

Financial, Legal & Tax Advisory

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The Potential Tax Effects of the American Health Care Plan

It is important as business leaders and owners across the country that we understand some of the tax effects of the proposed legislation known as the American Health Care Act (AHCA). The bill has largely been sidelined. It will likely not be enacted in its current form unless there is a shift in the views of elected officials on health care policy. This type of legislation goes substantially beyond providing adequate health care across the country and has far reaching tax implications. With that said, we do not take a position on the bill, but we are taking this opportunity to share with everyone what we know about the effect on taxes this bill could have, if enacted.

Individual and Employer Penalties - Under the Patient Protection and Affordable Care Act (commonly referred to as the ACA or Obamacare) there is a requirement for individuals to be insured under a health insurance contract. That is the law of the land right now. Employers are also under obligation if they have 50 or more employees to provide them with affordable health insurance. Under the AHCA, these obligations would be dropped and the requirement/penalty would be unapplied retroactively to January 1, 2016.

Net Investment Income Tax (NIIT) – This 3.8% tax applies to capital gains and other investment gains if the taxpayer has an income of over \$250,000. Under the new bill, this tax would no longer apply. The policy position is to encourage investment. It is likely that further reduction will happen in the capital gains tax as well.

Additional Medicare Tax – Similar in nature to the NIIT, this is a 0.9% tax, it would also be repealed.

Excise Tax on High Dollar Health Plans – These plans are plans that exceed \$10,800 for individuals and \$29,500 for families. The tax would be paid by the insurers themselves, not the

individuals. It was not due to be in place until 2020, under the AHCA that would be delayed until 2025.

Medical Device Excise Tax – A tax was supposed to go into effect January 1, 2016 for qualified medical equipment. The tax is 2.5% and is now delayed until after the 2017 tax year. The AHCA would repeal the tax entirely. While there is plenty of thought on it, the Medical Device Excise Tax may never make it into effect because it is so unpopular, nobody wants it.

Excise Tax on Tanning Services – This is a 10% tax on tanning services. What's interesting is that the number of excise tax filers did not go up as expected. In fact, the IRS was expecting at least 500,000 new excise tax filers, yet only 20% of that ever materialized.

Health Insurance Provider Fee – This is a fee imposed on health insurance providers, but has been delayed until 2018. The AHCA repeals this fee.

It is also important to note that the current state of the AHCA would allow separate pooling of those with preexisting conditions. Under an amendment an exemption was in place for Congress regarding this, but that has been closed.

Conclusion

This information is current as of April 28, 2017. So far none of this legislation appears to be advancing. However, if it were to gain steam, it is important to know these proposed revisions, and any changes that may be made. It is apparent that regardless of how the current health care law is modified, it is going to have a tax impact on individuals and businesses across the U.S. The Center routinely advises on these matters, as well as business succession and valuations of companies. If you have questions, please call us at 618-997-3436.

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