

Tax Notes

House Passes American Health Care Act to Replace the Affordable Care Act

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On Thursday, May 4, 2017, the House of Representatives voted to approve the American Health Care Act (AHCA), H.R. 1628, by a slim margin vote of 217 to 213. If enacted, the AHCA would repeal and replace major pieces of the Patient Protection and Affordable Care Act.

It is believed that significant changes will be proposed by the Senate, and it is a safe bet that the bill will not come back to the House in its current form because of the conflicting policy demands of conservative and moderate GOP Senate lawmakers.

Highlights

The following are the tax provision highlights of the bill in its current form.

- Repeals the 3.8% tax on net investment income which is assessed on individuals, estates and trusts with passive and investment type income, above certain income thresholds.
- Repeals the additional 0.9% Medicare tax on wages and self-employment earnings currently assessed on single taxpayers with incomes above \$200,000 and married couples earning more than \$250,000 annually.
- Eliminates the so-called “medicine cabinet tax” which does not allow over-the-counter drugs to be included in “qualified expenses” for purposes of health savings accounts.
- Allows for higher contributions to health savings accounts (\$6,550 for self-only plans and \$13,100 for family coverage) and decreases the penalty for nonqualified distributions.
- Allows for higher contributions to flexible spending accounts.
- In place of government-subsidized insurance plans, the bill offers refundable premium tax credits ranging from \$2,000 to \$4,000 a year, depending on age and income. The credits would be reduced at higher income levels.
- Increases the amount of premium subsidies for younger more healthy adults, and reduces the amount for older adults, thus becoming more costly for those who are older.
- Imposes a premium surcharge or late enrollment penalty of up to 30% for people who do not maintain health coverage throughout the entire year.
- Allows states to waive some protections for those with pre-existing health conditions.
- Repeals the excise tax on individuals who do not purchase health care, known as the “individual mandate.”
- Continues to allow individuals under age 26 to be covered by their parents' health plans.
- Establishes funding for states that can be used for "high-risk" individuals, or other purposes.
- Decreases the percentage of adjusted gross income needed to be surpassed in order for medical expenses to be deductible — from 10% to 5.8%.

Observations

Critics of the bill passed by the House say that in its current form the bill appears to benefit individuals who are healthy and high-income earners. Others have said that the bill will lower insurance premiums, increase HSA contributions, while providing consumers with more control over their health care.

One Republican senator is quoted as saying, "We're writing a Senate bill and not passing the House bill." He added, "We'll take whatever good ideas we find there and meet our goals." He also said that there is no rigid timeline for producing a Senate version nor are there artificial deadlines to follow.

Summing Up

As with President Trump's Tax Plan, we expect significant changes to occur with the AHCA as it moves through the Senate and back to the House. We will continue to monitor this and provide ongoing Thought Leadership pieces as legislation transitions into its final form.

Contact Us

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