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# What You Need to Know About the Patient Protection and Affordable Care Act

In a long-awaited ruling, on June 28 the U.S. Supreme Court upheld the Patient Protection and Affordable Care Act of 2010 (the Act). The ruling will financially impact both businesses and individuals. The Act provides for comprehensive health insurance reforms that will roll out the next several years and beyond, with most changes taking place by 2014, while others have already taken affect.

The main provision at issue was whether it was constitutional for the act to require that most Americans have a basic level of health insurance or pay a penalty starting in 2014. In a 5-4 decision, the Supreme Court found that the provision was constitutional within Congress' power under the taxing clause.

The decision means that, generally, the provisions of the Act that already went into effect will remain, and that the provisions that are scheduled to go into effect in future years will go into effect absent future congressional action.

Below is a brief summary of the main tax provisions affecting individuals and businesses:

## Individual Tax Provisions

Important tax provisions affecting individuals include:

- **Penalties for the uninsured.** Beginning in 2014, most individuals who are not eligible for Medicaid, Medicare or other government-provided coverage will have to purchase minimum essential health coverage. Those who fail to do so will be hit with a penalty (with exceptions for the poor and certain others).
- **Premium assistance for those with lower incomes.** Beginning in 2014, people with income between 133% and 400% of the federal poverty level are eligible for tax credits or cost-sharing subsidies on a sliding scale to help pay insurance premiums.
- **Higher taxes on the affluent.** To help offset the Act's cost, affluent taxpayers will face higher taxes. Beginning in 2013, taxpayers with more than $200,000 in earned income ($250,000 for families) will pay an additional 0.9% Medicare tax on the excess. In addition, those with an adjusted gross income (AGI) over $200,000 ($250,000 for joint filers) will pay a new, 3.8% Medicare tax on unearned income, such as interest, dividends, rents, royalties and certain capital gains. The tax does not apply to retirement plan distributions.

Also starting in 2013, the Act raises the threshold for deducting unreimbursed medical expenses from 7.5% to 10% of AGI and limits contributions to flexible spending accounts for medical expenses.

## Business Tax Provisions

Key tax provisions affecting businesses include:

- **Penalties for failure to provide coverage.** The Act does not require employers to provide insurance coverage but, starting in 2014, it imposes tax penalties on certain employers that do not provide it. Employers with 50 or more full-time-equivalent workers (FTEs) that do not offer coverage and have at least one full-time employee who receives a premium tax credit are subject to an annual fee of $2,000 per FTE (not including the first 30 FTEs).
- **Tax credits for small businesses.** Starting in 2010, small businesses are entitled to tax credits for purchasing group health coverage. For tax years 2010 to 2013, the maximum credit is 35%, provided the employer contributes at least 50% of the total premium or 50% of a benchmark premium. Starting in 2014, a maximum credit of 50% is available for two years for employers that purchase coverage through a state exchange and contribute at least 50% of the total premium. Smaller credits are available for tax-exempt businesses.
- **Excise tax on "Cadillac" plans.** Starting in 2018, high-cost group plans will be subject to a 40% nonrefundable excise tax. The tax applies to annual premiums in excess of $10,200 for individual coverage and $27,500 for family coverage (excluding stand-alone dental and vision plans). The thresholds are higher ($11,850 and $30,950, respectively) for retirees and employees in certain high-risk professions. These amounts will be indexed for inflation.

**An All-Encompassing Act -** The tax provisions of the Act will have an impact on most taxpayers, as well as on how employers deal with health care insurance for their employees.