Timeline for Health Care Reform Implementation: Revenue Provisions

The Commonwealth Fund

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Health care reform legislation--The Patient Protection and Affordable Care Act and The Health Care and Education Affordability Reconciliation Act--includes numerous provisions for financing reform through new revenue sources. This timeline outlines these provisions; click on the dates to see the provisions that will be implemented during that year.

2010 **2011** **2012** **2013** **2014** **2018**

2010

- **Nonprofit Insurer Medical Loss Ratio—Tax Years Beginning in 2010 or Later.** Nonprofit Blue Cross Blue Shield organizations must have a medical loss ratio of 85 percent or higher in order to take advantage of tax benefits provided to certain health organizations under section 833, such as the deduction for 25 percent of claims and expenses, and the 100 percent deduction for unearned premium reserves. This change is expected to yield less than $50 million in 2010 and $400 million over 2010–2019.

- **Indoor Tanning Services Tax—July 1.** Indoor tanning services become subject to a 10 percent tax on amounts paid. The tax applies to services that use an electronic product with one or more ultraviolet lamps to induce skin tanning, and is expected to raise less than $50 million in revenues in the first year and $2.7 billion over 2010–2019.

- **Economic Substance Doctrine—Immediate.** The law codifies the economic substance doctrine, under which a transaction must have an economic purpose other than the reduction of tax liability in order to be considered valid. Penalties will be imposed for underpayments, with an increase from 20 percent under the economic substance doctrine previously to 40 percent under this law. This will apply to all transactions entered into after enactment and is expected to raise $100 million in 2010 and $4.5 billion over 2010–2019.

- **Biofuel Producer Credit—Fuel Sold or Used in 2010 or Later.** The cellulosic biofuel producer credit will no longer include unprocessed fuels that contain more than 4 percent by weight water and sediment, or more than 1 percent by weight ash. The impact of this change to the credit will likely fall on paper manufacturers. This change to the credit will apply to all fuel sold or used after January 1, 2010, and is expected to yield $23.6 billion in revenue over 2010–2019.

2011

- **Pharmaceutical Manufacturer Fee—January 1.** An annual, nondeductible fee on the pharmaceutical manufacturing industry and importers of branded drugs will be imposed and allocated according to market share. The fee will not apply to companies with sales of branded pharmaceuticals of $5 million or less. The annual fee will total $2.5 billion in 2011, $2.8 billion in 2012 and 2013, $3.0 billion 2014–2016, $4.0 billion in 2017, $4.1 billion in 2018, and $2.8 billion in 2019 and thereafter, with an estimated total of $27 billion raised over 2011–2019.

- **Conformed Definition of Medical Expenses—Tax Years Beginning 2011 or Later.** In 2011, the definition of medical expenses for the itemized medical expenses deduction will be extended to apply to health savings accounts, Archer Medical Savings Accounts (MSAs), health flexible spending arrangements, and health reimbursement arrangements. An exception to this rule is included so amounts paid for over-the-counter medicine prescribed by a physician qualify as a medical expense. This will restrict the field of previously qualifying services and expenses and will raise $400 million in 2011 and $5 billion over 2011–2019.

- **Increased Penalties for Nonmedical Use of HSA Funds—January 1. This** increases the additional tax imposed on distributions from HSAs and Archer MSAs not used for qualified medical expenses, based on conformed definition of medical expenses, from 10 percent under current law to 20 percent. This is estimated to yield less than $50 million in revenues in the first year and $1.4 billion over 2011–2019.

2012

- **Reporting Payments to Corporations—January 1.** Payers will be required to report payments to corporations on 1099-MISC forms for any payments made on or after January 1, 2012. Reporting these payments is estimated to yield new tax revenue from payees in the amounts of $400 million in 2012 and $17.1 billion over 2012–2019.

2013

- **Unearned Income Medicare Contribution—Tax Years Beginning 2013 or Later.** The Medicare Hospital Insurance tax will be increased by 0.9 percent for individuals with adjusted gross incomes over $200,000 and joint filers with adjusted gross incomes over $250,000. These taxpayers also will be subject to a 3.8 percent Medicare Contribution tax on investment income. The income thresholds are unindexed after 2013. These provisions are estimated to raise $1.3 billion in 2012 from accelerated realization of capital gains prior to the tax rate change, $20.5 billion in 2013 from the increased tax rate, and $210 billion over 2012–2019.

- **Medical Device Manufacturer Fee—Sales Made on or After January 1.** An excise tax of 2.3 percent will be imposed on manufacturers and importers of medical devices, except for those generally purchased by the public at retail for individual use, such as eyeglasses and hearing aids. This is expected to yield $1.8 billion in 2013 and $20 billion over 2013–2019.

- **Limits on Flexible Spending Arrangements—Tax Years Beginning 2013 or Later.** Health flexible spending arrangements in cafeteria plans will be limited to $2,500 in 2013, and indexed to the consumer price index after 2013. This is estimated to yield $1.5 billion in 2013, and $13 billion over 2013–2019.

- **Eliminating Deduction for Employer Part D Subsidy—Tax Years Beginning 2013 or Later.** Employers' expenses for maintenance of prescription drug plans for their Medicare Part D-eligible retirees will no longer be deductible. This is expected to raise $400 million in 2013 and $4.5 billion over 2013–2019.

- **Changes to Deductions for Medical Expenses—Tax Years Beginning 2013 or Later.** The threshold to deduct medical expenses will be raised from 7.5 percent of adjusted gross income to 10 percent. The threshold increase will be delayed until 2017 for those age 65 or older. This is estimated to yield $400 million in 2013, $2.5 billion in 2017, and $15.2 billion over 2013–2019.

- **Limiting Executive Compensation—Tax Years Beginning 2013 or Later.** Compensation for insurance provider officers, employees, directors, and other workers or service providers will have a $500,000 deduction limitation if at least 25 percent of the insurance provider's gross premium income from health business is from plans that meet the minimum creditable coverage requirements. This is estimated to raise $100 million in 2013 and $600 million over 2013–2019.

2014

- **Insurance Industry Fee—January 1.** Insurers will pay an annual fee, allocated according to market share. The fees collected will total $8 billion in 2014, $11.3 billion in 2015 and 2016, $13.9 billion in 2017, $14.2 billion in 2018, and will be indexed to medical cost growth in 2019 and thereafter. This is estimated to yield $60.1 billion over 2014–2019.

2018

- **Excise Tax on High-Cost Insurance Plans—Tax Years Beginning 2018 or Later.** Insurers will face a 40 percent excise tax on health coverage with premiums in excess of $10,200 for an individual or $27,500 for family coverage. These thresholds are increased to $11,850 for individuals or $30,950 for families in the case of retirees over age 55, electrical or telecommunications repairmen, law enforcement or fire protection workers, out-of-hospital emergency medical providers, and those engaged in the construction, mining, agriculture, forestry, and fishing industries. Thresholds are subject to adjustment for an unexpected increase in medical costs prior to the effective date, and will be indexed for inflation by the consumer price index plus 1 percent, with additional adjustment based on age and gender profiles of covered employees. The tax is levied at the insurer level, with employers aggregating and reporting information for insurers indicating the amount subject to the excise tax. This will yield an estimated $12.2 billion in 2018 and $32 billion total over 2018–2019.