2010 Health Care Act - Miscellaneous Provisions

In March 2010, the House, Senate, and President passed the Patient Protection and Affordable Care Act. This significant bill addressed a number of areas of health care, private health insurance, and Medicare. Some smaller provisions of the Act were effective in 2010 and 2011, including the small business health insurance credit and requiring extended coverage for adult dependents to age 26. There are many more provisions effective in the coming years (through 2018), with the most significant *tax* changes hitting in 2013. Here are some miscellaneous provisions of the Health Care Act that will impact many individuals.

Exclusion for employer-provided accident and health insurance – The exclusion from gross income for reimbursements made under an employer-provided accident or health insurance plan for medical costs of an employee, employee's spouse, or employee's dependents is extended to apply to any child of the employee who, as of the end of the tax year, has not attained the age of 27. It is no longer necessary for the child of the employee to be a dependent of the employee in order for this exclusion to apply. Thus, if the child is age 26 or less at the end of the tax year, the exclusion applies even if the child provides more than one-half of his or her own support, earns more income than the exemption amount, does not live with the taxpayer, or any other dependent-claiming restriction.

Self-employed health insurance deduction – The deduction for health insurance costs of a self-employed individual was extended to apply to any child who is under the age of 27 at the end of the year, regardless of whether or not the child is considered a dependent. However, this deduction may not be taken by someone who is eligible to participate in a health plan maintained by any employer of his/her child or dependent who is under age 27 at the end of the year. Current law does not allow the deduction for the health care costs of a self-employed individual if he or she can participate in a health plan maintained by an employer (i.e., the self-employed individual has another job), or an employer of the self-employed individual's spouse. Thus, the deduction now is also denied if the self-employed individual can participate in a subsidized plan maintained by an employer of a dependent or a child under the age of 27 at the end of the tax year.

Increased Medicare tax on earnings – One significant tax change in the Act is increased Medicare taxes from 1.45% to 2.35% on earnings over $200,000 for individuals and $250,000 for families. This change is effective in 2013.

Medicare tax on investment income – In addition to the increased Medicare tax on earnings, there will be a new Medicare tax on investment income beginning in 2013. This tax will be 3.8%

of the lesser of net investment income or the amount by which adjusted gross income exceeds $200,000 for single taxpayers or $250,000 for married filing jointly.

Health coverage for adult children – The new law permits children to stay on their parent's health-insurance policy until they reach age 26, rather than when they reach age 21 or graduate from college. Additionally, parents may be able to add adult children to their policy in the middle of the year under certain circumstances. Keep in mind, though, that if you have to switch from a single plan to a family plan to add an adult child, the increase in premiums to do so may cause you to consider buying the child his/her own policy.

Coverage for preventive care – Many insurance plans must now provide certain preventive care services without charging deductibles or co-pays. If your health insurance plan is "grandfathered" in under the former rules, however, it is possible that these requirements may not apply. Medicare beneficiaries also may get some new preventive benefits, including annual wellness visits and a personalized prevention plan.

Restrictions on using flexible spending money for non-prescription drugs – You may no longer use tax-free funds from a FSA or HSA to purchase over-the-counter drugs. There is an exception to this rule for insulin, however. There is a way around this rule - you CAN use money from a FSA or HSA if you get a prescription from your doctor for the drugs.

Stiffer penalty for non-medical withdrawals from a HSA – Beginning in 2011, the penalty for using money from an HSA to purchase non-medical items is doubled, from 10% to 20%.

Medicare Part D doughnut hole – For the Medicare prescription drug program, there is a coverage gap after your total drug costs reach $2,840 until you reach the out-of-pocket amount of $4,550 in which you have to pay the entire cost yourself. Starting in 2011, a 50% discount will apply to purchases of brand-name drugs. This discount will continue to apply until the $4,550 amount is reached. However, the entire cost of the drug (before the 50% discount is applied) will count toward filling the coverage gap. For generic drugs, the discount is 7%, but only the discounted amount will count toward filling the coverage gap.