HEALTH CARE REFORM: 13 TAX CHANGES ON THE WAY

Here are 13 changes in the massive overhaul that could impact your tax bill, for better or worse. By Joan Pryde, Senior Tax Editor, the Kiplinger letters

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The new health care reform law is chock-full of new taxes and tax increases that will affect many individuals and businesses, but it will be years before most of these hikes take a bite out of your -- or your company's -- wallet. **The law also has tax breaks** to help both individuals and small businesses pay for insurance.

1. A new 10% excise tax on indoor tanning services on services provided after June 30, 2010.

2. The new law gives small firms tax credits as incentives to provide coverage, starting this tax year. Employers with 10 or fewer workers and average annual wages of less than $25,000 can receive a credit of up to 35% of their health premium costs each year through 2013. The credit is phased out for firms larger than that and disappears completely if a company has more than 25 employees or average annual wages of $50,000 or more. Beginning in 2014, the system changes. The law requires each state to establish a health insurance exchange -- a marketplace where individuals, the self-employed and small businesses can buy health insurance coverage. The government-regulated exchanges would offer insurance policies with different levels of coverage and price tags. Small firms that sign up with one of the health exchanges to be created can receive a credit of up to 50% of their costs -- with the same phaseouts for average income and size as the earlier program. The credit disappears after 2015.

3. A requirement that businesses **include the value of the health care benefits they provide** to employees on W-2s, beginning with W-2s for 2011. **The amount reported is not considered taxable income.**

4. Elimination of a deduction employers now take for providing **Medicare Part D prescription drug coverage** to their retirees to the extent that the federal government subsidizes the coverage. This will not take effect until 2013.

5. Doubling the penalty for **nonqualified distributions from health savings accounts,** to 20%, beginning in 2011.

6. A limit on the amount that employees can contribute to **health care flexible spending accounts** to $2,500 a year, but the cap won't take effect until 2013. This was previously left to the employer's discretion, with many firms choosing a limit of $4,000 to $5,000 or so.

7. A ban on using funds from flexible spending accounts, health reimbursement arrangements or health savings accounts for the cost of **over-the-counter medications**, starting in 2011.

8. Starting in 2013, **a 0.9% Medicare surtax** will apply to wages in excess of $200,000 for single taxpayers and over $250,000 for married couples. Also, **for the first time ever, a Medicare tax will apply to investment income of high earners.** The 3.8% levy will hit the lesser of (1) their unearned income or (2) the amount by which their adjusted gross income exceeds the $200,000 or $250,000 threshold amounts. The new law defines unearned income as interest, dividends, capital gains, annuities, royalties, and rents. Tax-exempt interest won't be included, nor will income from retirement accounts.

9. A hike in the 7.5% floor on itemized deductions for medical expenses to 10%, beginning in 2013. But taxpayers age 65 and over are exempt from the cutback through 2016.

10. A new 40% excise tax, beginning in 2018, on high-cost health plans, levied on the portion that exceeds $10,200 for individuals and $27,500 for families. The provision is aimed mostly at gold-plated plans offered by employers, although it can affect individual policies

11. A new tax on individuals who don't obtain adequate health coverage by 2014 -- this is often referred to as the individual mandate. The tax is to be phased in over three years, starting at the greater of $95, or 1% of income, in 2014, and rising to the greater of $695, or 2.5% of gross income, in 2016.

12. Providing a refundable tax credit, once the individual mandate takes effect in 2014, **to help low-income folks purchase coverage**. To be eligible, a person's household income must be between 100% and 400% of the federal poverty level, generally around $11,000 to $44,000 for singles and $22,000 to $88,000 for families. The credit is a sliding scale, based on income. Low-incomers get a credit for all costs. Then, as income rises, the credit phases out.

13. A nondeductible fee charged to businesses with 50 or more employees if the firms fail to offer adequate coverage. The fee will equal $2,000 times the number of employees, though it won't count the first 30 workers in that calculation.