

Summary of the Affordable Care Act

Patient Protection and Affordable Care Act (P.L. 111-148)	
Summary	Requires most U.S. citizens and legal residents to have health insurance. Creates state-based exchanges through which individuals can purchase coverage, with premium and cost-sharing credits available to individuals/families with income between 133-400% of the federal poverty level and creates separate exchanges through which small businesses can purchase coverage. Requires employers to pay penalties for employees who receive tax credits for health insurance through an exchange, with exceptions for small employers. Imposes new regulations on health plans in the exchanges and in the individual and small group markets. Expands Medicaid to 133% of the federal poverty level.
INDIVIDUAL MANDATE & ASSOCIATED PENALTIES	
Tax Implications	Requires U.S. citizens and legal residents to have qualifying health coverage. Those without coverage pay a tax penalty of the greater of \$695 per year up to a maximum of three times that amount (\$2,085) per family or 2.5% of household income. Exemptions will be granted for financial hardship, religious objections, American Indians, those without coverage for less than three months, undocumented immigrants, incarcerated individuals, those for whom the lowest cost plan option exceeds 8% of an individual's income, and those with incomes below the tax filing threshold.
IRS Reporting Requirements	The individual shared responsibility provision goes into effect in 2014. Taxpayers will not have to account for coverage or exemptions or to make any payments until they file the 2014 federal income tax return in 2015. Information will be made available later about how the income tax return will take account of coverage and exemptions. Insurers will be required to provide everyone that they cover each year with information that will help them demonstrate they had coverage.
EMPLOYER MANDATE & ASSOCIATED PENALTIES	
Tax Implications	Beginning 1/1/15, the IRS will assess employers with 50 or more full-time equivalent employees ("FTEs") that do not offer coverage and have at least one full-time employee who receives a premium tax credit. Fee is \$2,000 per FTE, excluding the first 30 employees from the assessment. Employers with 50 or more FTEs that offer inadequate coverage and have at least one full-time employee receiving a premium tax credit, will pay the lesser of \$3,000 for each employee receiving a premium credit or \$2,000 for each full-time employee, excluding the first 30 employees from the assessment.
IRS Reporting Requirements	The IRS will contact employers to inform them of their potential liability and provide them an opportunity to respond before any liability is assessed. The contact for a given calendar year will not occur until after employees' individual tax returns are due for that year claiming premium tax credits and after the due date for employers that meet the 50 full-time employee (plus full-time equivalents) threshold to file the information returns identifying their full-time employees and describing the coverage that was offered (if any).

NEW 3.8% MEDICARE TAX	
Tax Implications	Imposes a 3.8% tax on unearned income for higher-income taxpayers. Surtax is imposed on net investment income (interest, dividends, royalties, rents, capital gains, non-qualified annuities, passive income from a trade or business or income from the business of trading in commodities or financial instruments). Excluded items: Wages, unemployment compensation, retirement plan distributions, interest on tax-exempt bonds, Social Security, alimony, non-taxable gain on the sale of a principal residence, and non-passive trade or business income.
IRS Reporting Requirements	Report and pay using Form 1040. For an individual, the tax is 3.8% of the lesser of either 1) Net investment income, or 2) The excess of Modified Adjusted Income over a threshold amount. Threshold amounts are \$250,000 for joint filers, \$125,000 for married filing a separate return, and \$200,000 for all others. Effective 1/1/13.
NEW 0.9% MEDICARE TAX	
Tax Implications	Increases the Medicare Part A (hospital insurance) tax rate on wages by 0.9% (from 1.45% to 2.35%) on earnings over \$200,000 for individual taxpayers and \$250,000 for married couples filing jointly.
IRS Reporting Requirements	The employer is required to withhold on individual wages over \$200,000, even if the \$250,000 threshold for joint filers is not met. An employer that does not deduct and withhold additional Medicare Tax as required is liable for the tax unless the tax that it failed to withhold is paid by the employee. Effective 1/1/13.
TAX CREDITS FOR INDIVIDUALS	
Tax Implications	Provides refundable premium credits to eligible individuals and families with incomes between 100-400% FPL to purchase insurance through the Exchanges. The premium credits will be tied to the second lowest cost plan in the area and will be set on a sliding scale from 2% to 9.5% of income.
IRS Reporting Requirements	The taxpayer is only eligible for the credit if employer coverage is unaffordable. The employer plan is unaffordable if the employee must pay (self coverage only) premiums that exceed 9.5% of household income. Taxpayer will have to obtain coverage through an exchange.
TAX CREDITS FOR SMALL BUSINESS	
Tax Implications	Provides small employers with no more than 25 employees and average annual wages of less than \$50,000 that purchase health insurance for employees with a tax credit. For tax years 2010 through 2013, provides a tax credit of up to 35% of the employer's contribution toward the employee's health insurance premium if the employer contributes at least 50% of the total premium cost or 50% of a benchmark premium. The full credit will be available to employers with 10 or fewer employees and average annual wages of less than \$25,000. For tax years 2014 and later, for eligible small businesses that purchase coverage through the state Exchange, provides a tax credit of up to 50% of the employer's contribution toward the employee's health insurance premium if the employer contributes at least 50% of the total premium cost. The credit phases-out as firm size and average wage increases.
IRS Reporting Requirements	Taxpayers must use Form 8941, Credit for Small Employer Health Insurance Premiums, to calculate the credit.