

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 important provisions now in effect.

Medicare Surcharge

Until 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.

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. Currently employers can elect to have plans that incorporate a grace period, or to have unused amounts up to \$500 reimbursed to plan participants.

Penalty for Lack of Health Insurance Coverage

Beginning in 2014, most United States citizens will have to maintain health insurance coverage, or pay a penalty.

Medical Deduction Threshold

Beginning in 2013, taxpayers under the age of 65 are only allowed to claim medical expenses as an itemized deduction on their Schedule A that are in excess of 10% of their adjusted gross income. This has increased from 7.5% in 2012.

There are almost 65 elements of the Patient Protection and Affordable Care Act that are to be enacted within the next six years. Please notify us if you have any questions or concerns.