



Privately Speaking

Insights on private company growth
from private company insiders

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The implications of healthcare reform

Recent healthcare reform proposals may have a significant impact on the tax position, hiring plans, and growth strategy of privately held companies. Have you assessed the impact of the new healthcare proposals on your bottom line?

In this edition of *Privately Speaking*, we look at the implications of healthcare reform on private market companies and offer some insights on what the future may hold.

New proposals emerge

The Trump administration is moving to make good on its campaign promise to repeal the Affordable Care Act (ACA), otherwise known as Obamacare, and a number of new proposals for the ACA's replacement have been tabled.

On January 23, Republican Senators Bill Cassidy and Susan Collins advanced a proposal called the Patient Freedom Act which essentially allows the individual states to decide the fate of the ACA within their own jurisdictions. Just a few days later, Senator Rand Paul introduced a more detailed bill entitled, The Obamacare Replacement Act. Further adaptations to these proposals are expected.

What do the proposals contain?

The Patient Freedom Act essentially allows the individual states to decide how their healthcare plans are managed. Under the proposal, states could stay with the ACA, or they could receive a similar amount of federal money, which consumers could use to pay for medical care and health insurance. The proposal

encourages greater use of Health Savings Accounts (HSAs) and removes the tax penalty for being uninsured.

The Obamacare Replacement Act is somewhat more prescriptive. It basically repeals a number of provisions of the Affordable Care Act, including the individual and employer mandates, community rating restrictions, the essential health benefits requirement, and the medical loss ratio requirement. The proposed legislation would, among other things, allow health insurers to sell plans across state lines, provide for a two-year period during which individuals with preexisting conditions can obtain coverage, and establish independent health pools for the purposes of purchasing insurance.

What does it mean for privately-held companies?

As with any legislative change, these bills—and others that may be proposed—will go through significant change before any legislation is passed, but certain insights can already be gleaned from the proposals on the table.

Should the Patient Freedom Act move ahead in some form, the tax and cost implications for employers would largely depend on the specific state. But the application of different systems may also create competitive advantages and disadvantages for labor-intensive businesses operating in those states.

The Obamacare Replacement Act, on the other hand, will have clear implications for businesses across the country. It would eliminate the income exclusion for employer-provided health insurance (currently the single largest tax expenditure in the Tax Code) and would replace it with a tax deduction scheme. It would provide tax credits to individuals for their contributions to HSAs. It would also expand the availability of HSAs.

¹ Robert Pear, "Senators Propose Giving States Option to Keep Affordable Care Act," *New York Times*, January 23, 2017.

Next steps for privately held businesses

- 1 Review the current proposals and assess the potential impact on your business.
- 2 Understand the implications for your own personal tax position.
- 3 Talk to your tax, policy, and economic advisers to test your assumptions.

“The elimination of the income exclusion requirement could have a very significant impact on both employers and individuals. Forward-looking privately held businesses will want to carefully consider how the different proposals might influence their growth and operational strategies going forward.”

—**Brian Hughes**, Partner and PMG Leader, KPMG LLP

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