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# Criser, Gough, & Parrish

## The Advisor

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### New Health Care Reform Law Tidbits

**U.S. citizens and legal residents will be required to have health insurance by 2014**, with some exceptions. Those without insurance will face a tax penalty of as much as 2.5% of taxable income.

**A rebate of \$250 will be available to Medicare Part D (drug coverage) beneficiaries** who reach the coverage gap (donut hole) and the coinsurance rate for costs within this gap are gradually reduced to 25%.

**Adults with pre-existing conditions will be able to purchase coverage** from temporary high-risk pools until 2014, when coverage cannot otherwise be denied for pre-existing conditions.

**A national program will be established to provide limited reimbursement for long-term care expenses** for individuals who participate by contributing to the program's cost through voluntary payroll deductions.

[www.aicpa.org](http://www.aicpa.org)

For more info, see pages 2-3 of this issue.

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### Things Are Getting Sticky

Washington seems to be reacting to everything. The sticky oil spill in the gulf will invite more regulation which inevitably will result in new tax legislation. Financial reform legislation, reeling in sticky-fingered bankers, will undoubtedly impact all businesses including small business. The deficit, projected this year at over \$13,000 per family, will surely result in more taxes sticking to the taxes already passed in the health care bill. Sticky is uncomfortable and Washington seems determined to make things even stickier.

We have tried to get you a lot of information on the new Healthcare Bill in this issue. We recommend caution before changing health plans or trying to shoehorn your company into one of these credits. The Healthcare Bill provides special rules for “grandfathered” health plans and making changes could potentially be detrimental. Just use caution.

Please be proactive and contact us at Criser, Gough and Parrish before things get too sticky in your financial life. We love working for our wonderful clients and welcome questions and tax and financial planning opportunities. Please, don't get stuck doing nothing when we are here to help.

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## New Health Care Reform Law

In March, Congress passed two pieces of legislation designed to reform the U.S. health care system.

Among other things, the legislation provides a credit to help individuals afford insurance; it also imposes a penalty on individuals who do not obtain health insurance. Small businesses that provide health coverage for their employees are also eligible for a credit; large businesses that provide inadequate health coverage are subject to an excise tax.

### Provisions for Individuals

**Premium assistance credit.** The Patient Protection Act provides for a refundable tax credit that eligible taxpayers can use to help cover the cost of premiums for health insurance purchased through a state health benefit exchange (which each state is required to establish under the act.)

Eligibility for the premium assistance credit is based on the individual's income for the tax year ending two years prior to the enrollment period. The premium assistance credit is available for individuals with household incomes between 100% and 400% of the federal poverty level who do not receive health insurance through an employer or spouse's employer.

The premium assistance credit will be available for years ending after Dec. 31, 2013.

**Excise tax on uninsured individuals.** The Patient Protection Act requires U.S. citizens and legal residents to maintain minimum amounts of health insurance coverage.

Individuals who fail to maintain minimum essential coverage will be subject to a penalty equal to the greater of (1) 2.5% of the amount by which the taxpayer's household income for the tax year exceeds the threshold amount of income required for the income tax return; or (2) \$695 per uninsured adult in the household.

This provision is effective for *tax years beginning after Dec. 31, 2013*. (The penalty will be phased in from 2014-2016.)

**Adult dependent.** The Reconciliation Act raises the age up to which parents can carry their children on their health insurance policy. It does so by allowing dependents to stay on parents' policies through age 26.

This change is for *plan years beginning 9/23/10*.

**Medical care itemized deduction threshold.** The threshold 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 after Dec. 31, 2012*, except that in the years 2013-2016, if either the taxpayer or the taxpayer's spouse has turned 65 before the end of the tax year, the increased threshold does not apply and the threshold remains at 7.5% of AGI.

**Additional hospital insurance tax on high-income taxpayers.** Under the Patient Protection Act, the employee portion of the hospital insurance tax part of FICA, currently 1.45% of covered wages, is increased by 0.9% on wages that exceed a threshold amount. The additional tax is imposed on the combined wages of both the taxpayer and the taxpayer's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, \$125,000 in the case of a married individual filing a separate return, and \$200,000 in any other case.

For self-employed taxpayers, the same additional hospital insurance tax applies to the hospital insurance portion of SECA tax on self-employment income in excess of the threshold amount.

The provision applies to remuneration received and *tax years beginning after Dec. 31, 2012*.

(continued on p. 3)

(continued from p. 2)

**Medicare tax on investment income.** The Reconciliation Act imposes a tax on individuals equal to 3.8% of the lesser of the individual's net investment income for the year or the amount the individual's modified adjusted gross exceeds a threshold amount. For estates and trusts, the tax equals 3.8% of the lesser of undistributed net investment income or AGI over the dollar amount at which the highest trust and estate tax bracket begins.

For married individuals filing a joint return and surviving spouses, the threshold amount is \$250,000; for married taxpayers filing separately, it is \$125,000; and for other individuals it is \$200,000.

The provision applies to *tax years beginning after Dec. 31, 2012*.

**Flexible spending arrangement (FSA).** The Patient Protection Act mandates that the maximum amount available for the reimbursement of incurred medical expenses of an employee, the employee's dependents, and any other eligible beneficiaries with respect to the employee, under a health flexible spending arrangement for a plan year (or other 12-month coverage period) must not exceed \$2,500.

The provision is effective for *tax years beginning after Dec. 31, 2012*.

**Restrictions on use of HSA and FSA funds.** Under the Patient Protection Act, amounts paid for over-the-counter medications will no longer be reimbursable from health savings accounts (HSAs), Archer medical savings accounts (MSAs), health FSAs, or health reimbursement arrangements. Amounts paid for a drug will only meet the definition of "Qualified medical expenses" if the drug is a prescribed drug (or is insulin).

This provision is effective for amounts paid or expenses incurred *after Dec. 31, 2010*.

**Tax on HSA distributions.** The additional tax on distributions from an HSA or an Archer MSA that are not used for qualified medical expenses is increased to 20% of the disbursed amount, effective for disbursements made during *tax years starting after Dec. 31, 2010*. (Under prior law, the tax was 10% for the disbursed amount for HSAs and 15% for MSAs.)

**Cafeteria plans.** The Patient Protection Act makes premiums for coverage under a qualified health plan offered through an exchange a qualified benefit under a cafeteria plan. This provision applies only to cafeteria plans established by a small employer that elects to make all its full-time employees eligible for one or more qualified plans offered in the small group market through an exchange.

This provision is effective for *tax years beginning after Dec. 31, 2013*.

### Provisions Unrelated to Health Care

**Expansion of adoption credit, adoption-assistance programs.** 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 adoption. Also, the adoption credit is made refundable.

**Tax on indoor tanning services.** The Patient Protection Act imposes a 10% tax on amounts paid for indoor tanning services. Like a sales tax, the tax will be collected from the person tanning when payment for the tanning service is made. The provision applies to services performed *on or after July 1, 2010*.

(Sources: Alistair M. Nevius, [www.journalofaccountancy.com](http://www.journalofaccountancy.com), 4/1/10 and Timeline of Major Provisions in the Democrats' Health Care Package)

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

# One Percent State Sales Tax Rate Increase

The Kansas state sales and use tax rate will increase from 5.3% to 6.3% on July 1, 2010. The retailer must charge a customer the combined sales tax rate that equals the sum of the applicable rate *plus all local sales tax rates*.

## Charging the new sales tax rate:

- ◇ **Goods delivered and labor services** performed on or after July 1, 2010.
- ◇ **An admission charge to an event held in Kansas** is subject to the state rate in effect on the date the ticket is sold and delivered to the buyer.
- ◇ **Building materials** are subject to the state rate in effect when the materials are delivered to the customer.
- ◇ **Construction services** generally are subject to Kansas sales tax when the services are performed.
- ◇ **Hotels** should charge sales tax on single-day room charges for June 30th and the morning of July 1st at the lower 5.3% state rate. All taxable room rentals charges thereafter should be taxed at the 6.3% state rate.
- ◇ Kansas sales tax is imposed both on the service of **renting or leasing tangible personal property** and on the sale of

tangible personal property by way of a lease or rental agreement. Each lease installment is treated as a separate sale.

- ◇ **Taxable maintenance or service contracts** for periods that begin on or after July 1, 2010 are subject to the 6.3% state sales tax rate.
- ◇ Kansas sales tax applies to charges for repair, installation, and application **labor services**, among others.
- ◇ **Telephone, cable, community antennae, and other subscriber television and telecommunication services** are subject to sales tax at the 6.3% state sales tax rate beginning July 1, 2010.
- ◇ **Metered utility charges for nonresidential water, gas, and electricity service** are subject to state tax at the 6.3% state rate beginning on July 1, 2010.
- ◇ Sales made from **vending machines, coin-operated amusement devices**, and similar equipment are deemed to occur when the money is removed from the machine or device. Money removed on July 1, 2010 and thereafter shall be subject to the 6.3% state sales tax rate.

(Kansas Department of Revenue, Notice 10-02)

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## Return Service Requested

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