Managing Your Money

Health Care Reform And Your Taxes

(NAPSA)—The health of your wealth may depend on how well you understand the Affordable Care Act and the changes it creates for federal taxes.

New Rules

Whether these changes affect you is largely a matter of your household's gross income minus certain deductions—your adjusted gross income (AGI)—and whether you have health insurance.

While most Americans will see little to no change when filing taxes due April 15, 2014, the experts at TaxACT point out that higher income taxpayers are more likely to be affected, particularly those with investment income.

Anyone whose modified AGI is $200,000 or more ($250,000 if filing jointly or $125,000 if married filing separately) will pay an additional 3.8 percent tax on 2013 investment income, including interest, dividends, capital gains, and rental and royalty income. It'll be added to tax already paid on investment income. For example, if you pay 20 percent tax on a long-term capital gain, your total tax on the gain will be 23.8 percent.

Fortunately, you can reduce your investment income by expenses that can be allocated to it, such as investment interest expense, advisory and brokerage fees, and rental and royalty expenses. You can also reduce it by state and local income taxes that can be allocated to investment income items.

If you pay the additional net investment income tax, you may also pay an additional 0.9 percent Medicare tax on wages and compensation in excess of $200,000. Since the tax is automatically withheld from employee wages, you simply report the amount in Boxes 5 and 6 of your Form W-2 on your tax return. The tax is calculated using figures on Schedule SE for business owners and the self-employed.

If you deduct unreimbursed medical expenses, the threshold has increased to 10 percent of your AGI. For example, if your 2013 adjusted gross income is $50,000, you can deduct only unreimbursed medical expenses that exceed $5,000. The threshold remains at 7.5 percent for taxpayers age 65 or older.

The new health care laws can affect your taxes.

"Let affordable, do-it-yourself tax software navigate these tax law changes for you," suggests TaxACT's Jessi Dolmage.

"The programs ask easy questions to help minimize your tax liability and maximize your deductions and credits."

Tax Credits And Penalties

If you get your 2014 health insurance through a state or federal marketplace, you may qualify for the advanced premium tax credit. Most often, it's paid directly to your insurance company, resulting in lower monthly premium costs.

If you prefer, you can pay your entire premium yourself and get the credit as a refund when you file your income tax return due April 15, 2015. This may be a good idea if your income is unpredictable and you want to ensure you don't owe taxes when you file.

"TaxACT will reconcile the credit with your actual income," says Dolmage. "You may receive a bigger credit or have to pay back some or all of the credit if your actual income is more or less than the amount you estimated when purchasing insurance."

Although the health insurance mandate began January 1, 2014, uninsured taxpayers don't pay the penalty until 2015. The penalty will be 1 percent of 2014 income or $95 per person, whichever is higher. The penalty for uninsured dependents under the age of 18 is $47.50 per child, up to $285 total per family.

Learn More

For further facts about tax law changes, go to www.irs.gov. Visit www.healthcareact.com for health insurance credit and penalty calculators plus a free year-by-year tax guide. You can file your federal taxes free, at www.taxact.com.