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Tax Implications of the Health Care Act

The July 2012 Supreme Court ruling upholding what's collectively referred to as the "Affordable Care Act" (ACA) or "Health Care Act" has resulted in a number of changes to the US tax code. As such there are a number of tax implications for individuals and businesses. With that in mind, let's take a closer look at what it might mean for you.

Individuals

Individual Mandate

Starting in 2014, US citizens and legal residents not qualified for Medicare or Medicaid must obtain minimum essential health care coverage for themselves and their dependents or pay a tax penalty that varies based on income level. In 2014, the basic penalty for an individual (no dependents) is \$95, with substantial increases in subsequent years--\$325 in 2015 and \$695 in 2016, indexed for inflation thereafter.

Refundable Tax Credit

Effective in 2014, certain taxpayers will be able to use a refundable tax credit to offset the cost of health insurance premiums so that their insurance premium payments do not exceed a specific percentage of their income. Qualified individuals are those with incomes between 133 percent and 400 percent of the federal poverty level. A sliding scale based on family size will be used to determine the amount of the credit. In addition, married taxpayers must file joint returns to qualify.

FSA Contributions

FSA (Flexible Spending Arrangements) contributions are limited to \$2,500 per year starting in 2013 and indexed for inflation after that.

New Rules for HSAs and Archer MSAs

Tax on non-qualified distributions from HSAs and Archer MSAs that are used to cover the cost of over the counter medicine without a script will increase to 20 percent starting in 2011. Medical devices, eyeglasses, contact lenses, copays, and deductibles are not affected, nor is Insulin even if it is non-prescription.

Medicare Part D

Medicare Part D, the tax deduction for employer provided retirement prescription drug coverage, will be eliminated in 2013.

Increase in AGI Limit for Deductible Medical Expenses

The deduction is currently 7.5 percent of AGI, but next year, in 2013, that increases to 10 percent of AGI.

The 7.5 percent threshold continues through 2016 for taxpayers aged 65 and older, including those turning 65 by December 31, 2016.

Health Coverage of Older Children

The cost of employer provided health care coverage for children (through age 26) claimed as dependents on tax returns is excluded from gross income.

Medicare Tax Increases for High Income Earners

Starting in 2013, there will be an additional 0.9 percent Medicare tax on wages above \$200,000 for individuals (\$250,000 married filing jointly).

Also starting in 2013, there is a new Medicare tax of 3.8 percent on investment (unearned) income for single taxpayers with modified adjusted gross income (MAGI) over \$200,000 (\$250,00 joint filers). Investment income includes dividends, interest, rents, royalties, gains from the disposition of property, and certain passive activity income. Estates, trusts and self-employed individuals are all liable for the new tax.

Exemptions are available for business owners and income from certain retirement accounts, such as pensions, IRAs, 401(a), 403(b), and 457(b) plans, is exempt.

Businesses

Small Business Health Care Tax Credit

Small businesses and tax-exempt organization that employ 25 or fewer workers with average incomes of \$50,000 or less, and that pay at least half of the premiums for employee health insurance coverage are eligible for the Small Business Health Care Tax Credit. For tax years 2010 through 2013, the maximum credit is 35 percent for small business employers and 25 percent for small tax-exempt employers such as charities. An enhanced version of the credit will be effective beginning Jan. 1, 2014. In general, on Jan. 1, 2014, the rate will increase to 50 percent and 35 percent, respectively.

Additional Tax on Businesses Not Offering Minimum essential Coverage

Effective in 2014 an additional tax will be levied on businesses with 50 or more full-time equivalent (FTE) employees that do not offer minimum essential coverage. Employers with fewer than 50 FTE employees are exempt from the additional tax.

Excise Tax on High Cost Employer-Sponsored Insurance

Effective in 2018, a 40 percent excise tax indexed for inflation will be imposed on employers with insurance plans where the annual premium exceeds \$10,200 (individual) or \$27,500 (family). For retirees age 55 and older, the premium levels are higher, \$11,850 for individuals and \$30,950 for families.

Excise Tax on Medical Devices

Effective January 1, 2014, a 2.3 percent tax will be levied on manufacturers and importers on the sale of certain medical devices.

Indoor Tanning Services

A 10 percent excise tax on indoor tanning services went into effect on July 1, 2010. The tax doesn't apply

to phototherapy services performed by a licensed medical professional on his or her premises. There's also an exception for certain physical fitness facilities that offer tanning as an incidental service to members without a separately identifiable fee.

The best strategies for business and personal growth and success are specific to your business and personal situation. Your plan must be tailored to fit your unique circumstances. Contact Lanter, Leonardo & Levy for a no obligation consultation on building and preserving the company and wealth you have worked so hard to achieve.

Call Alex Leonardo or Rick Captain today at 561-998-7770