurance premiums with the actual credit and any advances reconciled on the individual's Form 1040.

2015

- **Large Employer Health Coverage Excise Tax** – This penalty was originally scheduled to become effective in 2014 but was delayed until 2015. Large employers (50 employees or more) would be required to pay a penalty if any of its full-time employees were certified to the employer as having purchased health insurance through a state exchange and qualified for either tax credits or a cost-sharing subsidy. (Penalty is delayed until 2016 for employers with 50 to 99 employees who meet certain conditions.)
- **Mandatory Insurer and Employer Reporting** - Health insurers are required to file information

returns reporting each individual for whom minimum essential coverage is provided. In addition, each employer is also required to provide information related to each employee covered under the employer's plan.

2018

- **Excise Tax on High-Cost Employer-Sponsored Health Coverage** – There will be a 40% nondeductible excise tax on insurance companies and plan administrators for any health coverage plan where the premiums exceed certain limits.

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