The massive health care legislation, signed into law by President Barack Obama, contains provisions that will affect every dental laboratory owner with employees and most single-technician dental laboratory owners. However, while several items are effective immediately, a variety of mandates, tax increases and tax credits become effective over the next few years. Here are some key highlights.

**Effective in 2010**

Currently, employers may deduct the cost of health coverage provided to employees. But for tax years beginning in 2010 through 2015, small employers, including tax-exempts, may qualify for a more lucrative credit to reimburse a portion of the cost of employer-provided insurance.

In general, an eligible small employer is one who meets three criteria:

- An employer with no more than 25 full-time equivalent employees (FTEs) for the tax year.
- Average annual wages per employee do not exceed $50,000.
- The employer contributed at least 50 percent of the premiums for employee health care.

The credit is calculated as a percentage of employer-provided health...
insurance premiums, but the percentage varies based on the tax status of the employer and the year. (See Table 1)

Health insurance coverage purchased from a company licensed under state law qualifies for the credit for 2010–2013. However, the credit amount for the premium must be reduced if it exceeds an average premium (determined by the government) for the small group market and the rating area where the employee enrolls for coverage. For the final years of the credit in 2014 and 2015, the credit is only available to an employer who purchases health insurance coverage for his or her employees through a state-based exchange.

For taxable employers, this is a business credit that offsets both regular tax and AMT. To the extent the employer claims a tax credit, that amount of the insurance premium is not allowed as a business expense. An employer only receives the full credit if it has 10 or fewer full time employees and the average annual wages per employee do not exceed $25,000. As either of these thresholds is exceeded, a pro-rata phase-out occurs as the company moves from either 10 to 25 employees or from $25,000 to $50,000 of average annual wages. Each phase-out percentage is applied separately. In measuring the employer’s size, related or commonly controlled businesses must be aggregated.

In the past, employer-provided health coverage was only tax-free if furnished to employees, their spouses, and children eligible as tax return dependents. Effective this past March, the tax-free exclusion is extended to employer-provided health coverage for the child of a taxpayer who has not attained age 27 as of the end of the tax year. This new definition also applies to a self-employed taxpayer and more-than-2 percent S shareholder who claims a deduction for self-employed health insurance premiums that include a child under age 27. Similarly, employers who offer dependent health insurance coverage must increase the age limit for dependent participation in the plan, although the employer mandate only extends to age 26.

**Effective in 2012**
- 2.3 percent excise tax on the finished price of all dental restorations. Contact NADL at 800-950-1150 to obtain NADL’s report on this topic.

**Effective in 2013**
Currently, the Federal Insurance Contributions Act (FICA) employee payroll tax of 7.65 percent consists of two components:
- 6.2 percent on the first $106,800 of salary for Social Security.
- 1.45 percent on all wages for Medicare hospital insurance (HI).

This FICA amount is withheld from wages, and the employer must match the amount remitted to the government. Self-employed taxpayers pay the same rates, but must remit both the employer and employee share when filing their Form 1040. Self-employed taxpayers receive an income tax deduction for half of the amount paid.

Effective in 2013, an additional .9 percent Medicare HI tax is imposed on the employee share, but only to the extent that an individual’s wages exceed $200,000. Although the .9 percent HI increase is on the employee share, the employer is required to withhold the tax and remit it to the IRS. Similarly, the self-employment HI tax is increased by .9 percent. For joint returns, the extra 0.9 percent HI tax is calculated on wages and self-employment income in excess of $250,000, by considering both spouses as one for this computation. Accordingly, if the withholding has been inadequate, the additional 0.9 percent HI tax must be remitted via the Form 1040.

Because this extra tax is only on the employee share, a self-employed taxpayer will not be allowed to claim an income tax deduction for the .9 percent increase. The self-employed deduction for half of the self-employment tax remains at 7.65 percent.

As with all things political, health care reform is facing challenges so the information here could change. Learn more about health care reform and its effects on individuals, employers and providers at www.larsonallen.com/healthreform. JDT

**About the Author:**
Valiente graduated from the University of South Florida in 1973, is a Certified Public Accountant and has been in the practice of public accounting and consulting for more than 30 years. He was one of the founding partners of ValienteHernandez PA., which joined with the national accounting and consulting firm, LarsonAllen LLP in 2009. Valiente is now a tax principal with LarsonAllen.

---

**Table 1.**

<table>
<thead>
<tr>
<th>Tax Year Beginning</th>
<th>Taxable Employer</th>
<th>Tax-Exempt Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010–2013</td>
<td>35 percent</td>
<td>25 percent</td>
</tr>
<tr>
<td>2014–2015</td>
<td>50 percent</td>
<td>35 percent</td>
</tr>
</tbody>
</table>

For taxable employers, this is a business credit that offsets both regular tax and AMT.