ACA Provisions Individuals Need to Know

National Association of Tax Professionals

In 2010, President Obama signed a new health care reform law. The legislation is in two parts consisting of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.

While the primary purpose of this reform is to mandate that all U.S. residents obtain health insurance coverage, the law creates a host of tax credits and penalties on employers and taxpayers for failure to do so. In addition, there are several new rules that were created to raise the necessary funds to pay for this reform. Many of these provisions do not become effective until 2013 and 2014. Below are several of the provisions that may affect you.

Provisions Effective in 2013

Medicare Contribution Tax on Investment Income

A Medicare contribution tax on net investment income is imposed on individuals, estates and trusts. Investment income includes interest, dividends, capital gains, taxable annuities, royalties and passive rental income. For an individual, the tax is 3.8% of the lesser of either:

1. Net investment income, or
2. The excess of modified adjusted gross income (MAGI) over the threshold amount. The threshold amount is $250,000 for a joint return or surviving spouse, $125,000 for a married individual fi ling a separate return, and $200,000 for all others.

Medical Expense Deduction Floor Increases to 10%

The AGI threshold for deducting medical expenses increases from 7.5% to 10%. For taxpayers who have reached age 65 by the end of the year, the effective date of this provision is delayed until January 1, 2017.

Additional Medicare Tax for High Income Workers

An additional 0.9% Medicare tax will be imposed on the wages of individual taxpayers (including self-employment income) 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**.

Limitation on Health FSA Reimbursements

The maximum amount available for reimbursement as a pre-tax benefit under a qualified cafeteria plan (health FSA) is limited to $2,500. Previously there were no limits other than those set by the plan.

Provisions Eff ective in 2014

Individuals With No Health Insurance Coverage

Starting on January 1, 2014, residents must maintain minimum essential health coverage or pay a penalty. Minimum essential coverage includes government sponsored programs (Medicare, Medicaid), eligible employer-sponsored plans, plans in the individual market, certain grandfathered group health plans and other coverage as recognized by the Department of Health and Human Services.
Some exemptions to the minimum essential health coverage include:

- Individuals who cannot afford coverage because their required contribution exceeds 8% of household income for the year.
- Taxpayers with income below the income tax filing threshold.
- Those exempted for religious reasons (members of a recognized religious sect who can elect exemption from self-employment taxes).
- Individuals residing outside the U.S.
- Individuals who are incarcerated or are not legally present in the U.S.
- All members of Indian tribes.

No penalty is assessed if you do not maintain health insurance for a period of three months or less during the tax year. If you exceed the three-month maximum during the taxable year, the penalty for the full duration of the gap during the year is applied. The maximum tax penalty is gradually phased in and increases between 2014 and 2016.

Refundable Tax Credit for Providing Premium Assistance

If your household income is at least 100%, but not more than 400% of the federal poverty threshold, and you don’t receive health insurance under an employer plan, you may be allowed a refundable tax credit for the premiums you paid during the tax year for qualified health plan insurance coverage.