

Tax Changes with the Patient Protection & Affordable Care Act

The Patient Protection and Affordable Care Act enacted in 2010 has several provisions that will go into effect in the next couple years. Here are some of the provisions in effect starting in 2013.

Medicare Surcharge

For 2012, employees paid 1.45% Medicare tax on applicable wages. Starting in 2013, there is an additional 0.9% Medicare tax imposed on all applicable wages above \$250,000 for married tax payers, wages above \$200,000 for single taxpayers, and wages above \$125,000 for married filing separately. This surcharge also applies to partnership income for active investors.

Reporting Requirements

Employers should withhold the additional Medicare tax on any individual earning over \$200,000 in a year. However, since the \$200,000 limit is affected by filing status, as well as multiple jobs, it is likely that additional Medicare tax will be owed on individual tax returns. This surtax also applies to self-employment income. There will be an additional line on the 941 for employers to report this information.

There are also additional reporting requirements for employer-provided health insurance. This amount will need to be reflected on an individual's W-2, and is a mandatory requirement for all employers starting in 2013. This amount is not reflected on the W-3.

Medicare Tax on Investment Income

There is an additional 3.8% of Medicare tax assessed on investment income for married couples with adjusted gross income over \$250,000 and on single taxpayers with adjusted gross income over \$200,000, and married filing separately taxpayers with adjusted gross income over \$125,000. Investment income includes all pass through income from partnerships and S corporations for passive investors.

Extended Medical Insurance Coverage for Children

Children under the age of 27 may be insured under their parent's health insurance.

Health Flexible Spending Account Contribution Limits

Beginning in 2013, the maximum amount that an individual can contribute on a salary-reduction basis to a health flexible spending account is \$2,500 annually. Unused amounts cannot be carried over into the next year, beyond a limited grace period.