The Patient Protection & Affordable Care Act

On March 23, 2010 President Obama signed into law H.R. 3590, the Patient Protection and Affordable Care Act (PPAC). A "follow on" bill, H.R. 4872, the Health Care and Education Reconciliation Act (HCERA) of 2010 modified the PPAC and adds a number of tax increases. President Obama signed H.R. 4872 into law on March 30, 2010, completing the Congressional overhaul of the U.S. health care system.

The Bush tax cuts will be allowed to expire this year causing the top individual tax rate to increase in 2011 to 39.6% and increasing the tax rate on capital gains and dividends to 20%. When these tax increases are combined with those resulting from health care reform and taking effect in 2013, the top tax rate for individuals will be 40.5% for wages and other earned income, 43.4% for interest, and 23.8% for dividends and capital gains.

Many of the important provisions and all of the tax increases (except the 10% tax on indoor tanning services) take effect in 2013 and later. As a result, it may be several years before their real impact is felt.

Key Provisions for Individuals

- Individuals not otherwise eligible for Medicaid or Medicare or other government-sponsored coverage will be subject to penalties if they do not maintain qualifying medical insurance beginning in 2014. The penalty will phase in, reaching the greater of $695 of 2.5% of income in 2016.

- Premium assistance tax credits and reduced cost sharing will be available to qualified individuals on a sliding scale after 2013.

- Individuals are subject to an additional 0.9% Medicare tax on earned income in excess of $200,000 ($250,000 for families) beginning in 2013.

- Individuals with adjusted gross income (AGI) above $200,000 ($250,000 for families) are subject to a new 3.8% Medicare tax on investment income beginning in 2013. Investment income includes dividends, interest, royalties, rents, gains, and passive activity income, but excludes distributions from retirement plans. The $200,000/$250,000 amounts are not indexed for inflation.

- Spending limits for flexible spending accounts (FSA) are reduced to $2,500 (indexed for inflation) after 2012.

- Penalties on disqualified medical expense withdrawals from health savings accounts (HSA) after December 31, 2010, are increased to 20%.

Key Provisions for Individuals (Con't)

- Nontaxable over-the-counter drug reimbursements from medical spending accounts are eliminated, after December 31, 2010, unless prescribed by a physician.

- The threshold for medical expense deductions is increased from 7.5% of AGI to 10% after 2012 (after 2016 for individuals age 65 or older).

- The adoption credit is increased and extended through 2011.

- The age of unmarried children who qualify for dependent coverage increases to 26 beginning after March 30, 2010. Wisconsin has not adopted this Affordable Care Act.

- Medicaid eligibility is expanded, beginning in 2014

Key Provisions for Businesses

- Large and mid-size employers (i.e., employers with 50 or more employees) that fail to offer qualifying medical insurance to a full-time employee who has enrolled in a subsidized plan using the premium assistance tax credit or cost-sharing reductions will be subject to a tax of $2,000 per employee. Additional penalties may apply if waiting-period restrictions are imposed. Applies for months beginning after December 31, 2013.

- Certain small employers with less than 25 employees and an average wage of less than $50,000 will be eligible for a tax credit for non-elective contributions to purchase health insurance for their employees, beginning after December 31, 2009.

- Certain small businesses can provide a new employee benefit cafeteria plan (SIMPLE Cafeteria Plan) that provides tax-free benefits to employees, including self-employed individuals, beginning after 2010.

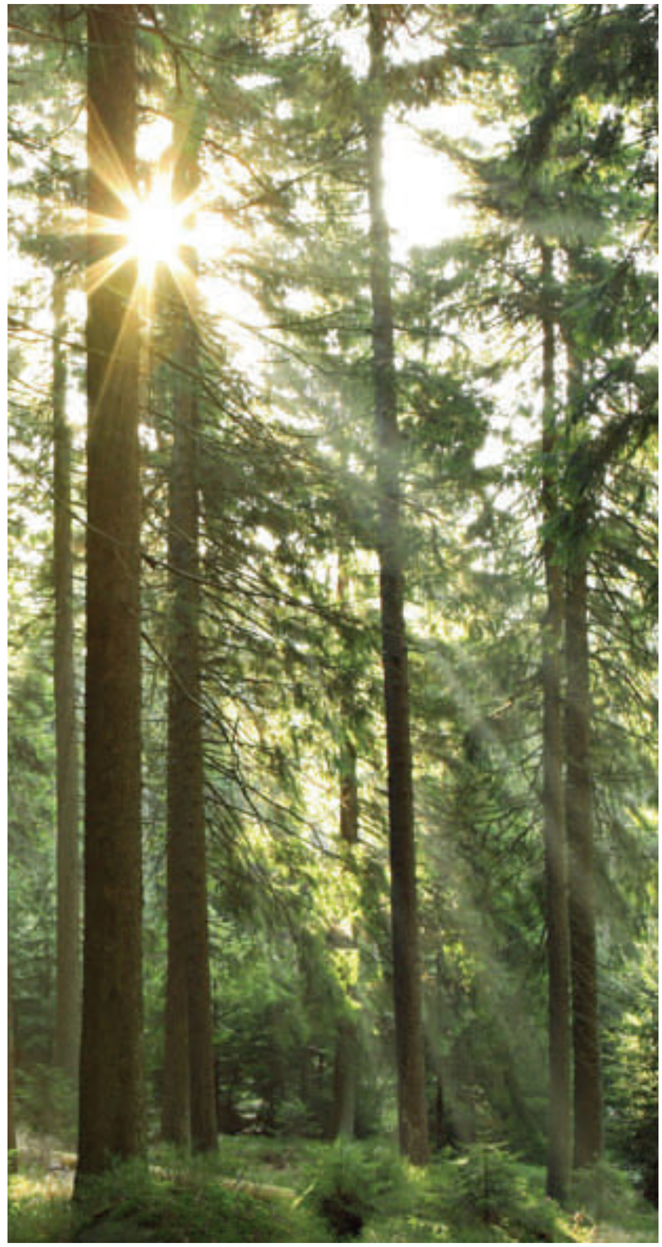
- Employer-sponsored health insurance coverage must be reported on the employees' W-2's beginning in 2011.

- Qualified small businesses will be able to buy insurance through state-based Web portals to be known as Small Business Health Options Programs (SHOP) after 2013.

- A 40% nonrefundable excise tax will be imposed on group insurers if annual premium payments exceed an inflation-adjusted $10,200 for individual coverage and $27,500 for family coverage (so-called "Cadillac plans"), beginning in 2018.

- The deduction for the subsidy for employers who maintain prescription drug plans for their Medicare Part D-eligible retirees will be eliminated after 2012.

Key Provisions for Businesses (Con't)



- Various fees are imposed on certain health industries, such as health insurance providers and medical device manufacturers and importers. This will begin in 2011 for medical device manufacturers and 2014 for health insurance providers.
- If essential coverage requirements are not met, a new $500,000 deduction limit on executive compensation applies to payments to insurance plan providers after 2012.
- A 10% tax is imposed on qualified indoor tanning services beginning on July 1, 2010.
- The economic substance doctrine is now codified as part to the Internal Revenue Code. A 40% penalty may apply to transactions entered into after March 30, 2010.
- Businesses that pay any amount greater than $600 during the year to corporate and non-corporate providers of property and services will be required to file an information report with each provider and with the IRS, beginning after 2011.
- The credit for unprocessed fuels, such as "black liquor," is repealed for fuel sold or used after December 31, 2009.
- Corporations with assets over $1 billion must pay higher estimated tax payments in 2014.

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The Act is the most significant domestic policy legislation passed in the last 40 years. It imposes new compliance obligations on businesses and increases tax and other costs for both business and individuals. Fox Valley CPA's, LLC can provide services to ensure that you are in compliance with the new law, and implement the new tax law changes.

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