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From: Mark Reed, Joe Mierendorf, and Sue Cobb

RE: Health reform legislation for individuals

Here is a brief overview of the key tax changes affecting individuals in the recently enacted health reform legislation.

**Individual mandate.** The new law contains an “individual mandate”—a requirement that U.S. citizens and legal residents have qualifying health coverage or be subject to a tax penalty after 2013. Some exemptions will be granted, especially for those for whom the lowest cost plan option exceeds 8% of household income, and those with incomes below the tax filing threshold (in 2010 the threshold for taxpayers under age 65 is \$9,350 for singles and \$18,700 for couples).

**Premium assistance tax credits for purchasing health insurance.** The health care legislation provides tax credits to low and middle income individuals and families for the purchase of health insurance. Specifically, for tax years ending after 2013, the new law creates a refundable tax credit (the “premium assistance credit”) for eligible individuals and families who purchase health insurance through an Exchange. The premium assistance credit will be available for individuals and families with incomes not exceeding \$43,320 for an individual or \$88,200 for a family of four, that are not eligible for Medicaid, employer sponsored insurance, or other acceptable coverage. The credits will be available on a sliding scale basis.

The cost of providing these credits will be funded in part by **higher Medicare taxes on high-income taxpayers.** The Medicare payroll tax is the primary source of financing for Medicare's hospital insurance trust fund, which pays hospital bills for beneficiaries, who are 65 and older or disabled. Under current law, wages are subject to a 2.9% Medicare payroll tax. Workers and employers pay 1.45% each. Under the provisions of the new law, which take effect in 2013, most taxpayers will continue to pay the 1.45% Medicare hospital insurance tax, but single people earning more than \$200,000 and married couples earning more than \$250,000 will be taxed at an additional 0.9% (2.35% in total) on the excess over those base amounts. Self-employed persons will pay 3.8% on earnings over the threshold. Also beginning in 2013, a 3.8% Medicare tax will be applied to investment income of single taxpayers with AGI above \$200,000 and joint filers over \$250,000

**The floor on medical expenses deduction will be raised from 7.5% of adjusted gross income (AGI) to 10% in 2013.** The AGI floor for individuals age 65 and older (and their spouses) will remain unchanged at 7.5% through 2016.

The new law **excludes the reimbursement of over-the-counter medications from HSAs, FSAs, and MSAs** for tax years beginning in 2011. Also included in the new law is an **increase from 15% to 20% in the penalties on distributions from HSAs and Archer MSAs** that are not used for qualified medical expenses. Finally, **health flexible spending arrangements (FSAs) will be capped at \$2,500 per year**, effective in 2013. The amount will be adjusted for inflation. after Dec. 31, 2012. The dollar amount will be indexed for inflation after 2013.

**Dependent coverage in employer health plans.** Effective on March 30, 2010, the new law extends the coverage for medical care expenses under an employer-provided accident or health plan to any child of an employee who has not attained age 27 as of the end of the tax year. Also, self-employed individuals are permitted to take a deduction for the health insurance costs of any child of the taxpayer who has not attained age 27 as of the end of the tax year.

**Excise tax on indoor tanning services.** The new law imposes a 10% excise tax on indoor tanning services. The tax, which will be paid by the individual on whom the tanning services are performed but collected and remitted by the person receiving payment for the tanning services, will take effect July 1, 2010.

Please call our office for details of how the new changes may affect your specific situation.

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