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Paying for Health Care Reform

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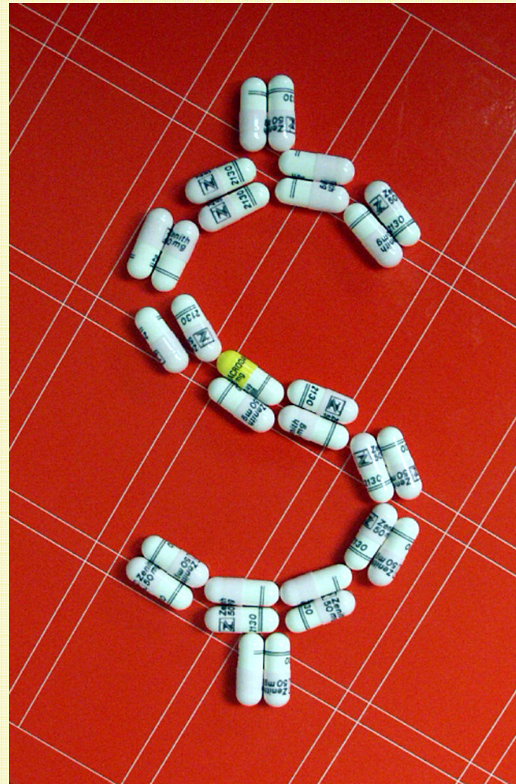
The Patient Protection and Affordable Care Act ("Act") comes with a price tag of approximately $938 billion over the next ten years. To cover this cost, the Act also includes a host of spending cuts and new taxes. The Congressional Budget Office estimates a net reduction of $428 billion in Medicare spending between 2010 and 2019. In addition, the Act creates several new taxes and makes cuts to some current tax deductions. The following is a list of measures designed to generate revenue for health care reform, listed by the year they first become effective:

2010

- *Tanning Bed Services*- Beginning in 2010, tanning bed services will be assessed a 10 percent excise tax. (Effective Date: July 1, 2010)
- *Cellulosic Biofuel Producer Credit*- In 2008, Congress enacted a $1.01 per gallon tax credit for the production of biofuel from cellulosic feedstock to promote the development of new capacity for biofuels not derived from food source materials. The Act excludes unprocessed fuels from the definition of cellulosic biofuel for purposes of applying the cellulosic biofuel producer credit. (Effective Date: January 1, 2010, retroactive to enactment)
- *Special Deduction for Blue Cross Blue Shield (BCBS)*- The Act 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 100 percent deduction for unearned premium reserves. (Effective Date: January 1, 2010, retroactive to enactment)



- *Economic Substance Doctrine*- The economic substance doctrine is a judicial doctrine that provides that a transaction must have an economic purpose other than the reduction of tax liability in order to be con-

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sidered valid. The Act codifies this doctrine and imposes a penalty on understatements attributable to a transaction lacking economic substance. (Effective Date: Upon Enactment)

2011

- *Exclusion of Over-the-Counter Drugs from Definition of Qualified Medical Expenses*- Beginning in 2011, the cost for over-the-counter drugs will be excluded from reimbursement through a health reimbursement arrangement (HRA) or health flexible spending arrangement (FSA) and from being reimbursed on a tax-free basis through a health savings account (HSA) or Archer Medical Savings Account (MSA). (Effective Date: January 1, 2011)
- *Penalty for Nonmedical Use of HSA or Archer MSA Funds*- The Act increases the tax on distributions from a HSA or an Archer MSA that are not used for qualified medical expenses to 20 percent (from 10 percent for HSAs and from 15 percent for Archer MSAs) of the disbursed amount. (Effective Date: January 1, 2011)
- *Pharmaceutical Manufacturers' Fee*- The Act imposes an annual fee on pharmaceutical manufacturers, beginning in 2011, to be allocated across the sector according to market share, although companies with sales of branded pharmaceuticals of $5 million or less will be excluded. The fee schedule is as follows:

Year(s)	*Annual Fee*
2011	$2.5 billion
2012-2013	$2.8 billion
2014-2016	$3.0 billion
2017	$4.0 billion
2018	$4.1 billion
2019 and onwards	$2.8 billion

(Effective Date: January 1, 2011)

2012

- *Reporting Payments to Corporations*- Effective 2012, businesses that pay any amount greater than $600 during the year to corporate providers of property and services must file an information report with each provider and the IRS. Such reporting is already required on payments for services to non-corporate providers. (Effective Date: January 1, 2012)

2013

- *Medical Device Manufacturers Tax*- The Act imposes an excise tax on the sale of a medical device at a rate of 2.3 percent. Eyeglasses, contact lenses, hearing aids, and any other device designated by the Secretary of the Treasury as being generally purchased by the public at retail for individual use are excluded. (Effective Date: January 1, 2013)
- *Limit on Contributions to FSAs*- The Act will cap the amount of contributions to a flexible spending account for medical expenses to $2,500 per year, increased annually by the cost of living adjustment. (Effective Date: January 1, 2013)
- *Itemized Deduction for Unreimbursed Medical Expenses*- The Act increases the threshold for the itemized deduction for unreimbursed medical expenses from 7.5 percent to 10 percent of adjusted gross income for regular tax purposes. The increase is waived for seniors age 65 or older for tax years 2013 through 2016. (Effective Date: January 1, 2013)
- *Medicare Part A Tax Rate*- The Act increases the Medicare Part A tax rate on wages by 0.9 percent (from 1.45 percent to 2.35 percent) on earnings over $200,000 for individual taxpayers and $250,000 for married couples. The Act also imposes a 3.8 percent tax on the unearned income of these same individuals and couples. (Effective Date: January 1, 2013)
- *Elimination of Deduction for Employer Part D Subsidy*- The Act eliminates the tax deduction for employers who receive Medicare Part D retiree drug subsidy payments.

(Effective Date: January 1, 2013)

- *Deductibility of Insurance Executive Compensation-* The Act limits the deductibility of executive and employee compensation to $500,000 per applicable individual for insurance providers, if at least 25 percent of the provider's gross premium income is derived from health insurance plans that meet the minimum essential coverage requirements of the Act. (Effective Date: January 1, 2013)

2014

- *Health Insurance Provider Fee-* The Act imposes an annual fee on the health insurance sector, beginning in 2014, to be allocated across the industry according to market share, but does not apply to companies whose net premiums written are $25 million or less. The fee schedule is as follows:

Year(s)	*Annual Fee*
2014	$8.0 billion
2015-2016	$11.3 billion
2017	$13.9 billion
2018	$14.3 billion
Subsequent years	Indexed to medical inflation

For non-profit insurers, only 50 percent of net premiums are considered in calculating the fee. The Act also exempts non-profit plans that receive more than 80 percent of their income from government programs targeting low-income or elderly populations, or people with disabilities, and voluntary employees' beneficiary associations (VEBAs) not established by an employer. (Effective Date: January 1, 2014)

2018

- The Act includes an excise tax on so-called "Cadillac" insurance plans. Beginning in 2018, insurance companies and plan administrators of employer-sponsored health plans with aggregate values that exceed the thresholds of $10,200 for individual coverage and $27,500 for family coverage will have to pay an excise tax equal to 40 percent of the plan's value that exceeds the thresholds. The threshold amount is increased by $1,650 for single coverage and $3,450 for family coverage for retired individuals age 55 and older and for plans that cover employees engaged in high-risk professions. The thresholds will be increased automatically if the inflation rate for group medical premiums between 2010 and 2018 is higher than the Congressional Budget Office estimates in 2010. Additionally, employers with age and gender demographics that result in higher premiums may value the coverage provided to employees based on the rates that would apply using a national risk pool. Beginning in 2020, the threshold amounts will be indexed to the consumer price index for urban consumers.

  This excise tax applies to self-insured plans and plans sold in the group exchange, but does not apply to plans sold in the individual exchange, except for coverage eligible for the deduction for self-employed individuals. Moreover, stand-alone dental and vision coverage are not considered when calculating the value of the plan. (Effective Date: January 1, 2018)

Information for this brief was obtained from the Kaiser Family Foundation, the National Conference of State Legislatures, and the Commonwealth Fund.