

Financial, Legal & Tax Advisory

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About the author:

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Phase in of the Healthcare Act for 2011

Introduction

It has been over a year now since the Patient Protection and Affordable Healthcare Act (PPAHA) was signed into law. The expansive PPAHA passed in 2010 contains many provisions that mean benefits for the people of this country. In applying the new law, the government decided it was best to phase in the provisions year-by-year to the existing system of healthcare. This year, 2011, a number of provisions of the law become effective. The following listed benefits begin in effect this year:

Older Children

Adult children, whose parents are purchasing insurance for them, will be allowed to stay on their parents' health insurance. Many companies have set up cafeteria benefits in order to dispose of the costs of the health care measures for families. This in effect will enable employees to shoulder the costs on their own healthcare, yet provide for health care coverage for their children that are age 26 and under. Most healthcare benefits provided under this provision of the law for workers and retirees comes tax free as it has in the past.

Changes to Flexible Spending Accounts

Effective also on January 1, 2011, the cost of over-the-counter drugs cannot be reimbursed by Flexible Spending Accounts, unless a prescription has been issued. Archer and Health Savings Account holders will be under a similar rule.

Small Business Tax Credit

This year, employers with 25 or less full-time employees, that average compensation of \$50,000 or less, and pay at least half of the health insurance coverage for their employees are eligible for a tax credit. During tax years 2010, 2011, 2012, and 2013, employers will receive a 35% tax credit (in addition to a tax deduction for the premiums paid less the tax credit).

Indoor Tanning

The new law creates an excise tax on all indoor tanning services. The individual that receives the service must pay the tax to the operator; who will collect the tax and remit it to the federal government. The tax is 10%.

Reporting

Employer provided coverage is not taxable as it has been in the past. In 2011, W-2s will have a space provided to inform employees of the value of the healthcare benefits provided to them by their employers. The forms will include information based on the 2011 tax year and will be issued in early 2012.

Adoption Credit

This year, the Act increases the maximum adoption credit to \$13,170 per child up from \$12,150. The credit is based on reasonable and necessary fees paid by the adopting parents. The law also has a refundable feature, meaning that if the amount paid exceeds the taxes the couple paid that particular year, a refund for the credit can still occur.

The Donut Hole Rebate

The Act provides for a one time \$250 rebate in 2010 to assist with the Medicare Part D coverage gap. This rebate does not repeat itself in 2011.

Conclusion

The Patient Protection and Affordable Health Care Act is sweeping in its effect on healthcare. In order to keep an even keel on the health care system that was already in place, Congress and the President developed a slow phase in period. To keep up with the changes, you should plan accordingly.

4-11

Dr. Basi's Travel Schedule:

May 2-6 – Phoenix, AZ

May 12-13 – New Orleans, LA

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Dr. Bart A. Basi, Senior Advisor

CPA / Attorney at Law

Dr. Basi authors "The Tax Report," a bi-monthly report on income and estate tax matters, articles on financial and tax subjects relevant to closely-held companies, and the "Financial, Legal, & Tax Advisory," a monthly newsletter.



- He is listed in Harvard Business School Profiles in Business and Management: An International Directory of Scholars and Their Research.
- He is listed as an expert in taxes and business valuations in the Illinois and Wisconsin Registers of Expert Witnesses.
- He is a member of the American Bar Association's Tax Committees on closely-held businesses, estate and gift taxes, business succession, and business planning and valuation.
- He holds an MBA in Accounting and Finance, a PhD in Economics, and has completed post-graduate work in taxation at Stanford University.

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