What You Need to Know About the New Healthcare Bill and the Tax Laws Hidden Therein

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It is official. The Patient Protection and Affordable Health Care Act was signed by the President on March 23, 2010. The law changes the entire paradigm behind healthcare and even changes some tax rules. While it has passed and is now the rule of the land,The Center graciously reminds those reading this special report that we do not take a position of endorsing the rule, nor opposing it. We write this special report to inform the business community of what has changed in both healthcare and the tax consequences that will now affect closely-held business owners.

Changes in Healthcare

Rules on Preexisting Conditions

Starting in 2014, insurance companies will no longer be able to deny coverage for preexisting conditions to adults. Children under the age of 27, whose parents are purchasing insurance for them, will no longer be denied health coverage within the next six months. Those with health considerations (or have children with) ailments such as epilepsy, cystic fibrosis and a whole range of genetic-and age-related diseases will gain the right to be covered.

Healthcare Exchanges

Currently, healthcare insurers and consumers are limited as to where and how they can buy and sell health insurance. Under the new law, "healthcare exchanges" will be created allowing more flexibility as to how, who and the means in which healthcare insurance can be purchased. While the exact mechanics of the healthcare exchanges remains to be seen, they are predicted to increase competition in the insurance marketplace and make healthcare insurance more affordable to consumers.

Changes in the Tax Laws

Individual Mandate

With the new law comes an obligation for all individuals to be insured. Those individuals who refuse to get coverage will face a fine of up to $695 per year to a maximum of $2,085 per family per year or 2.5 percent of the household income over the amount subject to income tax, whichever is greater. The penalty is being phased in as follows: 2014 - $95 or 1 percent, 2015 - $325 or 2 percent, 2016 - $695 or 2.5 percent. The penalty then increases after 2016 based on a cost of living adjustment. For some, it may be less expensive to pay the fine as opposed to purchasing health insurance. However, be aware that the $695 penalty is a penalty by means of The Internal Revenue Code. In other words, the penalty must be paid or such individuals will face the IRS.

Government Tax Credits

In order to pay for the individual mandate for insurance, the federal government is offering tax credits to individuals that are not eligible for Medicare, Medicaid, or are not covered by their employers for health insurance.The tax credits do not become effective until 2014 and are available for individuals and families making between 100 percent and 400 percent of the federal poverty guidelines. The current federal poverty level for an individual is $22, 050 and for a family of four is $88,200.

This credit works as follows: 1) the individual purchases insurance from an insurance exchange. 2) The individual tells the insurance exchange what their income is. 3) The IRS issues a credit and pays the insurance exchange a fee. 4) The individual pays the insurance exchange the difference.

Employers with Over 50 Employees

In the new law, there is no mandate or requirement that employers provide insurance to employees. There is, however, a dichotomy between employers employing 50 employees or more and those employers employing 49 employees or less. Those employing 50 or more face penalties if their employees elect the government credits for their health insurance purchases. The penalty is $2000 per employee who elects the government credits; however, the first 30 employees who do so do not count against the company. Small businesses employing 49 employees or less are under no such penalties.

Insurance Companies

A special penalty applies to insurance companies and self-insured companies if the premiums

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