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HEALTH CARE REFORM AND YOUR TAXES...

You might ask – what does the health care reform bill have to do with my taxes? The answer is – way more than meets the eye.

Here are some points to ponder...

1. The government will be running out of Social Security/Medicare funds in 15-20 years (or so we have been told over and over again). This bill adds almost \$1 trillion dollars to the cost of health care in this country. Where do you think that's going to come from? The national debt as of 7/31/09 is \$11.6 trillion. The current budget deficit is stands at \$1.3 trillion, increasing by \$181 billion in July alone. (Just fyi...the deficit in 2008 reached \$455 billion – the highest it had ever been until now.)
2. According to several reports, if the government were to tax the top 2% of taxpayers (those earning over \$500,000) at 100%, it would raise a little over \$1 trillion towards the current budget of nearly \$4 trillion and rising. Just a drop in the proverbial bucket. They will instead have to "follow the money" which leads directly to the middle class. The fact is that the majority of tax revenues flowing into government coffers come from the wallets of the middle class. The "rich" don't pay enough taxes to

cover the whole shebang. The poor don't pay any taxes. So – basically – you're "it". Your medical insurance premiums may or may not go down. But, your taxes are definitely going up!

3. The bill will impose a penalty (up to 8% of annual payroll) on all businesses with annual payroll costs of more than \$250,000 which do not provide health insurance to all employees in the requisite amounts. Employers will be mandated to pay not less than 72.5% of the premium for single individuals and not less than 65% of the premium for family coverage. Those employers who do not/cannot afford this will be slapped with a penalty. For an employer with \$450,000 in annual payroll costs – that would amount to \$36,000 per year. This may force many small businesses to close their doors. Ergo...the circle continues...more unemployment, less tax revenues, higher taxes for those still employed.

If an employer fails to comply – even unintentionally, the penalty for doing so could in some cases reach \$500,000. The government will be conducting audits of qualified health benefits plan compliance. This will again add to the growing costs – but at least it will create a few jobs.

4. Any individual who declines to obtain "acceptable" health insurance will also be penalized by adding a tax equal to 2.5% of the excess of the taxpayer's adjusted gross income over "the amount of gross income specified in section 6012(a)(1) with respect to that individual. If you read the Internal Revenue code – you will see that this 6012 (a) (1) amount relates to (depending on your filing status) an amount combining the personal exemption(s) and standard deduction you would be allowed on your tax return for that year. So a quick, down and dirty estimate....a married couple with 4 children would be entitled to 4 exemptions of \$3,650 each, or \$14,600. Add to that the standard deduction for joint filers of \$11,400 and you get a total of \$26,000. If your income is \$150,000 – you would subtract out the \$26,000, leaving \$124,000 to be taxed at an EXTRA 2.5%. Your wallet would be lighter by \$3,100.

Each individual will have to provide proof of insurance annually. Presumably this will be provided via your annual form 1040. According to the bill – you will have to provide, "(A) the name, address and TIN of the primary insured and the name of each other individual obtaining coverage under the policy, (B) the period for which each such individual with the coverage referred to in subsection (a), and (C) such other information as the Secretary may require." And you thought Big Brother was a figment of some science fiction writer's imagination...

Another fyi – individuals covered by a "collective bargaining agreement" (unions) do not have to comply. Ditto members of congress.

5. Under consideration as avenues to raise the funds to pay for all of this...

a. Doing away with completely or severely limiting Section 125 cafeteria plans, more commonly known as flexible spending plans. According to Ways & Means Committee member Artur Davis (D-Ala) as quoted in the BNA Daily Tax Report, tax advantaged accounts work for a "small group" of taxpayers, notably "people who are high income, very healthy and very young." This gentleman needs a reality check and he also needs to read the Internal Revenue Code. Due to strict non-discrimination rules, highly compensated persons are severely limited to the amounts they can contribute to a cafeteria plan. The huge majority of the money in Section 125 plans is benefiting the rank and file employees.

b. Taxing all or most of employer provided health insurance to the recipient employee. This will not only bring in increased income tax – but it will also bring in additional Social Security and Medicare taxes as well. And – who does this hurt the most? It certainly does not affect higher wage earners as they have passed the ceiling for Social Security deductions – usually by a lot. Rather it hits – hard – the average employee who will not only pay additional tax on that "benefit" – even if it's only at 10% - but will also be hit with an additional 7.65% in Social

Security/Medicare taxes as will his/her employer. What happened to no increase in taxes for 95% of Americans?

If you want to see how this might affect you – try this website <http://savemyflexplan.com>. It will be very enlightening.

- c. Disallowing the employer a deduction for the mandated health insurance premium being paid on behalf of an employee. (That's a good one...).
- d. Reducing the reimbursements to physicians and also to hospitals and by "reducing potentially preventable hospital readmissions" via something called an "excess readmission ratio". I guess the hospitals get penalized if they don't cure you on the first try.
- e. A surcharge tax for certain "high income" individuals. The most recent definition of "high income" as it refers to health care reform is couples earning over \$250,000. In order to raise the funds needed for this program – the \$250,000

number will have to be lowered.

- f. Allowing the tax cuts of the prior administration to expire. Dividends will no longer be taxed at 15%. Capital gains rates will go back up – how high is anyone's guess. This will bring the top rate back up to 39.6%, plus the surcharge, plus state taxes...and plus...???

In case your curiosity level is raised...

1. The bill can be found on the internet – all 1,018 pages of it. Read it. You'll have done more to understand what's in this bill than the members of Congress who will be voting on it.
2. Stay informed. However you decide you feel about this bill – yea or nay - let your elected representatives know. If they don't hear from you – they will assume you agree with the provisions.
3. Keep in mind that those in favor of this bill will be able to push it through under a rule allowing budget reconciliation items to be passed with only 50 votes – not even a simple majority.

Stay tuned...

