Income Tax Implications of The Healthcare Reform Act

On March 23, 2010 President Obama signed the Landmark Health Care Reform Act and was immediately challenged in court. The result was that many people were left confused about the law and its' effect your personal bottom line and taxes in particular.

The new law which incorporates a slew of new regulations and requirements for businesses and individuals is intended to increase the number of people covered by medical insurance and by doing so reduce the cost for everyone. The Health Care Reform Act commonly referred to as Obama Care is being phased in over the course of eight years with the vast majority of the law in place by the end of 2014.

One of the ways the law is intended reduce costs is through the creation of state-based exchanges. These exchanges allow lower income individuals and families to purchase coverage by taking advantage of cost sharing. Small businesses may also purchase insurance through the state exchanges and take advantage of similar cost benefits. The state exchanges will be available to individuals and families who are between 133-400% of the federal poverty level which is incomes from about $23,050. to $92,200 for a family of four.

The Health Care Reform Act, Obama Care does require that individuals without employer provided health coverage purchase their own or be subject to a tax penalty. The penalty for not purchasing coverage is based on income and therefore varies. The tax penalty will be eased into effect and at its' maximum will run from $695 to $2,085. per year. For a family of four with a household income of $50,054. the average tax penalty will be about $1,251. per year.

The majority of households, estimates range from 70-80%, who do not have some form of employer based health coverage will be eligible for premium support and as such will have access to state exchanges. The average family of four with a household income of $50,000 a year will pay about $3,400 a year for insurance.

The cost for an average family of four breaks down as follows:

Household Income:	$50,000.
Total Cost of Insurance:	$17,853.
Tax Credit:	$14,468.
Final Cost to Taxpayer:	**$3,385**.

The Henry Kaiser Family Foundation website provides a great tool to calculate your actual cost for health insurance beginning with the year 2014. The health reform subsidy calculator allows you to put in your family income, size and your age and calculates exactly what your costs will be.

Employers
In most cases businesses who employ more then 50 people, full-time, will be required to provide health insurance coverage under this law. The law states that if you have more then 50 full-time employees and at least one of them receives the premium support tax credit a fee (tax penalty) of $2,000 per full-time employee (excluding the first 30) will be assessed. This applies only to employers who do not offer health coverage already.

For employers who do offer coverage but still have a full-time employee who receives a premium support tax credit the employer will have to pay a tax penalty of $3,000. for each full-time employee receiving a credit or $2,000. per employee, excluding the first 30, whichever is less.

It is important to note that all the tax penalties for employers pertain to full-time employees only. For example a business with 100 employees of which only 49 are full-time is exempt from providing coverage.