

## Healthcare Reform Legislation

On December 24, 2009, the U.S. Senate passed its version of their healthcare reform legislation (The Patient Protection and Affordable Care Act). Now, along with the House bill (Affordable Health Care for America Act) which was passed on November 7, the U.S. Congress will begin work on merging the two healthcare bills into a single bill. This bill will have to be passed by both chambers of the Congress before being sent to President Obama to sign into law. Below is a summary of some of the major similarities and differences between the two bills.

The House bill will cover 96% of legal residents under age 65 while the Senate bill will cover 94% of legal residents under age 65. The CBO estimates the net cost of the House bill to be \$894 billion over a 10 year period and the Senate bill would cost \$871 billion over 10 years.

The most controversial issue with the current healthcare reform is the public option. The House bill would create a new government health insurance plan for individuals who work for small businesses or who do not get coverage through work. Like private insurers, the public plan would negotiate how much to pay medical providers. The Senate bill has no public option; however the Senate would direct the U.S. Office of Personnel Management to contract with private insurance companies to offer policies on their exchanges. These plans would be offered in each state for people without employer-sponsored healthcare plans that need to obtain private healthcare insurance.

Another major difference between the two bills is how they are financed. The major financing sources for the House bill will be \$460 billion from the introduction of a 5.4% surtax on individuals earning more than \$500,000 a year and couples making more than \$1 million. There are also more than \$400 billion in cuts to Medicare and Medicaid as well as \$20 billion from a 2.5% excise tax on medical device makers and \$13 billion from limiting contributions to flexible spending accounts. In contrast, the Senate bill includes special fees on insurance companies, drug makers, medical device manufacturers and imposes a 10% tax on indoor tanning. It also would raise payroll taxes for Medicare to 2.35% from the current 1.45% for individuals earning \$200,000 or more annually and for couples earning \$250,000 or more.

Both bills would bar insurers from excluding individuals for pre-existing conditions and preventing them from arbitrarily dropping policy holders. The House bill would allow young people to stay on their parents' insurance plans until the age of 27. The Senate bill would allow coverage until age 26.

Both bills would also require most individuals to obtain health insurance and would impose penalties on those who do not. Both also allow exemptions or waivers for economic hardship. The House bill would impose a 2.5% penalty tax on income up to the average cost of an insurance policy. The Senate would phase in a \$750 per person annual penalty (\$95 in 2014 and rising to \$750 in 2016) up to \$2,250 per family or a 2% of taxable income, whichever is greater.

With the House bill, employers with payrolls above \$750,000 must provide insurance to their employees or pay a penalty of 8% of payroll. The Senate bill does not require employers to offer coverage but companies with more than 50 employees would pay a fee of \$750 per employee if the government has to subsidize the employee's coverage.

Both bills also limit contributions to flexible spending accounts at \$2,500, increase penalties on non-medical HSA distributions to 20% from 10%, and prohibit flexible spending account, healthcare savings account and healthcare reimbursement account reimbursements for over-the-counter medications (unless insulin or prescribed by a doctor).

While there are similarities with the two bills, there are definitely significant differences which will make the reconciliation of the bills very difficult.

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