IMPACT OF 2010 HEALTH CARE BILL
INDIVIDUAL TAX PROVISIONS

Individual Mandate

The Health Care Bill requires applicable individuals to carry minimum essential health coverage for themselves and their dependents or otherwise pay a shared responsibility penalty for each month of noncompliance. The individual mandate provision is scheduled to be effective beginning in calendar year 2014.

Some individuals are exempt from the individual mandate. Exempt individuals include:

- Individuals covered by Medicaid and Medicare
- Incarcerated individuals
- Individuals not lawfully present in the United States
- No penalty will be imposed on individuals without coverage for fewer than 90 days (with only one period of 90 days allowed in a year)
- Generally, individuals with employer-provided health insurance, if it satisfies minimum essential coverage and affordability requirements

No penalty will be imposed on individuals who are unable to afford coverage as defined in the law. Also those individuals who are not required to file a tax return because of their income will not be subject to penalties.

The penalty is generally calculated by taking the **greater of** a flat dollar amount or a calculation based on a percentage of the taxpayer's household income. The annual flat dollar amount or minimum is assessed per individual or dependent without coverage and is scheduled to be phased in over three years as follows (one half of these amounts for individuals under the age of 18):

- $95 for 2014
- $325 for 2015
- $695 for 2016
- Subsequent years will be indexed for inflation

The calculation based on a percentage of the taxpayer's household income may in fact be greater than above amounts. For example, I would estimate a family of four with household income of $60,000 would pay a penalty of $320, instead of the $95 minimum or a single person with household income of $30,000 would pay a penalty of $200. Keep in mind these penalties are annual penalties.

IRS guidance on the penalty calculation is still pending, but this gives you the general idea. This continues to be one of the main criticisms of the Health Care Bill is the penalties will be lower than the premiums that otherwise would be due.

Premium Assistance Tax Credit

Beginning in 2014, eligible lower-income individuals who obtain coverage under a qualified health plan through an insurance exchange may qualify for a tax credit. Qualified individuals cannot be eligible for employer sponsored coverage that is considered "affordable" and provides "minimum value".

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To be eligible for this tax credit household income must not exceed 400% of the federal poverty line. For example in 2012 the poverty guideline for a family of four is $23,050, so 400% of this would be $92,200. If this credit was in place for 2012, any household with four people with household income under $92,200 would qualify for the tax credit.

The Congressional Budget Office (CBO) estimates this credit will provide an average subsidy of about $5,000 per year for individuals and families.

Medical Deduction Threshold

Beginning in 2013 the threshold to claim an itemized deduction for unreimbursed medical expenses will increase from 7.5% to 10%. In other words your unreimbursed medical expenses will have to exceed 10% of your adjusted gross income to get any deduction and then it will only be the excess. However, individuals (or their spouses) age 65 or older before the close of the tax year are exempt from the increased threshold.

Additional Tax on HSA Distributions

Distributions from a Health Savings Account (HSA) not used for the beneficiary's qualified medical expenses are generally included in taxable income. In addition to the inclusion there is also an excise (penalty) tax on the amount of the distribution. This excise tax was increased from 10% to 20% for tax years 2011 and forward.

Additional Medicare Tax

Beginning in 2013 there is an additional 0.9% Medicare tax imposed on wages and self-employment income of higher-income individuals. This additional tax applies to individuals with income over $200,000 and married couples filing a joint return with income over $250,000.

Medicare Tax on Investment Income

Beginning in 2013 there is an additional 3.8% Medicare tax imposed on net investment income. This additional tax also applies to individuals with income over $200,000 and married couples filing a joint return with income over $250,000.

Net Investment income includes:

- Interest and dividend income
- Capital gains
- Annuities
- Net rental or royalty income
- Other passive income

Indoor Tanning Excise Tax

Amounts paid for indoor tanning services performed after June 30, 2010, are subject to a 10% excise tax. Tanning salons are responsible for collecting the excise tax and remitting such tax on a quarterly basis.