Virginia Business Lawyers

For your Health: Be Prepared to be Insured

By: David Carroll. ***This was posted Tuesday, June 15th, 2010***

Thanks to John Vandenhoff here is the first in a series of articles on the tax implications of the new health care law.

John Vandenhoff

On Mar. 30, 2010, President Obama signed into law H.R. 4872, the Health Care and Education Reconciliation Act of 2010 (Reconciliation Act, P.L. 111-152), effectively completing a massive overhaul of the U.S. health care system that will affect nearly all taxpayers, many employers, and many elements of the health care industry. The Reconciliation Act modifies H.R. 3590, the Patient Protection and Affordable Care Act (Health Care Act, P.L. 111-148) where the bulk of the legislation became law on March 23, 2010.

In the next few posts, we present a brief overview of some of the key tax changes affecting individuals in the recently enacted health reform legislation. Please call our offices for details of how the new changes may affect your specific situation.

Individual Mandate

The new law contains an "individual mandate"-a requirement that U.S. citizens and legal residents have qualifying health coverage or be subject to a tax penalty after 2013. In Virginia, this is resulting in a court battle because the Virginia legislature passed a law in its recent session exempting citizens from this requirement. If enforceable under the new law, those without qualifying health coverage will pay a tax penalty of the greater of: (a) $695 per year, up to a maximum of three times that amount ($2,085) per family, or (b) 2.5% of household income over the threshold amount of income required for income tax return filing. The penalty will be phased in over three years starting in 2014.

Beginning after 2016, the penalty will be increased annually by a cost-of-living adjustment. Exemptions will be granted for financial hardship, religious objections, American Indians, those without coverage for less than three months, aliens not lawfully present in the U.S., incarcerated individuals, those for whom the lowest cost plan option exceeds 8% of household income, those with incomes below the tax filing threshold (in 2010 the threshold for taxpayers under age 65 is $9,350 for singles and $18,700 for couples), and those residing outside of the U.S.

Premium Assistance Tax Credits for Purchasing Health Insurance

The health care legislation provides tax credits to low and middle income individuals and families for the purchase of health insurance. Specifically, for tax years ending after 2013, the new law creates a refundable tax credit (the "premium assistance credit") for eligible individuals and families who purchase health insurance through an Exchange. The premium assistance credit, which is refundable and payable in advance directly to the insurer, subsidizes the purchase of certain health insurance plans through an Exchange. Under the provision, an eligible individual enrolls in a plan offered through an Exchange and reports his or her income to the Exchange. Based on the information provided to the Exchange, the individual receives a premium assistance credit based on income and IRS pays the premium assistance credit amount directly to the insurance plan in which the individual is enrolled. The individual then pays to the plan in which he or she is enrolled the dollar difference between the premium assistance credit amount and the total premium charged for the plan. For employed individuals who purchase health insurance through an Exchange, the premium payments are made through payroll deductions.

The premium assistance credit will be available for individuals and families with incomes up to 400% of the federal poverty level ($43,320 for an individual or $88,200 for a family of four, using 2009 poverty level figures) that are not eligible for Medicaid, employer sponsored insurance, or other acceptable coverage. The credits will be available on a sliding scale basis.