

**Health Care Reform – Key Tax Laws for Individuals
As of November 8, 2010**

| # | What is it? | Who is impacted? | When is it effective? | What does the taxpayer need to do? |
|----|--|---|-----------------------|---|
| 1 | Adoption credit Increases the 2010 adoption credit to \$13,170 (previously set at \$12,170 for 2010) and makes the credit and any carryover to 2010 fully refundable | Individuals who adopt a child in 2010 and 2011 or who have adopted a child in a prior year and have credit carry forward in 2010 | 2010 | <ul style="list-style-type: none"> • Claim credit via tax return • Be aware of phase outs that may reduce or eliminate the credit |
| 2 | Flexible Spending Account (FSA) / Health Savings Account (HSA) / Health Reimbursement Account (HRA) / MSA reimbursable expenses Changes reimbursable medication expenses to include only prescribed drugs and insulin and excludes over-the-counter medication and medical related items | Individuals using FSA/HSAs for over-the-counter medications | 2011 | <ul style="list-style-type: none"> • Stop using FSA/HSA for purchase of over-the-counter medications and medical-related items such as bandages |
| 3 | Flexible Spending Accounts (FSAs) maximum contribution Decreases annual maximum contribution to FSAs to \$2,500 (currently set at \$5,000) | Individuals who contribute to an FSA | 2013 | <ul style="list-style-type: none"> • Limit FSA contributions to \$2,500 • Use FSA funds for allowed expenses |
| 4 | Health Savings Account distributions Increases the penalty for nonqualified distributions from a health savings account to 20% (currently set at 10% for 2010) | Individuals who take nonqualified distributions from an HSA | 2011 | <ul style="list-style-type: none"> • Be aware of increased penalty for nonqualified HSA distributions |
| 5 | Medical expense deduction (Schedule A) Increases threshold for deducting medical expenses to 10% of AGI (currently set at 7.5% of AGI for 2010) for individuals under the age of 65 at the end of the year. | Individuals who incur large medical expenses that are not covered by insurance | 2013 | <ul style="list-style-type: none"> • Be aware of reduced deductibility. • Time certain medical expenses to occur and be paid for prior to 2013 |
| 6 | Medicare tax on earned income Increases the employee portion of Medicare tax from 1.45% to 2.35% for earned income in excess of \$200,000 (\$250,000 for joint filers, \$125,000 MFS). Also applies to self-employment income | Higher-income individuals with earned income exceeding \$200,000 (\$250,000 for joint filers, \$125,000 for MFS) | 2013 | <ul style="list-style-type: none"> • Pay any applicable tax via tax return |
| 7 | Additional tax on net investment income Introduces a new 3.8% tax on net investment income (e.g. dividends, interest, capital gain) for higher-income taxpayers | Higher-income individuals with net investment income whose MAGI exceeds \$200,000 (\$250,000 for joint filers, \$125,000 for MFS) | 2013 | <ul style="list-style-type: none"> • Pay applicable tax via tax return |
| 8 | Compliance Requires individuals to obtain health care coverage. If individuals choose not to obtain coverage (and are required to do so), they will pay a penalty, in the form of an additional tax, for each individual required to be covered. <ul style="list-style-type: none"> • The annual penalty per individual is \$95 in 2014, \$325 in 2015, and \$695 in 2016, and adjusted for inflation after 2016. • The penalty is limited to the national average premium for minimum coverage times a certain % (1.0% in 2014, 2.0% in 2015, 2.5% in 2016) | <ul style="list-style-type: none"> • All individuals 18 or older, unless specifically exempt (e.g. Not legally present in US, Native Americans, individuals whose insurance costs >8% of household income) • Generally, the penalty will not apply if the individual was without health care for less than 90 days | 2014 | <ul style="list-style-type: none"> • Obtain or maintain qualifying health care by required date • File a return substantiating coverage each year, beginning on required date OR • Pay applicable penalty via tax return |
| 8a | Subsidy for health coverage requirement Facilitates compliance in obtaining health care coverage. Individuals with income at or below 400% of the poverty level who purchase insurance through an exchange may qualify for a subsidy to help cover the cost of the insurance. | Lower-income individuals and families <ul style="list-style-type: none"> • Single: \$43,320 • Married with 2 children: \$88,200 Note: These values are as of 5/31/2010 | 2014 | <ul style="list-style-type: none"> • Qualifying individuals likely will need to apply for the subsidy with their health insurance provider • Adjustment for under or over payment may occur via tax return |

 **NOTE:** For more information, go to www.thetaxinstitute.com.