

Publications

PPACA \$500,000 Compensation Deduction Limit on Health Insurers May Have Broader Reach

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SERVICES

The Patient Protection and Affordable Care Act (“PPACA”) includes a number of tax provisions aimed at the health insurance industry that are intended to help pay for PPACA’s costs. One little noticed provision restricts the deductibility of compensation paid by a health insurer to an individual to \$500,000 per year. This provision could have immediate and unexpected consequences for diversified companies whose business includes the sale of health insurance coverage, as well as traditional health insurers.

The scope of the deduction restriction is broad – generally, any companies that are in the same “controlled group” as a health insurer (as broadly defined in PPACA) may be subject to the \$500,000 limitation. And the provision will impact the deductibility of compensation for services performed beginning in 2010. Thus, any company with a “health insurer” in its controlled group should quickly become familiar with this new rule. The attached memorandum outlines how the new restriction operates.