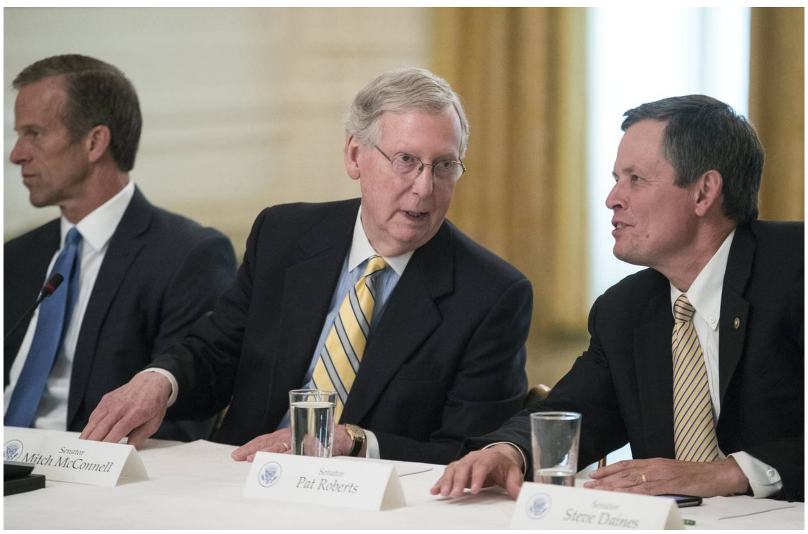
https://www.wsj.com/articles/how-the-proposed-health-care-bill-would-affect-your-taxes-1498815004

TAX REPORT

How the Proposed Health-Care Bill Would Affect Your Taxes

Proposed law would repeal the 3.8% surtax on net investment income and excise taxes for people without coverage



Senate Majority Leader Republican Mitch McConnell discussed healthcare legislation at the White House this week with Republican colleagues. PHOTO: MICHAEL REYNOLDS/EUROPEAN PRESSPHOTO AGENCY

By Laura Saunders

Updated June 30, 2017 10:51 am ET

There is no question your taxes will change if Republicans pass a new health-care bill.

Earlier this week, Senate leaders delayed a vote on the Better Care Reconciliation Act of 2017 until after July 4. The bill seeks to repeal or replace large swaths of the Affordable Care Act (ACA), also known as Obamacare.

While there are some differences between the Senate bill and the American Health Care Act, which the House of Representatives passed in May, the bills overlap in many areas. Those overlaps provide a likely picture of how the final product would affect your pocketbook.

Here's the potential impact:

Penalty for lack of coverage: Both bills repeal excise taxes for people who don't have appropriate coverage, retroactive to the beginning of 2016.

Taxpayers who made these penalty payments will be eligible for refunds. For a married couple with two children and $150,000 of income in 2016, the penalty payment was about $3,200 in 2016.

Premium tax credit: ACA provides lower-income taxpayers with upfront credits to help purchase insurance on exchanges. The Senate bill largely preserves this credit through 2019, while the House bill modifies the current credit for 2018 and 2019 by increasing it for younger adults and decreasing it for older people.

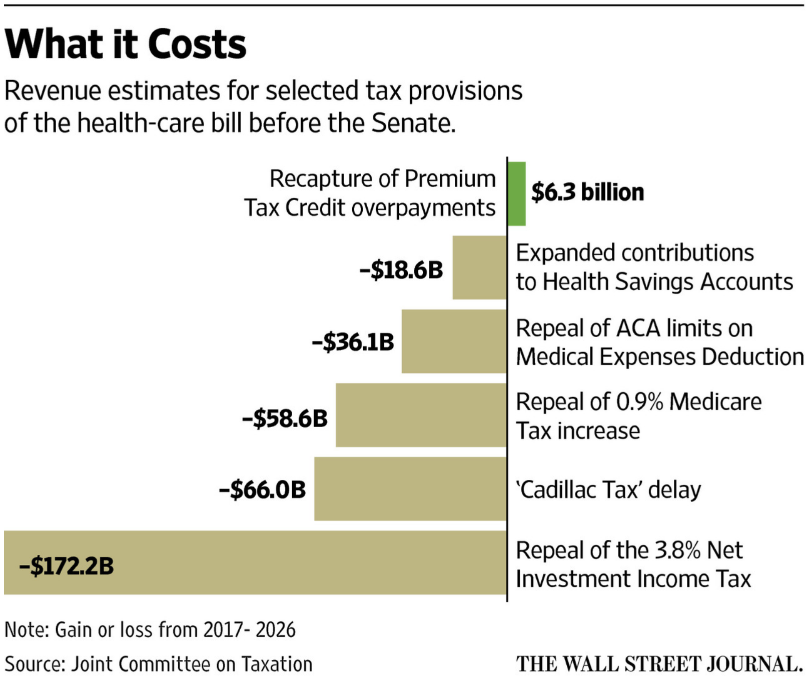
Both bills substantially shrink the credits after 2019, according to Karen Pollitz, a fellow at the Kaiser Family Foundation, a nonpartisan group that provides health-care analysis.

Both bills also make an important change to upfront tax credits for premiums for lower-income people. Under ACA, recipients of premium credits whose income turns out to be higher than they estimated often don't have to repay all of the credit due to a cap on the clawback.

Both House and Senate bills remove the cap on the premium clawback, Ms. Pollitz said. According to IRS data, about 90% of those claiming the credit estimated their income incorrectly.

Investment income surtax: Both bills repeal the 3.8% surtax on net investment income retroactive to the beginning of 2017. On Thursday, some Senators said they were open to preserving the surtax.

This levy took effect in 2013 and applies to most married couples with adjusted gross income above a threshold of $250,000 ($200,000 for single filers). Investment income includes capital gains, interest, dividends, royalties and certain rents, among other items.



Additional Medicare tax: Both bills also repeal the 0.9% additional Medicare tax for married joint filers earning more than $250,000 (or $200,000 for single filers)—but not until 2023.

Medical expenses deduction: The ACA raised the threshold for deducting medical expenses to 10% of income. The Senate's bill lowers the threshold to 7.5% for all taxpayers, while the House bill lowers it to 5.8%. Both provisions take effect for 2017.

Flexible spending accounts (FSAs): The ACA imposed a $2,500 annual cap on contributions to FSAs, workplace plans that employees can fund to pay health expenses with pretax dollars. With inflation adjustments, the limit is $2,600 for 2017.

Both bills remove this cap and restore the ability to use FSA funds to pay for over-the-counter medication without a prescription. The House bill is effective for 2017, and the Senate bill for 2018.

Dustin Stamper, a legislative analyst with accounting firm Grant Thornton, said if the cap is removed, many companies are likely to revert to a $5,000 limit, which was common before the ACA.

Health Savings Accounts (HSAs) and Medical Spending Accounts (MSAs): Both bills propose to expand these accounts, which allow pretax contributions to cover out-of-pocket expenses for high-deductible health plans.

The permitted 2018 contribution to an HSA or MSA would increase to equal the maximum out-of-pocket limit for high-deductible plans approved by the IRS, rising from $3,450 to $6,650 for individual coverage and from $6,900 to $13,300 for family coverage.

“Cadillac” plan tax: The ACA levied a 40% tax on the value of health-coverage plans exceeding a certain threshold, but the provision has never taken effect because it is unpopular on both sides of the aisle in Congress. Both bills push the date of this levy to 2026 from 2020.

Tanning tax: A last-minute deal in the ACA shifted a “Botox tax” on cosmetic procedures to users of tanning parlors. The revenue has fallen far short of projections, said analyst Scott Greenberg of the Tax Foundation, a research group. For example, it raised only $78 million of the expected $300 million in 2015.

The House bill repeals the 10% tanning tax as of June 30, while the Senate bill delays it until Sept. 30—when many tanners move indoors.

Corrections & Amplifications
Scott Greenberg is an analyst at the Tax Foundation. An earlier version misspelled his name.

Write to Laura Saunders at laura.saunders@wsj.com