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HERE COMES THE TAX MAN

Many of us have heard a lot about what is contained within The Patient Protection and Affordability Act and The Health Care and Education Affordability Reconciliation Act of 2010. Some of the rumors are fact, some are myth and others are yet to be determined. The one thing we do know for sure is that the programs are big and expensive. The Congressional Budget Office estimates that the legislation will cost \$950 billion over a 10 year period. In order to pay for this cost, the bills contain a number of revenue generation provisions (political speak for taxes). The following is a list of the tax increases that will be implemented over the next few years:

- Beginning in 2014, individuals who fail to obtain “minimum essential” health insurance coverage will be subject to a tax. There is an exclusion for those that fall below the income tax filing threshold or qualify for a religious exemption.
- Large employers with more than 200 employees must automatically enroll all new employees in health care coverage. Employers with more than 50 employees will be required to provide health insurance as a benefit to their employees. Employers that do not provide this benefit will be imposed a tax of \$2,000 a year per employee.
- Beginning in 2018, high cost health insurance plans (plans for single persons that cost in excess of \$10,200 and family plans that cost in excess of \$27,500) will be subject to a

tax. The excise tax rate on incremental costs will be 40 percent and assessed on the insurance company providing the plan not the individual.

- Beginning in 2013, Medicare tax equal to 3.8% will be assessed on investment income for families earning in excess of \$250,000 and for singles earning over \$200,000. Investment income includes interest, dividends, capital gains, rental income and royalties. Tax-exempt income and income from retirement accounts are excluded. Previously, Medicare taxes had been assessed on wages only.
- In addition to the expansion of the Medicare tax to investment income, the Medicare tax rate on wages will also increase from 2.9 percent to 3.8 percent once earnings exceed \$200,000 for individuals and \$250,000 for families.
- Beginning in 2011, the pharmaceutical industry will be subject to a \$2.5 billion annual excise tax. The annual excise tax increases in subsequent years, rising to \$4.2 billion in 2018. The tax is assessed based on market share and is non-deductible for federal tax purposes. I don't see any restriction on the ability to pass this cost on to the consumer however.
- Sales of medical devices will be subject to a 2.9 percent national sales tax. This tax will apply to sales occurring after December 31, 2012.
- Beginning in 2014, the health insurance industry will be subject to an \$8.0 billion annual excise tax. The excise tax increases to \$11.3 billion annually for 2015, 2016, and 2017, \$14.3 billion in 2018, and adjusted for inflation thereafter. The tax is assessed based on market share and is non-deductible for federal tax purposes. Again, I don't see a restriction on passing this cost on to the consumer (or his or her employer).
- Beginning in 2013, a taxpayer's ability to deduct medical expenses will be decreased. The bill increases the adjusted gross income threshold for claiming an itemized deduction from 7.5 percent to 10 percent. For taxpayers age 65 or older, the cutback doesn't begin until 2017.
- Beginning on July 1, 2010, a 10% excise tax is imposed on indoor tanning services. Thankfully, the legislature decided to leave outdoor tanning services alone for now.
- Beginning in 2011, businesses must include the value of health care benefits they provide to employees on W-2s.
- Also beginning in 2011, the cost of over the counter medicines may not be reimbursed through a Health Flexible Spending Account, Health Reimbursement Account, Health Savings Account or Archer MSA. In addition, distributions from HSAs or Archer MSAs that are not used for qualified medical expenses will be subject to a 20% tax. Finally, contributions to FSAs will be capped at \$2,500 beginning in 2013.

The above summary contains just a few of the many planned revenue enhancers. There will hopefully be more clarity as we move forward with the mountain of regulations, rulings and lawsuits yet to come. In the meantime, American taxpayers better be ready to face the tax man.

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