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Healthcare Reform – 10 Changes for Employers

Now, employers around the country are scrambling to figure out what the upcoming changes mean for them – and their employees.

You don't have a lot of time to get ready – while some of these changes don't go into effect until 2014, others will become effective as early as this fall. Some of the changes will affect employers in significant ways – 10 of which are discussed below:

1. 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.

2. 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.

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

4. 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

5. 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.

6. 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.

7. **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.

8. **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

9. **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.

10. **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 per employee, although it won't count the first 30 workers in that calculation.