

Tax Legislative Update

Breaking news from Capitol Hill
from Grant Thornton's National Tax Office

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Senate approval of health bill sets up House-Senate negotiations

The Senate voted 60 to 39 on Dec. 24 to approve a sweeping health care reform package with billions in tax changes. The House and Senate can now begin the difficult negotiations to resolve the differences between their bills.

The opportunities for compromise are narrow. The Senate needed the unanimous support of all 58 Democrats, plus two independents, in order to clear its bill. The House passed its version on Nov. 7 in a close 220-215 vote that also leaves House Democrats with a slim majority.

Both the House and Senate bills contain hundreds of billions in tax changes. Although there are some similarities in the tax titles, Democratic leaders will have to resolve several major tax differences to reach an agreement. The most significant differences lie in how each chamber pays for its bill.

Major Senate tax offsets not in the House bill include:

- a 40 percent excise tax on most health plans worth more than \$8,500 for individuals and \$23,000 for families;
- a 0.9 percent Medicare tax increase on employee wages in excess of \$200,000 for singles and \$250,000 for married couples; and
- a 10 percent excise tax on tanning salons.

Major House tax offsets not in the Senate version include:

- a 5.4 percent surtax on adjusted gross income above \$500,000 for single filers, trusts and estates, and \$1 million for joint filers; and
- several new penalty provisions for transactions lacking economic substance and corporations with over \$100 million in gross receipts.

See the following chart for a full comparison of the revenue-related provisions in each version.

Contact information

Mel Schwarz
Partner
National Tax Office
T 202.521.1564
E Mel.Schwarz@gt.com

Dustin Stamper
Manager
National Tax Office
T 202.861.4144
E Dustin.Stamper@gt.com

www.GrantThornton.com/tax

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Side-by-side comparison of tax-related health care provisions
 Individual and employer mandates and assistance

Provision	America's Affordable Health Choices Act (H.R. 3962) as passed by the House	Patient Protection and Affordable Care Act (H.R. 3590) as passed by the Senate
Individual mandate	<ul style="list-style-type: none"> • Individuals would be required to obtain a minimum level of health coverage or pay a penalty. • Penalty would be a tax of 2.5% of adjusted gross income above a taxpayer's standard deduction and exemption amount (\$9,350 for a single taxpayer and \$18,700 for a couple in 2009). • Hardship waivers would be available if coverage is unaffordable. • Penalty would be capped at the average national cost for basic health insurance coverage. • Generally effective beginning in 2013. 	<ul style="list-style-type: none"> • Individuals would be required to obtain a minimum level of health coverage or pay a penalty. • Exemptions provided for "hardship," religious objectors, nonresidents, prisoners, Native Americans and individuals at or below 100% of poverty level. • Penalty is \$750 per household member (or, if greater, 2% of income up to cost of bronze plan created by bill). • Families would pay half the amount for children up to a cap of \$2,250 for the entire family. • Penalty would phase in at \$95 in 2014, \$495 in 2015, \$750 in 2016 then indexed to CPI-U after 2016.
Individual assistance	<ul style="list-style-type: none"> • Credits would be available on a sliding scale for individuals up to 400% of poverty level. • Credits would be available to those with employers who offer no coverage or offer coverage with costs over 12% percent of their income. • Credits would apply against the cost of premiums for the basic plan available in a new healthcare exchange created by the bill. 	<ul style="list-style-type: none"> • Tax credits would be available based on the ratio of premium cost to income and would be refundable and advanceable. • Cost-sharing assistance would also be available • Cost-sharing and tax credits would be offered on a sliding scale for those between 100% and 400% of poverty level. • Tax credits, cost-sharing and premium credits would be tied to specific categories of coverage created by the bill and would generally be available beginning in 2014.
Employer mandate	<ul style="list-style-type: none"> • Beginning in 2013, employers would choose to either: 1) offer insurance and contribute to premiums or 2) pay an 8% tax on wages. • Employers electing to offer insurance would have to cover at least 72.5% of individual premiums and 65% of family premiums. • Separate elections could be made for separate lines of business and for full-time and part-time employees. • 8% tax on wages would not apply to employers with annual payrolls below \$500,000 and would phase in at payroll levels between \$500,000 and \$750,000. • Employers electing to offer insurance but who fail to meet required minimum standards would be subject to a \$100 daily penalty for each employee not covered. 	<ul style="list-style-type: none"> • Employers would not be required to offer health coverage. • Employers with over 50 full-time employees (30 hours and above) would pay \$62.50 per month for each full-time employee unless they offer coverage or have no employees who receive a tax credit or cost-sharing assistance for health coverage. • Employers with over 50 full-time employees that offer health care coverage at an employee cost that qualifies the full-time employee for assistance would be assessed a fee equal to the lesser of \$250 a month times the number of full-time employees qualifying for assistance or \$62.50 per month times the number of full time employees. • Fees would not be deductible. • New rules generally effective starting in 2014.
Employer assistance	<ul style="list-style-type: none"> • Tax credit of up to 50% of coverage costs would be available for businesses with 25 or fewer employees and average wages under \$40,000. • Tax credit would phase out based on number of employees and AGI per employee, and coverage for employees with over \$80,000 of income would not be eligible for the credit. • Tax credit available for only two taxable years total. • Effective for tax years beginning in 2013 and later. 	<ul style="list-style-type: none"> • Tax credit of up to 35% of coverage costs would be available for small firms in 2010 through 2013. • Full credit would be available for firms with 10 employees or less and average wages below \$25,000, with the credit phasing out between 10 and 25 employees and average pay between \$25,000 and \$50,000. • Phaseout thresholds would be indexed to CPI-U for years beginning in 2014 and seasonal workers would be excluded from the calculation. • After 2013, credit would increase to a maximum of 50% but would only be available for insurance purchased through state exchanges in first 2 years employers offer coverage. • Reduced credit would be available for nonprofits (25% in 2010 through 2012 and 35% for 2013+).

Side-by-side comparison of tax-related health care provisions

Revenue title

Provision	America's Affordable Health Choices Act (H.R. 3962) as passed by the House	Patient Protection and Affordable Care Act (H.R. 3590) as passed by the Senate
New tax benefits	<p>Exclusion for family health benefits (\$4 billion)</p> <ul style="list-style-type: none"> Individuals could exclude from income any employer-provided coverage allowed under the employer plan — including coverage for domestic partners and their dependents, beginning in 2010. <p>Exclusion for Indian healthcare (under \$50 million)</p> <ul style="list-style-type: none"> Health benefits provided to Indian tribes would not be included in income, effective on the date of enactment. 	<p>Therapeutic discovery credit (\$900 million)</p> <ul style="list-style-type: none"> Businesses with 250 or fewer employees could apply for a 50% credit for investments in qualified therapeutic discovery projects in 2009 and 2010. \$1 billion would be allocated to the program. Treasury loan would be available in lieu of credit. <p>State loan repayment (\$100 million)</p> <ul style="list-style-type: none"> Payments made under any State loan repayment or loan forgiveness program for increasing coverage in underserved areas would be excluded from income, effective beginning in 2009. <p>Adoption credit (\$1.2 billion)</p> <ul style="list-style-type: none"> The adoption tax credit and adoption assistance exclusion would be increased by \$1,000, and the credit would be made refundable and extended through 2011.
Primary tax revenue raiser	<p>High-income surtax (\$461 billion)</p> <ul style="list-style-type: none"> Beginning in 2011, a 5.4% surtax would be imposed outside of normal tax brackets on AGI above \$500,000 for single filers, trusts and estates, and \$1 million for joint filers. Threshold not indexed for inflation. The surtax would apply to modified adjusted gross income, including both ordinary and capital gains, and could not be reduced by credits. 	<p>Increased Medicare tax on highly paid (\$87 billion)</p> <ul style="list-style-type: none"> An additional 0.9% tax would apply to wages in excess of \$200,000 (\$250,000 if married filing jointly) beginning in 2013. Tax would apply only to employee portion of tax. Tax would apply to self-employment income, but cannot be taken into account in determining the deduction for one-half of self-employment taxes. <p>Non-deductible excise tax on high-cost insurance (\$149 billion)</p> <ul style="list-style-type: none"> Excise tax of 40% would be levied on insurance companies for employer health insurance plans above \$8,500 for singles and \$23,000 for family plans. Thresholds increased to \$9,850 and \$26,000 for high-risk workers and non-Medicare retirees over 55. Generally all employer plans — including medical, dental, vision plans and health FSAs — count towards the cap, with an exception for indemnity and long-term care plans. Effective for tax years beginning in 2013 with threshold indexed for inflation in 2014 using CPI-U + 1%, and a transition rule would raise the threshold by 20%, 10% and 5% for the 17 highest-cost states for first 3 years.

Provision	America's Affordable Health Choices Act (H.R. 3962) as passed by the House	Patient Protection and Affordable Care Act (H.R. 3590) as passed by the Senate
Health-related tax revenue raisers	<p>Exclusion for employer Part D subsidy (\$3.0 billion)</p> <ul style="list-style-type: none"> Exclusion from gross income for the subsidy for drug plans for Medicare Part D-eligible retirees would be eliminated, effective for tax years beginning after 2010. <p>Flexible Spending Account limits (\$13.3 billion)</p> <ul style="list-style-type: none"> Contributions to health FSAs would be limited to \$2,500 (adjusted for cost of living), effective for tax years beginning after 2012. <p>Standard qualified medical expenses (\$5.0 billion)</p> <ul style="list-style-type: none"> HSA, FSA and HRA expenditures would be limited to items qualifying for the medical expenses itemized deduction (plus insulin and prescribed over-the-counter drugs), effective for tax years beginning after 2010. <p>Increased HSA penalties (\$1.3 billion)</p> <ul style="list-style-type: none"> Additional tax for improper HSA expenditures would increase from 10% to 20%, effective for disbursements in tax years beginning after 2010. <p>Excise tax on medical devices (\$20 billion)</p> <ul style="list-style-type: none"> A 2.5% excise tax would be levied on the first sale or use of medical devices effective after 2012. Exceptions would be provided for sales for use in further manufacture, for resale and for export, and for normal sales to the general public in a retail establishment. 	<p>Exclusion for Part D subsidy (\$5.4 billion)</p> <ul style="list-style-type: none"> Exclusion from gross income for the subsidy for drug plans for Medicare Part D-eligible retirees would be eliminated, effective for tax years beginning after 2010. <p>Flexible Spending Account limits (\$13.3 billion)</p> <ul style="list-style-type: none"> Contributions to health FSAs would be limited to \$2,500 (adjusted for cost of living), effective for tax years beginning after 2010. <p>Standard qualified medical expenses (\$5.0 billion)</p> <ul style="list-style-type: none"> HSA, FSA and HRA expenditures for medicines would be limited to prescribed medicine, including prescribed over-the-counter drugs, effective for tax years beginning after 2010. <p>Increased HSA penalties (\$1.3 billion)</p> <ul style="list-style-type: none"> Additional tax for improper HSA expenditures would increase from 10% to 20%, effective for disbursements in tax years beginning after 2010. <p>Deduction for medical expenses (\$15.2 billion)</p> <ul style="list-style-type: none"> The 7.5% AGI floor for the medical expenses itemized deduction would increase to 10% of AGI for taxpayers aged 64 and younger, effective for tax years beginning after 2012. The floor would remain at 7.5% for seniors until 2017. <p>Executive compensation deductions (\$600 million)</p> <ul style="list-style-type: none"> Insurance companies could not deduct employee pay over \$500,000 if at least 25% of premium income comes from plans meeting minimum creditable coverage requirements of the bill. Effective for compensation paid in tax years beginning after 2012 for services after 2009. <p>Excise tax on indoor tanning (\$2.7 billion)</p> <ul style="list-style-type: none"> A new 10% tax excise would be imposed on indoor tanning services on or after July 1, 2010.
New health-industry fees	<p>Insurance fee (\$2 billion)</p> <ul style="list-style-type: none"> A fee would be imposed on insurance and self-insurance plans at the rate needed to raise \$375 million per year, effective for policy or plan years beginning on or after Oct. 1, 2012. 	<p>Fees on healthcare industries (\$101.9 billion)</p> <ul style="list-style-type: none"> \$2.3 billion fee would be imposed on drug manufacturers beginning in 2010. \$2 billion fee would be imposed on medical device manufacturers (exemption for sales of all Class I devices and any Class II devices under \$100) from 2011 to 2017, \$3 billion after 2017. \$10 billion fee would be imposed on health insurers in 2017, phased in at \$2 billion in 2011, \$4 billion in 2012, \$7 billion in 2013, and \$9 billion in 2014-2016 (certain non-profit insurers would be exempt). Annual fees would be non-deductible and allocated by market share.

Provision	America's Affordable Health Choices Act (H.R. 3962) as passed by the House	Patient Protection and Affordable Care Act (H.R. 3590) as passed by the Senate
Non-health-related tax revenue raisers	<p>Corporate information reporting (\$17.1 billion)</p> <ul style="list-style-type: none"> Required Form 1099 and other information reporting would be extended to cover payments for goods and services and to require reporting of payments to corporations, effective 2012. <p>Worldwide interest allocation (\$26.1 billion)</p> <ul style="list-style-type: none"> Worldwide interest allocation rules that are scheduled to take affect for tax years beginning after Dec. 31, 2017, would be fully repealed. <p>Black liquor biofuel credit repeal (\$23.9 billion)</p> <ul style="list-style-type: none"> Unprocessed fuels, including the "black liquor" byproduct of paper processing, would not qualify for the \$1.01 per gallon cellulosic biofuels credit, effective for fuel sold or used after the date of enactment. <p>Treaty rates for deductible payments (\$7.5 billion)</p> <ul style="list-style-type: none"> Reduced withholding rates available under tax treaties would be limited for certain deductible related-party payments, generally effective for payments made after the date of enactment. Reduced rates would be denied for deductible related-party payments to a foreign person if the person and the U.S. payor were members of a foreign controlled group and the top-tier foreign member corporation is not located in a country subject to a tax treaty that allows for reduced rates. <p>Economic substance and penalties (\$5.7 billion)</p> <ul style="list-style-type: none"> Transactions would have economic substance only if they change the taxpayer's economic position in a meaningful way and the taxpayer had a substantial economic purpose for the transaction. Understatement penalty for a transaction lacking economic substance equals 40% (20% with disclosure). "Reasonable cause" exception for underpayment and fraud penalties would exclude tax shelter transactions and transactions lacking economic substance, and non-economic substance could not have "reasonable basis" to avoid refund penalties. Corporations with gross receipts over \$100 million or required to file reports by Section 13 of the Securities and Exchange Act of 1934 would have to reach a "more likely than not" standard to qualify for the "reasonable cause" exception for underpayment and fraud penalties. Generally effective with respect to transactions entered into after the date of enactment. 	<p>Corporate information reporting (\$17.1 billion)</p> <ul style="list-style-type: none"> Required Form 1099 and other information reporting would be extended to cover payments for goods and services and to require reporting of payments to corporations, effective 2012.