



Implementing the Affordable Care Act Countdown to 2014



Tax Increases Under the Affordable Care Act.

Under the Affordable Care Act, a number of significant tax increases go into effect in 2013 and other tax provisions will be implemented during the next several years. Provisions starting in 2013 include:

Additional Medicare Tax. An additional 0.9 percent hospital insurance (HI) tax applies to wages received with respect to employment in excess of: \$250,000 for joint returns; \$125,000 for married taxpayers filing a separate return; and \$200,000 in all other cases. The additional 0.9 percent HI tax also applies to self-employment income for the tax year in excess of the above figures. The increased tax is imposed only on the worker; the employer does not pay the additional 0.9 percent, but may have to withhold it.

Net Investment Income Tax. A new tax is imposed on individuals, estates and trusts. For an individual, the tax is 3.8 percent of the lesser of (1) net investment income or (2) the excess of modified adjusted gross income over a threshold amount (\$250,000 for a joint return or surviving spouse, \$125,000 for a married individual filing a separate return and \$200,000 for all others). For an estate or trust, the tax is 3.8 percent of the lesser of (1) undistributed net investment income or (2) the excess of adjusted gross income over the dollar amount of which the highest income tax bracket applicable to an estate or trust begins.

The definition of net investment income is very broad. It generally includes interest, dividends, annuities, royalties and rents (not derived in an active trade or business), income from a trade or business that is a passive activity to the taxpayer and net gains from the sale of property that is not active trade or business property. Investment income does not include amounts subject to self-employment tax.

- **Reduced Cap on Health FSA Contributions.** The amount of contributions to health flexible spending accounts that is a qualified benefit under a cafeteria plan is limited to \$2,500, indexed to inflation after 2013. This is a reduction from \$5,000 in 2012.
- **Increased Floor on Medical Expense Deduction.** The adjusted gross income threshold for claiming an itemized deduction for medical expenses is increased from 7.5 percent to 10 percent. The 7.5 percent threshold will continue to apply through 2016 to individuals age 65 or older (and their spouses).

Starting in 2014, penalties may be imposed on certain individuals who fail to maintain minimum essential health insurance coverage and on larger employers that do not offer affordable coverage for all its employees.

The Affordable Care Act also imposes a number of industry specific revenue raisers and toughened laws, such as a new executive compensation limit for certain health insurance providers, annual fees on pharmaceutical manufacturers and importers and health insurance providers, a 2.3 percent excise on the sale of taxable medical devices, new reporting responsibilities on health care insurers and a surtax on "Cadillac" employer health plans. A number of these and other provisions take effect over the next several years.

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