Tax Implications for Individuals

The health care law makes several changes to taxes that mostly affect individuals with incomes over $200,000 or $250,000 for couples.

W-2 Reporting
You may notice on your W-2 Form that your employer has reported the cost of your group health insurance benefits. This new reporting will not affect the taxes you pay. The value of any health insurance benefits reported on your W-2 should not be included in your income when you file your taxes. No Medicare taxes will be withheld on this amount.

Medicare Taxes
Your Medicare taxes will not increase if you earn less than $200,000 (or less than $250,000 for a couple filing a joint tax return). Your earnings that are less than $200,000 (or $250,000 for a couple) will continue to be taxed at 1.45%.

If you earn more than $200,000 as an individual taxpayer (or more than $250,000 for a couple), you will see an increase in the amount you owe for Medicare taxes beginning in 2013. The tax rate on the portion of your earnings above these amounts will increase from its current rate of 1.45% to 2.35%. Your employer will continue to pay the employer’s portion of the tax at 1.45% on all of your earnings and withhold the employee portion of the tax. However, they may not have enough information to withhold sufficient amounts.

You may owe more at tax time if your employer does not withhold enough. To avoid this you may need to increase the amount withheld in the beginning of 2013. Married couples making more than $250,000, individuals working on multiple jobs, and those who are self-employed should pay particularly close attention to the amounts being withheld.

Investment Income Tax
Starting in 2013, if your income is more than $200,000 as an individual taxpayer (or more than $250,000 for a couple), you will pay a 3.8% tax on some of your investment income. Taxpayers with income less than $200,000 (or $250,000 for a couple filing a joint tax return) will not pay higher taxes on their investment income. Not all investment income is taxed. The tax applies to interest, dividends, annuities, royalties, rents and capital gains that are subject to income tax. It does not include income from Social Security, pensions, IRA distributions, or qualified IRA annuity payments.
To figure out the amount of the tax, subtract $200,000 (for an individual) or $250,000 (for a couple) from your modified adjusted gross income. Then compare the result with your net investment income. Multiply the lesser amount by 3.8% to get the amount of the tax.

For example, a married couple with a modified adjusted gross income of $275,000 and a net investment income of $10,000 would pay $380 in taxes on their net investment income: $275,000 - $250,000 = $25,000 which is larger than $10,000 for a tax of $10,000 x 3.8% = $380

Check with the IRS or your tax advisor for additional tax information.

Flexible Spending Accounts (FSA)
Some employers offer flexible spending accounts (FSA) that allow you to set aside part of your salary before it is taxed to help pay for some of your medical expenses. If you have one, the most you will be able to contribute to a FSA will be $2,500 starting in 2013. The $2,500 limit will go up in future years with inflation. Over-the-counter medications, such as aspirin or cough syrup, are no longer reimbursed, unless a doctor prescribes them.

Medical Expense Deductions
If you itemize your tax deductions, beginning in 2013 you will be able to deduct only those medical expenses that exceed 10%, not the current 7.5%, of your adjusted gross income. For example, if your adjusted gross income is $100,000 and your medical expenses are $12,000, you will be able to deduct $2,000 in medical expenses: $12,000 – [$100,000 x 10% or $10,000] = $2,000.

The floor will remain at 7.5% until 2016 for persons 65 and older or who are married to a spouse who is 65 or older.

New Tax on “Cadillac” Health Plans
Starting in 2018, your insurer will pay a 40% tax on the portion of your health benefit premiums that are above $10,200 for individual plans and $27,500 for family plans. The thresholds increase to $11,850 and $30,950 for some younger retirees not eligible for Medicare, as well as people in high-risk occupations. All levels will be indexed to the cost of living. If you are self-employed and get your insurance through a group health plan, your plan insurer will also have to pay the tax.

You will not directly pay this so-called “Cadillac plan tax” because your insurer owes the tax. An insurer could be an insurance company, your employer, or a third party that handles your employer’s health plans. It will be up to your insurer to determine if it will pass the cost of the tax onto you or onto your employer.

It’s time to learn more about the health care law.
Go to www.HealthLawAnswers.org