



HEALTHCARE

TAX INCENTIVES FOR INDIVIDUALS

HEALTH CARE: Tax Incentives For Individuals

Health care costs continue to outpace inflation and many Americans worry about how they will pay for not only health insurance but many related expenses. Since mid-2009, Congress has been debating health care reform and, in 2010, is expected to pass a sweeping overhaul of health care may finally pass in 2010. Health care reform will impact everyone: working individuals, retirees, individuals with special needs, businesses, non-profits, and government employers. Many of the reforms would not be effective until 2014; others will be subject to a gradual phase-in period. While Congress moves forward with health care reform, existing provisions in the Tax Code can help individuals and businesses manage their health care expenses. The Tax Code includes a variety of incentives, credits and deductions to help make the cost of health care more affordable for individuals.

This guide highlights some of the key incentives for individuals. You'll learn about:

- Deductible medical expenses;
- Health flexible spending arrangements;
- Health savings accounts;
- COBRA continuation coverage;
- Health care reform and
- More.



DEDUCTING MEDICAL EXPENSES

The definition of “medical expense” for federal tax purposes is fairly broad. Generally, the expense must be to primarily alleviate or prevent a physical or mental defect or illness.

Deductible medical expenses include amounts paid for:

- The diagnosis, cure, mitigation, treatment, or prevention of disease; and
- The costs of treatments affecting any part or function of the body.

You can also include in medical expenses amounts paid for dental treatment, vision care, and, in many cases, mental health care.

Medical equipment and supplies

The costs of equipment, supplies and diagnostic services related to medical care generally qualify as a medical expense. Deductible expenses for medical equipment may include the use of special

therapeutic devices, such as special controls on automobiles.

Equipment may also take the form of an addition to your home; for example, medical expense deductions have been allowed for installing elevators in the homes of persons suffering from heart disease. If the addition or improvement does not increase the value of the home, the entire cost of the addition or improvement is deductible as a medical expense. However, if the value of the home is increased, then the amount of the medical expense deduction is limited to the excess of the cost of the addition or improvement over the increase in the value of the home. Other qualified expenses may include removing structural barriers in a home to accommodate a physically-challenged person.

Costs for the blind and deaf

The costs of special items and equipment used by a blind or deaf taxpayer are deductible as medical expenses. This includes the costs of purchasing, training, and keeping a seeing-eye guide dog and other service animals as well as special telephone equipment for the hearing-impaired. The excess cost of braille books and magazines over the cost of the same printed material is deductible.

Example. Amanda is vision-impaired. Amanda purchases a book that is printed in Braille at a cost of \$35. The same book not printed in Braille

costs \$22. The \$13 excess cost for the Braille book is deductible as a medical expense.

Nonqualifying expenses

Some common expenses do not qualify. These include expenditures to improve or preserve your general health, such as the costs of a vacation trip, non-prescription vitamins, or a gym membership. Funeral expenses are not medical expenses.

AGI limitations

While medical expenses may be deductible, there are two very important limitations. Medical expenses are deductible only to the extent they (1) are not compensated for (reimbursed) by insurance or otherwise, and (2) exceed 7.5 percent of your adjusted gross income (AGI).

Caution. Congress may raise the threshold from 7.5 percent of AGI to 10 percent of AGI for regular income tax purposes in any final health care reform bill that may pass in 2010. Individuals age 65 and older (and their spouses) are expected to be temporarily exempt from the increase; possibly for a limited period of five years. The increase to 10 percent is still a proposal and not yet law.

If you are reimbursed more than your medical expenses, you may have to include the excess in income. If you are reimbursed in a later year for medical expenses you deducted in an earlier year, special rules apply.

Reminder. The medical expense deduction can be claimed only as an itemized deduction on Schedule A, Form 1040.

Example. Debra and Paul are married. They file a joint federal tax return, on which they report an adjusted gross income of \$22,000. During the year, they paid doctor and dental bills totaling \$1,900, of which \$1,000 was reimbursed by medical care insurance. They also spent \$300 for prescribed medicines and drugs not compensated by insurance and paid medical care insurance premiums of \$780 for the year.

- The medical expense deduction for Debra and Paul would be \$330, computed as follows:
- Doctor and dental bills (not compensated by insurance): \$900;
- Medical care insurance premiums: \$780;
- Drug expenses (not compensated by insurance): \$300;
- Total medical expenses subject to 7.5 percent limit: \$1,980;
- Less: 7.5 percent of \$22,000: \$1,650;
- Allowable medical expense deduction: \$ 330.

Income phaseouts

For tax years prior to 2010 and for tax years after 2010, higher income individuals are subject to a phaseout of their itemized deductions but medical expenses are exempt from this phaseout. You may also be liable for the alternative



minimum tax (AMT). In this case, medical expenses are deductible for AMT purposes to the extent that they exceed 10 percent of AGI. Because medical expenses are deductible for regular tax purposes to the extent that they exceed 7.5 percent of AGI, a separate computation must be made for the AMT and a lower overall deduction, if any, will be the result.

Medical care insurance

The cost of medical care insurance, including supplementary medical insurance under Medicare, is deductible as a medical expense subject to the 7.5 percent AGI limitation. Special rules apply depending on the type of medical insurance involved. Special rules also apply to self-employed individuals.

Of course, any portion of insurance premiums either paid for by an employer tax-free or by an employee pre-tax cannot also be deductible as a medical expense.

Generally, the premium cost of accident or health insurance is a deductible medical expense. However, you may be able only to deduct a portion if the premium is for multipurpose accident and health insurance. The deductible medical expense is limited to that portion of the premium paid for medical care expenses.

Premiums paid by an individual before age 65 for medical care insurance for himself, his spouse, or a dependent after he reaches age 65 are deductible in the year paid if the premiums are payable in equal yearly payments or more often.

Medicare. Medicare B payments are deductible as medical care insurance. However, the part of the Social Security tax that covers basic Medicare (Medicare A) is not deductible (with some very limited exceptions).

Medicines and drugs

Medicines and drugs must be prescribed by a physician or other professional to be deductible as a medical expense. If a physician recommends a medication but does not write a prescription, the medication is not a deductible medical expense. If a medication can be purchased over-the-counter without a prescription, it is not a deductible medical expense.

There is one important exception to the prescription-only rule: insulin. Additionally, the prescription requirement does

not apply to items that are not medicines or drugs, so some non-prescription items are deductible. This would cover items such as crutches and bandages.

A medication must be obtained legally to be deductible and must be prescribed by a physician. The IRS treats many types of medical and mental health professionals as physicians, including doctors of medicine or osteopathy, dentists, and doctors of psychiatry.

Travel expenses

Frequently, individuals must travel to meet with a health care specialist or undergo treatment at a particular hospital or clinic. Expenses for lodging away from home are deductible as a medical expense. No more than \$50 per night per person may be counted as a medical expense. However, what you spend on food is not deductible as a medical expense.

Out-of-pocket expenses. Your out-of-pocket travel expenses for medical care are generally deductible medical expenses. These include the costs of transportation (for example, airline or train tickets). If you use your vehicle for medical travel, you can deduct most operating expenses or 16.5 cents-per-mile (for 2010), plus tolls and parking fees.

Caution. Travel cannot be merely for the general improvement of your health or morale

even if you make the trip on the advice of a doctor to be deductible as a medical expense.

Hospitals and other institutions

The cost of caring for a patient in a hospital, including the cost of meals and lodging, is a deductible medical expense. Generally, the cost of institutional care for the severely handicapped or disabled individual is deductible as a medical expense. However, there is no flat rule for determining the extent to which expenses for care in an institution other than a hospital are deductible as medical expenses. Each situation involving institutional care has to be considered separately.

Mentally/physically handicapped persons. The cost of maintaining a mentally or physically handicapped person at a special school, including tuition, meals, and lodging, has been held to be a deductible medical expense.

Drug/alcohol abuse treatment. The cost of treatment, including meals and lodging, at an alcohol or drug therapeutic center, has been held to be a deductible medical expense. Similarly, the cost of maintaining a mentally or physically handicapped person at a special school, including tuition, meals, and lodging, has been held to be a deductible medical expense.

Nursing homes. Many of the costs of maintaining an individual at a



nursing home for the aged may qualify if the availability of medical care is the principal reason for the person's presence in the nursing home. If the person is there for personal or family reasons, only the cost of medical care may qualify.

Spouses and dependents

You may deduct medical expenses paid on behalf of yourself, your spouse and dependents, such as your children. In determining dependency status for purposes of the medical expense deduction, the dependent must satisfy a relationship and support test.

A child of divorced or legally separated parents is normally the dependent of the custodial parent, but, for purposes of the medical expense deduction, the child may be treated as the dependent of each parent. Therefore, the parent who pays a child's medical expenses can deduct the expenses without regard to whether the child is her dependent.

Cosmetic surgery

Cosmetic surgery is a complicated area. Generally, your expenses for cosmetic surgery or similar procedures are *not* deductible as a medical expense. This includes hair removal, hair transplants, liposuction, and face lift operations. However, they may be deductible if the surgery or procedure is necessary to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.

Example. Clara had breast reconstruction surgery after having a mastectomy. The IRS has ruled that breast cancer is a disfiguring disease and the cost of breast reconstruction surgery after a mastectomy as a treatment for breast cancer is a deductible medical expense.

Weight loss programs

Weight loss programs may be deductible if you undertake the program to treat a specific disease (including obesity), which is diagnosed by a physician. However, the costs of weight loss programs are not deductible if you undertake the program merely to improve your appearance or general health.

Substantiation

Medical expenses must be substantiated or the IRS can deny your deduction. This means that if the IRS asks you to

verify them, you must be able to. You must provide the name and address of each person/entity to whom payment for medical expenses was made, and the amount and date of the payment.

In addition, when substantiation is requested by the IRS, you must provide a statement or itemized invoice from the individual or entity to which payment for medical expenses was paid, showing the name of the person receiving the medical care, describing the nature of the services, the nature and purpose of any other expense, and the amount and date of payment, as well as any other information the IRS may deem necessary. The burden of proof is on you to show entitlement to a medical care deduction.

HEALTH FSAs

Many employers offer health flexible spending arrangements (also known as flexible spending accounts) (FSA). A health FSA allows employees to pay for eligible out-of-pocket health care and dependent care expenses with pre-tax dollars. Employees can put some of their salary aside before taxes through a voluntary salary reduction agreement to pay for many out-of-pocket expenses.

Neither federal income nor employment taxes are deducted from the contribution. The employer may also contribute.

However, there is a very important limitation. There is a tough “use or lose rule.” Furthermore, the employer must take the incentive to act on a health FSA. Individual employees, by themselves, cannot set up a health FSA. Self-employed individuals also cannot create an FSA.

Caution. Pending health care reform legislation could make significant changes to health FSAs. One proposal would cap annual contributions to a health FSA at \$2,500, with indexing for inflation. Another proposal would prohibit individuals from using health FSA dollars to pay for over the counter medications (unless for insulin or unless prescribed by a health professional). At this time, these are proposals and not law. If approved by Congress, they are expected to be effective for tax years after 2010.

Over-the-counter medications. One of the most beneficial uses of a health FSA is to purchase over-the-counter medications. Reimbursements by FSAs for most nonprescription drugs are not subject to tax if properly substantiated by the employee. The reimbursements are excluded from the employee’s income for tax purposes.

Qualifying over-the-counter medications include most medicines purchased for the purpose of alleviating sickness or treating a personal injury, such as antacids, allergy medicine, pain relievers, and cold medicine. Dietary supplements, such as vitamins, which are merely



beneficial to the employee’s health but are not designed to treat a particular condition, are not considered qualifying drugs. The medicines must be purchased for the personal use of the employee or the employee’s spouse or dependents to qualify for reimbursement.

Example. Allison purchases an antacid, an allergy medicine, a pain reliever, and a cold medicine from a pharmacy, none of which are purchased with a physician’s prescription. Allison purchases these items for personal use, or for the use of her spouse or dependents, to alleviate or treat personal injuries or sickness. Allison also purchases vitamins without a physician’s prescription to maintain her general health.

Allison submits substantiated claims for all of these expenses, which have been incurred during the current plan year, to Employer N’s health FSA for reimbursement. Allison is not compensated for these expenses by insurance or otherwise. Allison’s purchases of antacid, allergy medicine, pain reliever, and cold medicine without a physician’s prescription are expenditures for medical care.

Her health FSA reimbursement is therefore excludable from income. However, the vitamins are merely beneficial to Allison's general good health. The cost of the vitamins is not an expense for medical care and is not reimbursable from the health FSA or excludable from income.

Caution. Don't confuse health FSAs with another form of FSAs: dependent care FSAs. A dependent care FSA can be used to pay for the costs of day care, summer day camp, and for the care of a physically or mentally incapacitated dependent of any age.

Employer-provided debit and credit cards

Health FSA reimbursements may be made through the use of employer-provided debit cards, credit cards, or other electronic media. The program ensures that reimbursements are for medical care.

The IRS has approved programs under which:

- (1) The employer requires a certification upon enrollment and a reaffirmation upon each use of the card, that the card will only be used for eligible medical care expenses;
- (2) Reimbursements for medical expenses are processed only if they originate with certain vendors having health care related merchant codes;
- (3) The employer's procedures provide that every claim is reviewed and substantiated, either automatically

- without additional documentation or manually through the submission of merchant or service provider receipts; and
- (4) The employer has adopted meaningful correction procedures for claims that are subsequently identified as impermissible.

Before any employee participating in a health FSA receives a debit card, the employee must agree that he or she will use the card only to pay for medical expenses of the employee or his or her spouse or dependents.

Employees must also agree that they will not use the debit card for any medical expense that has already been reimbursed, not to seek reimbursement under any other health plan for any expense paid for with a debit card, and acquire and retain sufficient documentation (including invoices and receipts) for any expense paid with the debit card.

Use-it-or-lose-it rule

A health FSA may not defer compensation. Consequently, no contribution or benefit from an FSA may be carried over to any subsequent plan year or period of coverage. Unused benefits or contributions remaining at the end of the plan year (or at the end of a grace period, if applicable), are forfeited. This is known as the "use-it-or-lose-it" rule.

Example. Barry elects coverage under a health FSA providing coverage of up to \$3,000 in eligible expenses during 2010. Through a salary reduction agreement, Barry has \$250 per month taken out of his paycheck during 2009. If, during the course of 2010, Barry has only \$2,900 in eligible health expenses, he must generally forfeit \$100 in unused benefits. Barry cannot receive the \$100 in the form of cash or any other taxable or non-taxable benefit.

Grace period. There is a limited exception to the use-it-or-lose-it rule. A plan that establishes the FSA may allow for a grace period of up to 2 1/2 months following the end of each plan year before amounts are forfeited. Expenses an employee incurs during the grace period may be paid or reimbursed from benefits or contributions that remain unused at the end of the immediately preceding plan year.

HEALTH SAVINGS ACCOUNTS

Many individuals mistakenly believe that a health savings account (HSA) is something they purchase, like health insurance. It is not. It is a savings account set up by the individual's employer or created through a bank, credit union or insurance company. Unlike a savings account that an individual opens at a bank, an HSA is generally only available to individuals who are covered by a high deductible health plan (HDHP). HSAs allow qualified individuals to save to cover medical expenses on a tax-free basis.

Caution. Pending health care reform legislation in Congress would make important changes to HSAs if enacted. One proposal would cap (at a yet unspecified amount) annual contributions to HSAs.

HDHPs. Individuals generally must be enrolled in a high deductible health plan (HDHP) to be eligible for an HSA. Eligibility for an HSA is determined on a monthly basis. An eligible taxpayer is generally any individual who, on the first day of the month, is covered under an HDHP. If taxpayers who are married both have family coverage under separate plans, they are both treated as having the family coverage with the lowest annual deductible. If only one spouse has family coverage, both spouses are treated as having the family coverage.

Many HDHPs cost less than traditional health insurance plans. Typically, an HDHP will not pay for the first several thousand dollars of health care expenses but will cover costs after that threshold is met. Because HDHPs cost less than

traditional plans, individuals can use their cost savings to fund an HSA.

Minimum deductibles. For 2010, an individual's HDHP minimum deductible must be \$1,200 for self-coverage only or \$2,400 for family coverage. The annual out-of-pocket (including deductibles and co-pays) for 2010 cannot exceed \$5,950 (self-only coverage) or \$11,900 (family coverage) for 2010.

Contributions. Contributions to an HSA may be made by the covered individual, his or her employer, or both. If the individual's employer offers a cafeteria plan, the contributions may be made on a pre-tax basis. In other cases, contributions may be made on an after-tax basis and the employee can take an above-the-line deduction.

Comment. Contributions from persons other than the individual's employer are deductible by the individual but they may be subject to gift tax. No deduction is allowed to an individual who can be claimed as a taxpayer's dependent. Additionally, contributions cannot be made by or for an individual who is eligible for Medicare.

For 2010, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$3,050. For family coverage, the maximum annual HSA contribution is \$6,150.

Individuals age 55 and older can make "catch-up" contributions. The catch-up amount for 2010 is \$1,000 on top of the regular contribution amount. An individual who is eligible for Medicare cannot make a catch-up contribution.

Contributions may be invested to earn tax-free income. Funds in an HSA may be invested in investments approved for IRAs (such as certificates of deposit, stocks, mutual funds, or bonds). HSAs may not invest in life insurance contracts or in collectibles (such as works of art). HSAs may, however, invest in certain types of bullion or coins. The HSA trustee or custodian may also restrict investments to certain types of permissible investments.

Distributions. Distributions are excluded from gross income if they are used to pay the qualified medical expenses of the account beneficiary or the beneficiary's spouse or dependents. On the other hand, distributions not used for qualified medical expenses are included in gross income and are generally subject to an additional penalty.

Comment. One popular way to access funds in an HSA is through a debit card. The card must restrict payments and reimbursements to health care.

Qualified medical expenses. Qualified medical expenses are generally amounts paid for the diagnosis, cure, mitigation,

treatment, or prevention of disease. The cost of treating any structure or function of the body is also a qualified medical expense. HSA expenses are qualified medical expenses only to the extent they are not paid for by insurance or otherwise.

Generally, funds in an HSA cannot be used to pay premiums for any insurance. There are some exceptions, including COBRA continuation coverage.

Employer responsibilities

Employers who contribute to an employee's HSA are responsible for determining the following:

- (1) If the employee is covered under an HDHP; and
- (2) The employee's age.

Employers must also comply with a comparability rule. If the employer makes any HSA contributions, it must make available comparable contributions on behalf of all employees with comparable coverage during the same period.

COBRA

In 1986, Congress passed the Consolidated Omnibus Budget Reconciliation Act (COBRA) providing certain former employees, retirees, spouses, former spouses, and dependent children the right to temporary continuation of health coverage at group rates. The continuation coverage must be identical



to the coverage provided to similarly situated beneficiaries. However, the continuation coverage is only available when coverage is lost due to specific events, such as job loss.

The upside of COBRA is that continuation of group coverage is generally less expensive than individual coverage. The downside is that the individual pays the entire premium for coverage. However, some individuals may qualify for a temporary government subsidy to help pay for COBRA continuation coverage, applicable through February 28, 2010, as a result of the FY 2010 Defense Appropriations Act, discussed in further detail later.

Qualifying events. Qualifying events are certain events that cause an individual to lose health coverage. The type of qualifying event determines who the qualified beneficiaries are and the amount of time that a plan must offer the health coverage to them under COBRA.

For COBRA continuation coverage, termination of employment includes voluntary resignations and retirements, as well as firings if the employee was not fired for gross misconduct. A strike, a lockout or a layoff may also be a qualifying event.

Employers and plans required to provide COBRA continuation coverage and that fail to do so risk incurring an excise tax. The excise tax is generally \$100 per day for each qualified beneficiary for whom there has been a failure to extend coverage. The IRS will not impose a tax if the failure to provide continuation coverage is due to reasonable cause and is corrected within 30 days.

Small employers. COBRA generally does not apply to small-employer plans, church plans, and government plans. A small employer is one with fewer than 20 employees. However, so-called state “mini-COBRA” may require small employers to offer COBRA continuation coverage.

Duration. Generally, COBRA continuation coverage is available for 18 months. Disability can extend the period of coverage. COBRA coverage may end earlier if:

- Premiums are not paid on a timely basis;
- The employer no longer has a group health plan;
- Coverage is obtained through another employer group health plan; or

- A beneficiary becomes eligible for Medicare.

Temporary premium assistance. The *American Recovery and Reinvestment Act of 2009 (2009 Recovery Act)* provided temporary COBRA premium assistance to dislocated workers and, in some cases, their spouses and other family members. Under the *2009 Recovery Act*, individuals involuntarily terminated from employment between September 1, 2008 and December 31, 2009 were generally eligible for nine months of COBRA premium assistance.

Congress extended COBRA premium assistance in the fiscal year (FY) 2010 *Defense Appropriations Act*, passed in December 2009. The *FY 2010 Defense Act* extends eligibility for COBRA premium assistance to an individual (and family members who are qualified beneficiaries) who is involuntarily terminated from employment through February 28, 2010. The *FY 2010 Defense Act* also extends the maximum duration of COBRA premium assistance to 15 months and provides an election to pay premiums retroactively and maintain COBRA coverage.

Comment. Pending legislation in Congress would extend eligibility for COBRA premium assistance through June 30, 2010.

Generally, individuals pay 35 percent of the COBRA premium and employers must treat that as full payment. Employers, in turn, are reimbursed for their share

of the premium cost through a payroll tax credit.

Comment. The subsidy period ends earlier than 15 months if the individual becomes eligible for Medicare or another group health plan (for example, a plan sponsored by a new employer) or the individual reaches the end of the maximum COBRA coverage period. The individual is required by statute to inform his or her former employer of the new coverage.

An individual's 35 percent premium is based on the cost that would be charged to him or her for COBRA continuation coverage. Generally, the maximum COBRA premium is 102 percent of the applicable premium for continuation coverage but it can be higher. If the premium is less than the maximum, the reduced amount is the base for calculating the individual's 35 percent share.

Example. ABC Co. requires individuals electing COBRA continuation coverage to pay \$500 per month. Jessie is involuntarily terminated from employment and is eligible for COBRA. Jessie's premium is \$175 (35 percent of \$500). ABC's payroll tax credit is \$325 (65 percent of \$500).

Income phaseouts. COBRA premium assistance is excluded from gross income. However, the subsidy phases out for higher income individuals. Individuals with modified adjusted gross income

(AGI) between \$125,000 and \$145,000 (\$250,000 and \$290,000 married couples filing jointly) must repay a portion of the subsidy. If a taxpayer's modified AGI exceeds \$145,000 (\$290,000 for married couples filing jointly) the full amount of the subsidy will be repaid as an additional tax. A higher-income individual can elect to waive COBRA premium assistance.

Involuntary termination. An involuntary termination, the IRS has explained, is severance from employment due to the employer's unilateral authority to terminate the employment. Involuntary termination can also occur when an employer:

- Declines to renew an employee's contract;
- Tells an employee "resign or be fired;"
- Furloughs an employee;
- Reduces the employee's hours to zero;
- Moves its office or plant and the employee declines to relocate; or
- Locks out its employees.

Payroll tax credit. The payroll tax credit is generally claimed on Form 941, Employer's Quarterly Federal Tax Return. If the employer's COBRA premium assistance credit exceeds its payroll tax liabilities, the IRS will refund the excess. However, the IRS will apply the excess to any unpaid tax liabilities. In addition to filing Form 941, employers must document involuntary termination, including the date of the involuntary termination for each covered employee whose involuntary termination is the basis for eligibility for the COBRA subsidy.

Severance plans. Some employers continue to provide health coverage after involuntary termination from employment. If the employer treats the provision of health coverage as deferring the loss of coverage, the loss of coverage occurs when the employer's provision of coverage ends.

Example. Rose was involuntarily terminated from employment on November 15, 2009. Rose's severance package includes six months of health coverage for which no premium is required, running from December 1, 2009 to May 31, 2010. The employer considers no loss of coverage to have occurred until the six months of severance benefits have been exhausted. Under current law, Rose is ineligible for COBRA premium assistance because the loss of coverage occurs May 31, 2010, which is after the cut-off date of February 28, 2010.

However, if Congress would extend eligibility for COBRA premium assistance through June 30, 2010, as proposed, Rose would be eligible for COBRA premium assistance.

HEALTH COVERAGE TAX CREDIT

Congress created the refundable Health Coverage Tax Credit (HCTC) as part of the *Trade Adjustment Act of 2002 (TAA)* to help trade-displaced workers continue health care coverage. Individuals age 55 to 64 receiving benefits from the Pension Benefit Guaranty Corporation (PBGC) may also be eligible for the HCTC. Additionally, individuals must be enrolled in a qualified health plan.

Individuals can receive the HCTC either monthly as their premium becomes due or yearly as a credit on their federal tax return. Individuals electing a monthly credit receive an invoice from the IRS each month.

Before the *2009 Recovery Act*, individuals paid 35 percent of their health insurance premiums and the HCTC program paid 65 percent. The *2009 Recovery Act* temporarily raises the government-paid portion from 65 percent to 80 percent.

The *2009 Recovery Act* also allows the HCTC program may make retroactive payments for health insurance premiums paid before advance payment of the credit begins. Additionally, the HCTC is extended for family members

in certain cases. Generally, family members may continue to receive the HCTC for up to 24 months after the primary eligible individual enrolls in Medicare, divorces or dies.

Health Care Reform

Congress is expected to pass comprehensive health care reform in 2010. At this time, some of the proposals being debated in Congress are:

- An additional tax or penalty on individuals without health insurance coverage from their employer or other qualified sources of coverage.
- An additional tax on employers that do not offer health insurance coverage to their employees
- Tax credits and cost sharing to help lower income individuals obtain health insurance.
- Tax credits to help small employers offer health insurance to their employees.
- A new national long-term care assistance program.
- Tax equity for domestic partners covered by employer and other plans.

Comment. Individuals currently enrolled in employer-provided health insurance plans, Medicare and other government programs would be treated as having obtained qualified health care insurance.

Health care reform will be expensive. Some of the costs are projected to be paid for by reforms to Medicare and other government programs. Congress is also considering additional ways to raise revenue to pay for health care reform. Some of the health-related revenue proposals are:

- Excise tax on high-dollar health insurance plans.
- Surtax on higher income taxpayers (generally individuals with incomes above \$200,000 and families with incomes above \$250,000).
- Additional Medicare payroll tax on higher income individuals (generally individuals with incomes above \$200,000 and families with incomes above \$250,000).
- Annual fees on various health-related industries.

Congress also needs to decide when to implement health care reform. Many of the proposals being debated in Congress would kick-in after 2010.

CONCLUSION

Health care costs consume a large portion of many families' budgets. The tax incentives we have discussed can help you save current health care dollars and also plan for future health care costs. Looking ahead, it appears that Congress will enact national health care reform 2010. The prospect for future changes makes careful planning all the more important today.