



GILLAM & ZETZEL, INC.

Certified Public Accountants

Health Care Bill : 2010

Dear Client:

Recently, Congress reformed health care with a sweeping new bill. This bill has several key income tax considerations as detailed below.

Small Business Tax Credit. The health care bill provides new incentive for small employers to offer health insurance coverage to employees. For uniform coverage (that is, the same employer contribution formula for all employees), not including health insurance provided through §125 plans, a potential credit is available to "small businesses" beginning in 2010 if the employer pays for at least one-half of the cost of the health insurance premiums. A "small business" is defined as an employer with no more than 25 employees and an average annual wage of no more than \$50,000. For eligible employers the credit is equal to 35% of lesser of (1) premiums actually paid or (2) a predetermined government benchmark (this means, what the government believes is a reasonable cost for coverage). For purposes of computing the credit part-time and leased employees are eligible. However, the following employee classes are not eligible:

- Season workers (work less than 120 days)
- Sole-proprietors
- Partners
- S corporation shareholders owning 2% or more of the corporation
- C corporation shareholders owning 5% or more of the corporation (and their relatives)

Other Key Provisions.

- Individuals who earn more than \$200,000 for the year (\$250,000 for married couples) will be paying an additional 0.9 percent in Medicare tax, starting in 2013;
- Indoor tanning businesses are subject to a new 10% tax for services after June 3, 2010;
- Adoption tax credit was increased by \$1,000 up to \$13,170, and made refundable, through 2011;
- Individuals whose adjusted gross income for the year exceeds \$200,000 (\$250,000 for joint filers), whether from wages or otherwise, will also be paying an additional 3.8 percent Medicare tax on net investment income (does not include retirement plan distributions), starting in 2013;
- Individuals whose earnings for the year exceeds \$200,000 (\$250,000 for joint filers) will be paying an additional .9 percent Medicare tax starting in 2013;
- Health flexible savings arrangement (FSA) dollars will be limited to prescription medications (over-the-counter medications, other than insulin, no longer qualify) with some exceptions after 2010, along with placing a \$2,500 annual cap on expenses covered under health FSAs, starting in 2013;

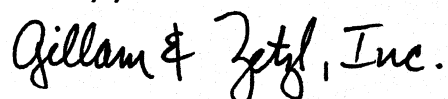
- Limits on tax-subsidized medical expenses will be imposed by raising the itemized medical expense deduction floor for regular tax purposes from 7.5 percent to 10 percent, generally starting in 2013.
- Employers with 50 or more employees generally will be required to provide a minimum level of health insurance for their employees or pay a penalty per employee, starting in 2014;
- Most individuals will be required to obtain health insurance or be subject to a penalty tax starting in 2014;
- Tax credits to subsidize the cost of health insurance premiums will be available to individuals earning up to 400 percent of the poverty level, starting in 2014;
- Businesses that pay more than \$600 per year to corporate providers of property and services must issue a 1099 to them beginning in 2012 (historically corporations have been exempt from 1099 reporting);

Tax incentives. Among a handful of tax incentives provided under the new health-care reform package, two are particularly notable at this time: (1) the ability of parents to cover adult children up to age 27 under their tax-qualified employer-provided health plans, starting immediately for plans that elect to beat the mandatory post-September 22 year deadline for doing so; and (2) the unveiling of a simplified cafeteria plan specifically tailored to small businesses, starting in 2011.

Exchanges. The health care reform package requires each state to establish an exchange by 2014 to help individuals and qualified employers obtain coverage. Coverage will be offered at various levels. Qualified individuals may be eligible for premium assistance tax credits, cost-sharing or vouchers to help pay for coverage through an insurance exchange. An individual's income, whether or not coverage is provided by his or her employer, will all be taken into account when determining if the individual qualifies for a premium assistance tax credit, cost-sharing or voucher.

Update. As of December 2010, there has been much posturing regarding the Health Care bill including calls for a complete repeal. As the balance of power is shifting after the November elections it appears there may be some changes on the horizon. There are even calls to change certain provisions, like the 1099 reporting requirements, by some of the original drafters. Our office will be staying on top of all developments, with an eye toward how to best maximize results under the new law for our clients. We are prepared to advise our clients on all compliance rules and tax-reduction opportunities that undoubtedly will arise. In the meantime, if you have any questions about the new law, please do not hesitate to call our office.

Sincerely yours,



Gillam & Zetzi, Inc.