

Client Alert

An informational newsletter from **Tonneson + Co**

Health Care Act changes for Individual taxpayers

Below is a brief overview of the key tax changes affecting individuals in the recently enacted health reform legislation. Unless otherwise indicated most of the provisions under this act take effect in **2013**.

Individual mandate. The new law requires U.S. citizens and legal residents to have qualifying health coverage or be subject to a tax penalty. The penalty will be phased in between 2014-2016 and will range from a minimum of \$695 to a maximum of 2.5% of taxable income over the filing threshold.

Premium assistance tax credits for purchasing health insurance will be available for individuals and families with incomes up to 400% of the federal poverty level (\$43,320 for an individual or \$88,200 for a family of four), that are not eligible for Medicaid, employer sponsored insurance, or other acceptable coverage.

Higher Medicare taxes on high-income taxpayers.

- *Higher Medicare payroll tax on wages.* Under current law, wages are subject to a 2.9% Medicare payroll tax. Workers and employers pay 1.45% each. Self-employed people pay both halves of the tax (but are allowed to deduct half of this amount for income tax purposes). Under the new law single/joint filers earning more than \$200,000/\$250,000 will be taxed at an additional 0.9% (2.35% in total) on the excess over those base amounts. Self-employed persons will pay 3.8% on earnings over the threshold.
- *Medicare payroll tax extended to investments.* Under current law, the Medicare payroll tax only applies to wages. Under the new provision Medicare tax will, for the first time, be applied to investment income. A new 3.8% tax will be imposed on net investment income of single/joint taxpayers with AGI above \$200,000/ \$250,000.

Floor on medical expenses deduction is raised from 7.5% of adjusted gross income (AGI) to 10%. The AGI floor for individuals age 65 and older (and their spouses) will remain unchanged at 7.5% through 2016.

Limit reimbursement of over-the-counter medications from HSAs, FSAs, and MSAs. Beginning **1/1/2011** the new law does not allow reimbursements of the costs for over-the-counter drugs not prescribed by a doctor.

Limit health flexible spending arrangements (FSAs) to \$2,500. Currently, there is no limit on the amount of contributions to an FSA. Under the new law allowable contributions to health FSAs will be capped at \$2,500 (and indexed for inflation) per year.

Dependent coverage in employer health plans. Effective **3/23/2010** if a child aged 26 or younger is not eligible to enroll in their employer's plan they will be able to obtain coverage under their parents plan.

Excise tax on indoor tanning services. Effective **7/1/2010** a 10% tax is imposed for indoor tanning services.

Liberalized adoption credit and adoption assistance rules. Effective **1/1/2010** the adoption tax credit is increased by \$1,000, made refundable, and extended through 2011. The adoption assistance exclusion is also increased by \$1,000.

Please contact your tax professional at Tonneson + Co. if you would like more details about these provisions or any other aspect of the new law. Visit our website at www.tonneson.com to read about other current relevant topics.

tonneson+co
Certified Public Accountants & Consultants

401 Edgewater Place, Suite 300, Wakefield, MA 01880-6208 t. 781.245.9999 f. 781.245.8731 www.tonneson.com

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