Office of Congresswoman Mary Jo Kilroy
1237 Longworth House Office Building • Washington, DC 20515

HEALTH INSURANCE REFORM
REVENUE PROVISIONS

EXCISE TAX ON HIGH COST EMPLOYER-SPONSORED HEALTH COVERAGE

The bill levies an excise tax of 40 percent on insurance companies and plan administrators for any health coverage plan with an annual premium that is above the threshold of $10,200 for single coverage and $27,500 for family coverage. The revenue collected by the tax is reduced by 80 percent as compared to the original Senate-passed bill. The tax is effective in 2018 and applies to the amount of the premium in excess of the dollar threshold. The tax applies to self-insured plans and plans sold in the group market, and does not apply to plans sold in the individual market (except for coverage eligible for the deduction for self-employed individuals). Stand-alone dental and vision plans are disregarded in applying the tax. An additional threshold amount of $1,650 for single coverage and $3,450 for family coverage applies for retired individuals age 55 and older and for plans that cover employees engaged in high risk professions. The dollar amount thresholds are automatically increased if the inflation rate for group medical premiums between 2010 and 2018 is higher than the Congressional Budget Office estimates in 2010. Employers with age and gender demographics that result in higher premiums are allowed to value the coverage provided to employees using the rates that would apply using a national risk pool. The dollar thresholds are indexed to inflation.

UNEARNED INCOME MEDICARE CONTRIBUTION FOR HIGH WAGE WORKERS

The bill increases the HI tax rate by 0.9 percentage points on an individual taxpayer for wages and self employment income in excess of $200,000 ($250,000 for joint return). The bill also creates an "Unearned Income Medicare Contribution" – broadening the taxable base of the HI tax to apply to net investment income for taxpayers earning over $200,000 ($250,000 for a joint return). Net investment income is interest, dividends, royalties, rents, annuities, gross income from a trade or business involving passive activities, and net gain from disposition of property (other than property held in a trade or business). Net investment income is reduced by properly allocable deductions to such income. The provisions are effective in 2013.

INCREASING TRANSPARENCY IN EMPLOYER W-2 REPORTING OF VALUE OF HEALTH BENEFITS This provision requires employers to disclose the value of the benefit provided by the employer for each employee's health insurance coverage on the employee's annual Form W-2. The provision is effective in 2011.

DISTRIBUTIONS FOR MEDICINE QUALIFIED ONLY IF FOR PRESCRIBED DRUG OR INSULIN Conforms the definition of qualified medical expenses for HSAs, FSAs, and HRAs to the definition used for the medical expense itemized deduction. Over-the-counter medicine obtained with a prescription continues to qualify as qualified medical expenses. The provision is effective in 2011.

INCREASE IN ADDITIONAL TAX ON DISTRIBUTIONS FROM HSAS AND ARCHER MSAS NOT USED FOR QUALIFIED MEDICAL EXPENSES Increases the additional tax for HSA withdrawals prior to age 65 that are used for purposes other than qualified medical expenses from 10 percent to 20 percent and increases the additional tax for Archer MSA withdrawals from 15 percent to 20 percent. The provision is effective in 2011.

LIMITING HEALTH FSA CONTRIBUTIONS This provision limits the amount of contributions to health FSAs to $2,500 per year. The provision is effective in 2013.

PHARMACEUTICAL MANUFACTURERS FEE This provision imposes an annual flat fee on the pharmaceutical manufacturing sector beginning in 2011 allocated across the industry according to market share. The schedule for the flat fee is: 2011, $2.5 billion; 2012 and 2013, $2.8 billion; 2014 to 2016, $3 billion; 2017, $4 billion; 2018, $4.1 billion; 2019 and later, $2.8 billion. The fee does not apply to companies with sales of branded pharmaceuticals of $5 million or less.

MEDICAL DEVICE MANUFACTURERS FEE This provision imposes an excise tax on the sale of a medical device by a manufacturer or importer at a rate of 2.3 percent. Exempted from the tax are eyeglasses, contact lenses, hearing aids, and any device designated by the Secretary of the Treasury to be of a type that is generally purchased by the public at retail for individual use. The provision is effective in 2013.

HEALTH INSURANCE PROVIDER FEE This provision imposes an annual flat fee on the health insurance sector beginning in 2014 allocated across the industry according to market share. The schedule for the flat fee is: 2014, $8 billion; 2015 and 2016, $11.5 billion; 2017, $13.5 billion; 2018, $14.3 billion and indexed to medical inflation for later years. The fee does not apply to companies whose net premiums written are $25 million or less.

ELIMINATING THE DEDUCTION FOR EMPLOYER PART D SUBSIDY This provision eliminates the deduction for the subsidy for employers who maintain prescription drug plans for their Medicare Part D eligible retirees. The present law exclusion of the subsidy from an employer’s gross income is retained. The provision is effective in 2013.

MODIFICATION OF THE THRESHOLD FOR CLAIMING THE ITEMIZED DEDUCTION FOR MEDICAL EXPENSES This provision increases the adjusted gross income threshold for claiming the itemized deduction for medical expenses from 7.5 percent to 10 percent. Individuals age 65 and older would be able to claim the itemized deduction for medical expenses at 7.5 percent of adjusted gross income through 2016. The provision is effective in 2013.

TAX ON INDOOR TANNING SERVICES This provision imposes a ten percent excise tax on indoor tanning services. The excise tax would be effective for services provided on or after July 1, 2010.

EXECUTIVE COMPENSATION LIMITATIONS This provision limits the deductibility of executive compensation for insurance providers if at least 25 percent of the insurance provider's gross premium income is derived from health insurance plans that meet the minimum essential coverage requirements in the bill ("covered health insurance provider"). The deduction is limited to $500,000 per taxable year and applies to all officers, employees, directors, and other workers or service providers performing services for or on behalf of a covered health insurance provider. The provision is effective in 2013.

SPECIAL DEDUCTION FOR BLUE CROSS BLUE SHIELD (BCBS) Requires that non-profit BCBS organizations have a medical loss ratio of 85 percent or higher in order to take advantage of the special tax benefits provided to them, including the deduction for 25 percent of claims and expenses and the 100 percent deduction for unearned premium reserves. The provision is effective in 2010.

CORPORATE INFORMATION REPORTING This provision requires businesses that pay any amount greater than $600 during the year to corporate providers of property and services to file an information report with each provider and with the IRS. The provision is effective in 2012.

ELIMINATION OF UNINTENDED APPLICATION OF CELLULOSIC BIOFUEL PRODUCER CREDIT In 2008, Congress enacted a $1.01 per gallon tax credit for the production of biofuel from cellulosic feedstocks in order to encourage the development of new production capacity for biofuels that are not derived from food source materials. Congress is aware that some taxpayers are seeking to claim the cellulosic biofuel tax credit for unprocessed fuels, such as black liquor. The provision would limit eligibility for the tax credit to processed fuels (i.e., fuels that could be used in a car engine or in a home heating application). The provision is effective in 2010.

CODIFICATION OF ECONOMIC SUBSTANCE DOCTRINE AND PENALTIES The economic substance doctrine is a judicial doctrine that has been used by the courts to deny tax benefits when the transaction generating these tax benefits lacks economic substance. The courts have not applied the economic substance doctrine uniformly. The provision would clarify the manner in which the economic substance doctrine should be applied by the courts and would impose a penalty on understatements attributable to a transaction lacking economic substance. The provision is effective upon enactment.

SIMPLE CAFETERIA PLANS FOR SMALL BUSINESSES This provision would establish a new employee benefit cafeteria plan to be known as a Simple Cafeteria Plan. This eases the participation restrictions so that small businesses can provide tax-free benefits to their employees and it includes self-employed individuals as qualified employees. The provision is effective in 2011.

EXPANDING THE ADOPTION CREDIT AND ADOPTION ASSISTANCE PROGRAM Increases the adoption tax credit and adoption assistance exclusion by $1,000, makes the credit refundable, and extends the credit through 2011. The enhancements are effective for tax years beginning after December 31, 2009.

ENCOURAGING INVESTMENT IN NEW THERAPIES A two-year temporary credit subject to an overall cap of $1 billion to encourage investments in new therapies to prevent, diagnose, and treat acute and chronic diseases. The credit would be available for qualifying investments made in 2010 and 2011.

TAX RELIEF FOR HEALTH PROFESSIONALS WITH STATE LOAN REPAYMENT Excludes from gross income payments made under any State loan repayment or loan forgiveness program that is intended to provide for the increased availability of health care services in underserved or health professional shortage areas. This provision is effective for amounts received by an individual in taxable years beginning after December 31, 2008.

EXCLUDING FROM INCOME HEALTH BENEFITS PROVIDED BY INDIAN TRIBAL GOVERNMENTS Excludes from gross income the value of specified Indian tribal health benefits. The provision is effective for benefits and coverage provided after the date of enactment.

If you have additional questions on health insurance reform, please visit my website at www.kilroy.house.gov or call my local office at (614) 294-2196.