



Affordable Care Act Tax Provisions

Información en Español: [Disposiciones del Acta del Cuidado de Salud de Bajo Precio](#)

The Affordable Care Act was enacted on March 23, 2010. It contains some tax provisions that take effect this year and more that will be implemented during the next several years. The following is a list of provisions now in effect; additional information will be added to this page as it becomes available.

Employer-Provided Health Coverage — Not Taxable

Starting in tax year 2011, the Affordable Care Act requires employers to report the value of the health insurance coverage they provide employees on each employee's annual Form W-2. This reporting is for informational purposes only, to show employees the value of their health care benefits so they can be more informed consumers. The amount reported does not affect tax liability, as the value of the employer contribution to health coverage continues to be excludible from an employee's income and it is not taxable.

Small Business Health Care Tax Credit

This new credit helps small businesses and small tax-exempt organizations afford the cost of covering their employees and is specifically targeted for those with low- and moderate-income workers. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees. Learn more by browsing our page on the [Small Business Health Care Tax Credit for Small Employers](#).

Changes to Flexible Spending Arrangements

Effective Jan. 1, 2011, the cost of an over-the-counter medicine or drug cannot be reimbursed from Flexible Spending Arrangements or health reimbursement arrangements unless a prescription is obtained. The change does not affect insulin, even if purchased without a prescription, or other health care expenses such as medical devices, eye glasses, contact lenses, co-pays and deductibles. The new standard applies only to purchases made on or after Jan. 1, 2011, so claims for medicines or drugs purchased without a prescription in 2010 can still be reimbursed in 2011, if allowed by the employer's plan. A similar rule goes into effect on Jan. 1, 2011 for Health Savings Accounts (HSAs), and Archer Medical Savings Accounts (Archer MSAs). Employers and employees should take these changes into account as they make health benefit decisions for 2011.

For more information, see news release [IR-2010-95](#), [Notice 2010-59](#), [Revenue Ruling 2010-23](#) and our [questions and answers](#).

Medicare Part D Coverage Gap “donut hole” Rebate

The Affordable Care Act provides a one-time \$250 rebate in 2010 to assist Medicare Part D recipients who have reached their Medicare drug plan's coverage gap. This payment is not taxable. This payment is not made by the IRS. More information can be found at www.medicare.gov.

Health Coverage for Older Children

Health coverage for an employee's children under 27 years of age is now generally tax-free to the employee. This expanded health care tax benefit applies to various work place and retiree health plans. These changes immediately allow employers with cafeteria plans — plans that allow employees to choose from a menu of tax-free benefit options and cash or taxable benefits — to permit employees to begin making pre-tax contributions to pay for this expanded benefit. This also applies to self-employed individuals who qualify for the self-employed health insurance deduction on their federal income tax return. Learn more by reading our [news release](#) or this [notice](#).

Therapeutic Discovery Project Program

This program is designed to provide tax credits and grants to small firms that show significant potential to produce new and cost-saving therapies, support jobs and increase U.S. competitiveness. Firms could apply to have their research projects certified as eligible for the credit or grant. IRS [guidance](#) describes the application process. Companies could submit applications for certification beginning June 21, 2010, and applications had to be postmarked no later than July 21, 2010.

The program application period is now closed. Applications received that were postmarked by July 21, 2010, are currently being reviewed by both the Department of Health and Human Services (HHS) and the IRS. All applicants will be notified by letter postmarked no later than Oct. 29, 2010, advising whether or not the application for certification is approved.

Learn more by reading the [IRS news release](#), the [news release](#) issued by the U.S. Department of the Treasury, the [page](#) on the HHS website and our [questions and answers](#).

Excise Tax on Indoor Tanning Services

A 10-percent excise tax on indoor UV tanning services went into effect on July 1, 2010. The tax doesn't apply to phototherapy services performed by a licensed medical professional on his or her premises. There's also an exception for certain physical fitness facilities that offer tanning as an incidental service to members without a separately identifiable fee. For more information on the tax and how it will be administered, see our [news release](#), [video](#), [questions and answers](#) and [legal guidance](#).

Additional Requirements for Tax-Exempt Hospitals

The Affordable Care Act adds requirements in the Internal Revenue Code that tax-exempt hospitals must meet to maintain their tax-exempt status. More information can be found in [Notice 2010-39](#), which solicits written comments on the application of the new requirements. Comments must have been submitted by July 22, 2010.

For More Information

For tips, fact sheets, questions and answers, videos and more, see our [Affordable Care Act of 2010: News Releases, Multimedia and Legal Guidance](#) page.

Page Last Reviewed or Updated: September 03, 2010