



The National Automatic Merchandising Association  
Serving the Vending, Coffee Service and Foodservice Management Industries

March 31, 2010

## **SPECIAL LEGISLATIVE BULLETIN NO. 10 – 04**

### **Overview of Provisions in the Federal Health Care Act**

The U.S. Congress passed and yesterday President Obama signed the final section of health care reform, The Reconciliation Act of 2010 (H.R. 4872).

The following is a general overview of provisions of interest to NAMA membership. Many groups are still reviewing the legislation, Congress has already started discussing changes, and the administration is just now beginning implementation. So please continue to contact NAMA and your own tax counsel when considering changes to your business operations. This remains a preliminary review and the legislation continues to be interpreted. Your NAMA government affairs team is actively engaged in this and will notify you of additional information as it becomes available.

#### **Individuals:**

##### **Required Coverage:**

All U.S. citizens and legal residents must have some minimum amount of health insurance coverage beginning January 1, 2014. Health care insurance will include various government-sponsored programs such as State Insurance Exchanges, eligible employer-sponsored plans, plans in the individual market, grandfathered group health plans and other coverage as recognized by the Secretary of Health and Human Services in coordination with the Secretary of the Treasury.

In approximately 90 days, there will be coverage for people who have lost health insurance and can't qualify for an individual policy. If an individual hasn't had insurance for six months, and can't afford or doesn't qualify for insurance because of a pre-existing medical problem, they may be eligible for this new federal "high risk" pool to be offered by the end of June.

Individuals who fail to have medical insurance by 2014 will be subject to a penalty equal to the greater of: (1) 2.5% of household income in excess of the taxpayer's household income for the tax year or (2) \$695 per uninsured adult in the household. The penalty will be phased in from 2014 to 2016. In 2014, the penalty will be the greater of 1% of household income over the filing threshold or \$95; for 2015, it will be the greater of 2% of household income over the filing threshold or \$325; and for 2016 it will be the full 2.5% or \$695 amount.

The National Automatic Merchandising Association. [www.vending.org](http://www.vending.org)

**HEADQUARTERS:** 20 N. Wacker Drive, Suite 3500, Chicago, IL 60606-3102, Voice: 312/ 346-0370, Fax: 312/ 704-4140

**EASTERN OFFICE:** 449B Carlisle Drive. Herndon, VA 20170-4607, Voice: 703/435-1210, Fax: 703/435-6389

**SOUTHERN OFFICE:** 2300 Lakeview Parkway, Ste. 700, Alpharetta, GA, 30009, Voice: 678/916-3852. Fax: 678-916-3853

**WESTERN OFFICE:** 150 South Los Robles Avenue, Suite 830, Pasadena, CA 91101, Voice: 626/229-0900, Fax: 626/229-0777

**Pre-existing conditions:**

Beginning this September, the new law is expected to stop insurance companies from rejecting children or excluding coverage because of pre-existing medical problems.

**Adult Dependent:**

The health care legislation changed the definition of “dependent” to include money spent for the medical care of any child who has not yet reached age 27. Children under 27 can remain on their parent’s health insurance plan.

**Individual Tax Credit for Health Insurance:**

Individuals may be eligible for a tax credit to help cover the cost of health insurance premiums for individuals and families who purchase health insurance through a state health benefit exchange. Eligibility depends on income. The premium assistance credit is available for individuals (single or joint filers) with household incomes between 100% and 400% of the federal poverty level (for the family size involved) who do not receive health insurance through an employer or a spouse’s employer. This tax credit will be available beginning in 2014.

**Flexible Spending Account:**

Starting in January, individuals will not be allowed to use flexible spending account funds for over-the-counter medication. The maximum amount available for reimbursement of medical expenses, under a health flexible spending account in a year, cannot exceed \$2,500. This provision is effective 2013.

**Medical Care Itemized Tax Deductions:**

The maximum amount a taxpayer can claim for the itemized deduction for unreimbursed medical expenses is increased from 7.5% of Adjusted Gross Income (AGI) to 10% of AGI for regular income tax purposes. This is effective for tax years beginning 2013, except that for 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer’s spouse turns 65 before the end of the tax year, the increased threshold does not apply and the threshold remains at 7.5% of AGI.

**Adoption Credit Increases:**

For 2010, the maximum adoption credit is increased to \$13,170 per eligible child (a \$1,000 increase). This increase applies to both non-special needs adoptions and special needs adoptions. Also, the adoption credit is made refundable. The new dollar limit and phase-out of the adoption credit are adjusted for inflation in tax years beginning after Dec. 31, 2010.

**Youth Insurance Plans:**

Beginning 2014, the State Insurance Exchanges will offer a high deductible “young invincibles” policy for those younger than 30 which will include 3 doctor visits plus catastrophic coverage. A plan will also be offered for those under 21.

**Medicare Tax Increase:**

The legislation imposes a 0.9 percent surtax on wage income over \$200,000 for individuals and \$250,000 for couples. The tax would not be deductible. It is also not indexed to

inflation. An additional 3.8 percent Medicare tax on income derived from interest, dividends, annuities, royalties, and rents for individuals with income over \$200,000 and couples over \$250,000 is added. This is also not indexed for inflation. These tax increases are effective 2013.

**Medical Device Fees:**

An excise tax of 2.3% on the sale of any taxable medical device will begin this year.

**Tax on “Cadillac” Insurance Plans**

A 40% tax is imposed on any “excess benefit” associated with employer-sponsored health coverage. “Excess benefit” means the amount by which the aggregate cost of the coverage exceeds an annual limitation specified in the act. For 2018, the annual limitation is \$10,200 for self-only coverage or \$27,500 for all other coverage. Retirees and employees in certain high-risk professions or who repair or install electrical or telecommunications lines have a higher limit. After 2018, the annual limitation is adjusted for inflation. This provision begins in 2018.

**Disclosure:**

Next year, all employers will list the amount of health benefits on individual W-2 tax forms.

**Small Businesses:**

**Small Business Tax Credit**

Small businesses with 25 or fewer employees with average wages of less than \$50,000 would be eligible for a credit of up to 50% of non-elective contributions the business makes on behalf of their employees for insurance premiums. Tax-exempt organizations would get a 35% credit against payroll taxes. This credit is available this year.

Small businesses with 10 or fewer employees and average wages of less than \$20,000 would get 100% of the credit. This credit would be phased out, up to the 25-employee limit. The \$20,000 average annual wages figure will be indexed for inflation after 2013. This tax credit is available this year.

**Large Businesses:**

**Employer Responsibility:**

An employer with an average of at least 50 full-time employees in the previous calendar year is a large employer. A large employer that does not offer coverage for all its full-time employees, or offers minimum essential coverage that is unaffordable, or offers minimum essential coverage that consists of a plan under which the plan’s share of the total allowed cost of benefits is less than 60%, is required to pay a penalty if any full-time employee is certified to the employer as having purchased health insurance through a state exchange with respect to which a tax credit or cost-sharing reduction is allowed or paid to the employee.

The penalty for any month is an excise tax equal to the number of full-time employees over a 30-employee threshold during the applicable month (regardless of how many employees are

receiving a premium tax credit or cost-sharing reduction) multiplied by one-twelfth of \$2,000. (Total FTE – 30 X \$2,000). This provision is effective 2014.

Employers with 200 or more employees must auto enroll new full time employees into health plans offered by an employer with an employee opt out if they demonstrate that they have coverage from another source. The penalty for not auto-enrolling in the case of an extended waiting period which exceeds 60 days is \$600.

### **Wellness Programs:**

The legislation permits employers to establish premium discounts or rebates to modify co-pays or deductibles up to 30% to encourage participation in health promotion or disease prevention programs. It also promotes and encourages worksite wellness programs.

### **Disclosure:**

Next year, all employers will list the amount of health benefits on individual W-2 tax forms.

### **Insurance Companies:**

#### **Insurance Plans:**

The U.S. Department of Health and Human Services will create qualified nonprofit health insurance groups to offer health insurance. Starting in 2014; there will be state based insurance exchanges and alternate exchanges for small business. These exchanges will be limited to small groups and individuals until 2017. The exchanges will also offer young invincible policy (which will include 3 doctor visits plus catastrophic coverage), and under age 21 plans. Starting in 2017 larger groups may be allowed to purchase health insurance in these exchanges.

#### **Type of Coverage:**

The legislation requires that starting August 2010 medical insurance plans have no lifetime limits, restricts annual limits, and eliminates rescissions. Starting 2014 there can be no annual limits, and no exclusions for pre-existing conditions. In 2018, plans must also cover preventative services.

#### **Health Insurance Fees:**

The legislation imposes considerable annual fees on the health insurance sector, according to the following schedule:

- \$8 billion in 2014;
- \$11.3 billion in 2015-2016;
- \$13.9 billion in 2017;
- \$14.3 billion in 2018.
- For subsequent years, the fee shall be the amount from the previous year increased by the rate of premium growth.

#### **Implementation Timelines:**

There are several different dates when parts of health care reform will begin. Some will start as soon as this summer, others won't begin for 8 years. For example:

- insurance company mandates (2010),
- fees on various health-related industries (2011 and later),
- Medicare “donut hole” fix (2011),
- increases in the Medicare tax for wealthier taxpayers (2013),
- individual coverage mandate (2014),
- Medicaid expansion (2014),
- creation of state exchanges (2014), and
- the 40% tax on “Cadillac” health insurance plans (2018).

This remains a preliminary review and the legislation continues to be interpreted. Your NAMA government affairs team is actively engaged in this and will notify you of additional information as it becomes available. Please let us know if you have any questions, and we will keep you informed as further interpretations and implementation occur. We will also provide updates during our legislative sessions during the NAMA OneShow.

---

Ned Monroe  
(703) 435-1210  
[nmonroe@vending.org](mailto:nmonroe@vending.org)

Pam Gilbert  
(703)-43-1210  
[pgilbert@vending.org](mailto:pgilbert@vending.org)

Kim Radulski  
(312) 346-0370 ext: 223  
[kradulski@vending.org](mailto:kradulski@vending.org)

Sandy Larson  
(626) 229-0900  
[slarson@vending.org](mailto:slarson@vending.org)

Mary Lou Monaghan  
(678) 916-3852  
[mmonaghan@vending.org](mailto:mmonaghan@vending.org)