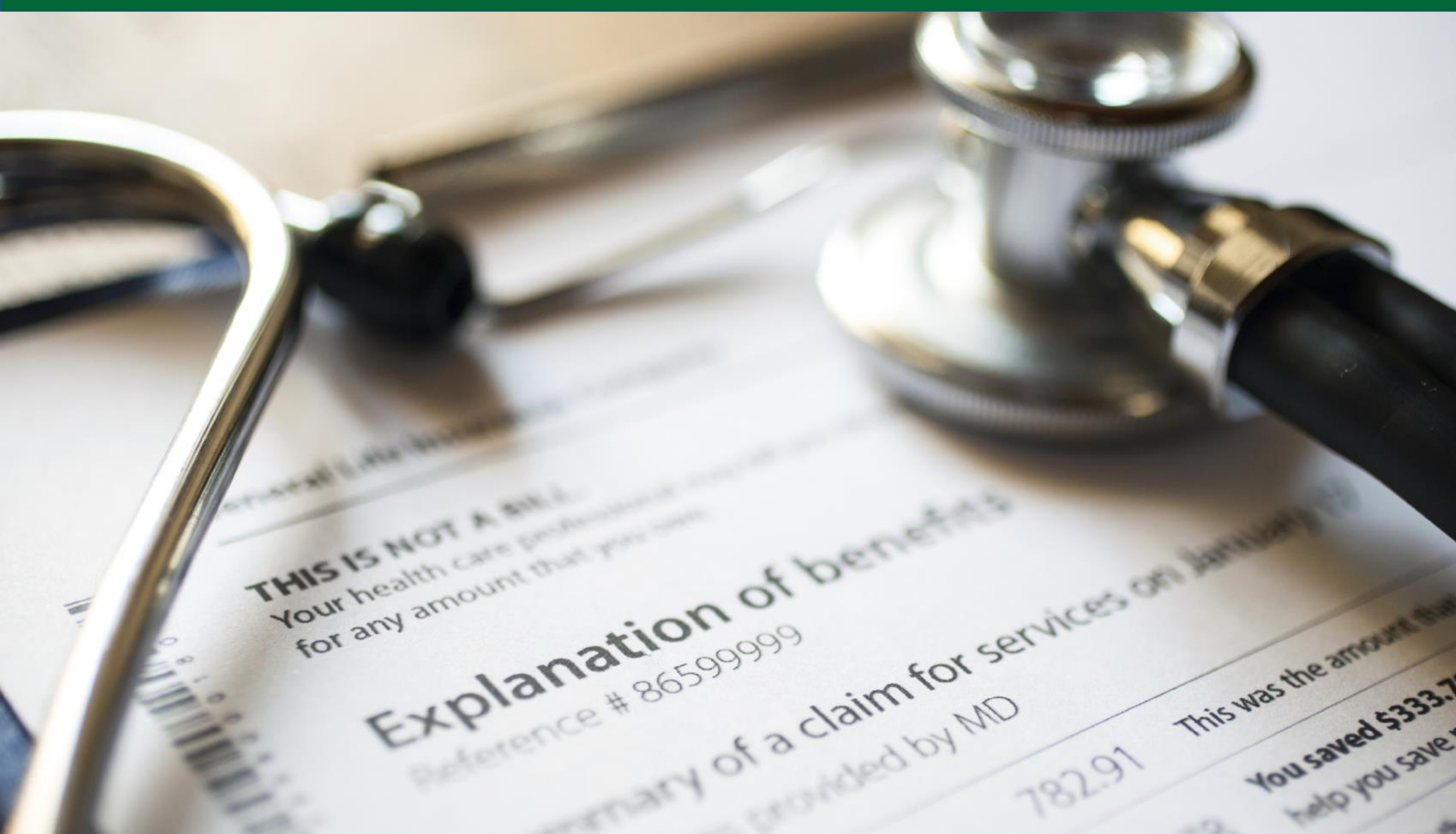
Health Reform: **Beyond the Basics**

The Tax Preparer's Guide to the Affordable Care Act

For Tax Year 2015

Center on Budget and Policy Priorities



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Acknowledgements

The Center on Budget and Policy Priorities is grateful to
The California Endowment and The Annie E. Casey Foundation
for funding the development of this guide.

The authors are also grateful for the valuable contributions of our colleagues, Judy Solomon, Jodi Kwarciany and Halley Cloud at the Center on Budget and Policy Priorities who helped review, edit and design this guide.

January 2016

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Introduction

The tax system now plays an important role in making health insurance coverage more affordable. The Affordable Care Act (ACA) created a new refundable tax credit, which can be paid to insurers in advance on a monthly basis to help individuals pay premiums for private health insurance coverage. The ACA also requires that most individuals have health coverage that meets certain minimum standards and uses the tax system to enforce that requirement. Those who don't have coverage and are not exempt from the requirement incur a penalty that is collected when they file their taxes.

Because major provisions of the health reform law are being administered through the tax system, taxpayers and tax preparers need to understand how the health reform law affects the preparation of tax returns. For example, if someone on the tax return did not have health coverage all year, the preparation of the tax return will require completion of a tax form to claim an exemption from the coverage requirement or a worksheet to calculate the penalty for not having coverage. Households that received advance payments of the premium tax credit will need to reconcile the payments they received with their final premium tax credit, which is calculated on a form attached to the tax return.

This guide is intended to help tax preparers understand how the ACA affects tax preparation. It provides basic information and practical tips and suggestions to help preparers properly complete the ACA-related sections of the tax return for tax year 2015. The guide covers the following topics:

- **Coverage under the ACA.** This section provides an overview of the ACA's coverage requirements and the financial assistance that is available to help people purchase health insurance coverage.
- **How the ACA Changes the Tax Return.** This section provides an overview of the areas of the tax return related to the ACA's coverage requirement and illustrates how tax preparers can approach each of these areas.
- **Minimum Essential Coverage.** This section explains who is required to have health insurance coverage and what types of coverage people must have to meet the requirement.
- **Exemptions from the Requirement to Maintain Minimum Essential Coverage.** This section explains the exemptions from the requirement to maintain minimum essential coverage and provides an approach for how to determine whether taxpayers may qualify for an exemption.
- **The Individual Responsibility Payment for People Who Neither Maintain Minimum Essential Coverage nor Qualify for an Exemption.** This section explains who is subject to the shared responsibility payment for not having coverage and how to calculate the payment.
- **The Premium Tax Credit.** This section explains the eligibility requirements for the premium tax credit, how the Marketplace determines eligibility, and how the premium tax credit amount is calculated.
- **Reconciling the Advance Payment of the Premium Tax Credit with the Final Premium Tax Credit Amount.** This section explains the process for reconciling the advance payment of a premium tax credit with the final premium tax credit amount, including the form taxpayers use to complete the reconciliation process.

This guide doesn't provide in-depth explanations of the rules for determining eligibility for premium tax credits, how premium tax credits are calculated, and how to enroll in coverage, which might also be of interest to tax preparers. Tax preparers who are interested in learning more about the ACA's coverage provisions should visit the Center on Budget and Policy Priorities' "Beyond the Basics" project website at www.healthreformbeyondthebasics.org. Beyond the Basics provides detailed information on eligibility and enrollment for health coverage programs intended for advocates and state and local officials who help consumers enroll in health coverage through webinars, fact sheets and other materials.

Coverage under the ACA

Requirement to Maintain Minimum Essential Coverage

Most individuals must maintain health insurance coverage that meets certain standards — called minimum essential coverage (MEC) — or make a shared responsibility payment. Most private and public coverage, including employer-sponsored coverage, individual coverage, Medicaid and Medicare, is considered MEC. The requirement to maintain health coverage is enforced through the individual shared responsibility payment, a penalty assessed on the tax return.

Certain individuals are exempt from the requirement to maintain coverage and from the penalty. For example, individuals with qualifying religious exemptions and those whose household income is below the threshold at which tax filing is required are not subject to the penalty. The Secretary of Health and Human Services (HHS) can also grant exemptions from the penalty to people who suffer hardships that make it difficult for them to obtain coverage. Uninsured individuals who are not exempt from the requirement to maintain MEC have to pay a penalty for each month that they are uninsured.

Financial Assistance for Health Coverage

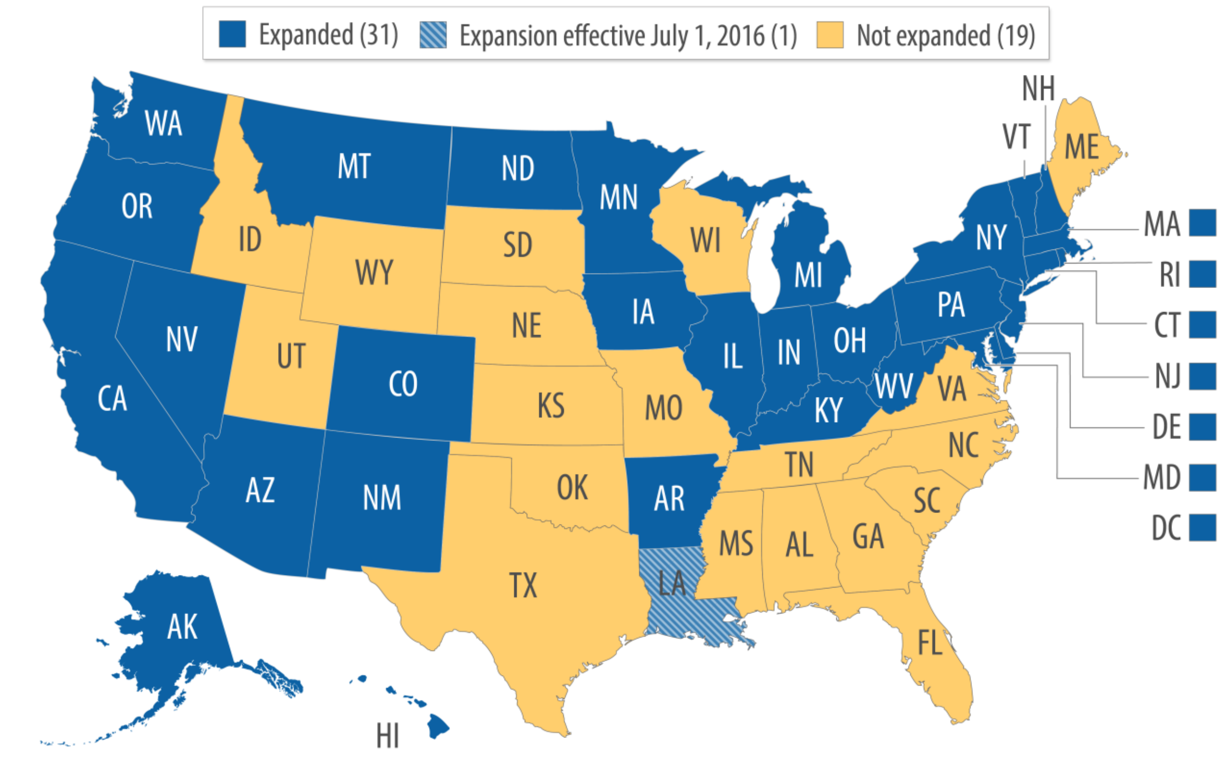
To help people afford coverage and meet the ACA's coverage requirements, states can expand Medicaid to cover low-income adults who are under age 65 and not previously covered by Medicaid. The ACA also provides a premium tax credit to help low and moderate-income people who are not eligible for MEC purchase coverage in Marketplaces established under the ACA.

Before 2014, Medicaid covered many low-income individuals but left many others out. Medicaid didn't cover low-income adults without dependent children unless they were pregnant, age 65 or older, or had serious disabilities. Children were generally covered at higher income levels, but the income eligibility standards for parents in many states were very low.

The ACA required all states to expand Medicaid to cover children, parents, and childless adults with incomes up to 138 percent of the poverty line starting in 2014. In 2012, however, the Supreme Court decision upholding health reform gave states the choice of whether or not to expand Medicaid to cover childless adults and parents who were not eligible under prior law. To date, 30 states and the District of Columbia have expanded Medicaid and one additional state plans to expand coverage mid-year (see Figure 1). There is no deadline for a state to expand.

The ACA also created a new federal tax credit to help people purchase coverage in health insurance Marketplaces (also known as exchanges). The premium tax credit can be provided on a monthly basis to pay a share of the monthly health insurance premiums charged to individuals and families, or the credit can be claimed as a lump sum on the tax return. In either case, a person who wants to claim the credit must file a tax return for the year in which the credit is received.

Figure 1:
Status of the Medicaid Expansion, as of January 2016



Individuals and families with incomes between 100 and 400 percent of the poverty line who purchase coverage in the health insurance Marketplace in their state may be eligible for the premium tax credit. The credit is not available to help pay for individual plans purchased outside of the Marketplace. To receive the tax credit, individuals must be U.S. citizens or lawfully present in the United States. They can't be eligible for most other types of MEC, namely employer-sponsored coverage that is considered adequate and affordable, or public coverage, such as Medicare or Medicaid. This means that in states that have expanded Medicaid, most parents and childless adults with incomes up to 138 percent of the poverty line will be eligible for Medicaid; those with incomes above that level may be eligible for the premium tax credit. In states that haven't expanded Medicaid, premium tax credit eligibility begins at 100 percent of the poverty line. People with incomes below the poverty line may fall into a gap between Medicaid and premium tax credit eligibility. Children who are eligible for Medicaid or the Children's Health Insurance Program (CHIP) — which in most states cover children at higher income levels than adults — aren't eligible for the premium tax credit.[1]

While eligibility for the premium tax credit is generally restricted to those with incomes between 100 percent and 400 percent of the poverty line, a few special rules apply that allow a household with income under 100 percent of the poverty line to claim the credit. First, lawfully present

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[1] For state-by-state income eligibility levels, see "Medicaid and CHIP Eligibility, Enrollment, Renewal, and Cost-Sharing Policies as of January 2016: Findings from a 50-State Survey", Kaiser Commission on Medicaid and the Uninsured, January 2016.

immigrants with incomes below the poverty line qualify for the premium tax credit when their immigration status does not allow them to qualify for Medicaid. It's important to note, however, that lawfully present individuals with incomes below the poverty line who *are eligible* for Medicaid (or *would be eligible* for Medicaid had their state expanded) are not eligible for the premium tax credit.

Under a second exception to the premium tax credit's income requirements, a person who applied for the premium tax credit, was determined eligible by the Marketplace and received an advance payment when they were enrolled in a Marketplace plan, may claim the credit, even if his or her income at the end of the year is below the poverty line.

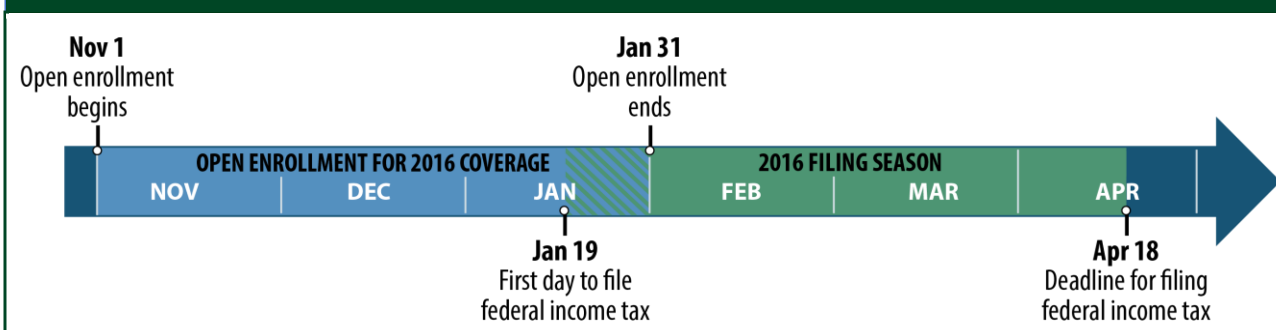
Enrollment Periods and Other Key Dates

People can apply for and enroll in Medicaid at any point during the year. They can apply for advance premium tax credits at any point too, but they can only *receive* advance premium tax credits if they are enrolled in a Marketplace plan, and enrollment in Marketplace plans is limited to certain periods of the year, called open or special enrollment periods.

Open enrollment is a period of time when people can sign up for or change their health insurance plans. During open enrollment, health insurers must enroll anyone who is eligible and who applies for coverage. Those who don't sign up for health insurance during open enrollment are not allowed to sign up for coverage until the next open enrollment period, unless they qualify for a special enrollment period.

Open enrollment for 2016 coverage overlaps slightly with the 2016 tax filing season (see Figure 2). Tax preparers who see uninsured clients on or before January 31 have an opportunity to refer them to Medicaid or the Marketplace to sign up for health coverage. Uninsured clients who are seen after January 31 should still be referred to a health assister to assess their eligibility for Medicaid, which is open for enrollment all year, or for a special enrollment period that will allow them to enroll in a Marketplace plan outside of the normal open enrollment period. For people who are already enrolled in Marketplace coverage, changes to the income or family size used to project premium tax credit eligibility can be made at any time during the tax year. Tax preparers may want to refer people back to the Marketplace to adjust their current monthly advance payments if the 2015 monthly advance payments were shown on the tax return to be too high and require repayment. Adjusting the credit early when income or household composition changes reduces the likelihood of repayment on the tax return.

Figure 2:
Key Dates for the 2016 Open Enrollment Period and 2016 Filing Season



Certain circumstances qualify people for a special enrollment period, which allows them to sign up for a health insurance plan outside of the open enrollment period or to switch plans during the year. A special enrollment period becomes available when people experience certain qualifying events, such as the birth or adoption of a child, marriage, or loss of coverage due to loss of a job or divorce. People generally have up to 60 days after the qualifying event to make any plan changes.

TIP

Is it too late to refer uninsured clients to the Marketplace if open enrollment is over?

Even if open enrollment is over, tax preparers should still refer uninsured taxpayers to the Marketplace. The Marketplace has a "no wrong door" policy and will assess Medicaid, CHIP or premium tax credit eligibility based on a single application. People can enroll in Medicaid or CHIP at any time during the year. Those who want to enroll in a Marketplace plan can only do so during open enrollment. However, the Marketplace can screen people for eligibility for a special enrollment period that could allow them to purchase health insurance coverage.

Use of Federal Poverty Guidelines

Income eligibility for Medicaid and the premium tax credit is defined in terms of federal poverty guidelines — a measure of poverty in the United States that HHS calculates every year. A person's household size is used to determine his income as a percentage of the poverty line. Table 1 shows the poverty guidelines applied to different household sizes in the 48 contiguous states and the District of Columbia to determine eligibility for the 2015 premium tax credit. (Alaska and Hawaii each have separate federal poverty guideline calculations.) A family's income as a percentage of the poverty line is calculated by dividing the family's annual income by the poverty guideline for its household size. For example, income for a single individual who earns $16,000 would be 137 percent of the poverty line ($16,000 ÷ $11,670 = 1.37 or 137 percent).

For premium tax credit eligibility, the Marketplace uses the poverty guidelines that are in effect on the first day of open enrollment for the calendar year in which an applicant is seeking coverage. This means that for 2015 coverage, the Marketplace used the 2014 poverty guidelines, which were in effect on November 15, 2014 — the first day of 2015 open enrollment (Table 1). Premium tax credits for 2016 are calculated using the 2015 guidelines.

Eligibility for advance premium tax credits is determined on a prospective basis, which means that at the time people apply, they provide an estimate of their income, household size, and other factors for the year ahead. The final determination of the premium tax credit is made on the tax return based on actual income and household size.

Table 1: Federal Poverty Guidelines for the 2015 Premium Tax Credit in the 48 Contiguous States and the District of Columbia

Persons in the family/household	Poverty guideline
1	$11,670
2	$15,730
3	$19,790
4	$23,850
5	$27,910
6	$31,970
7	$36,030
8	$40,090

For families/households with more than 8 persons, add $4,060 for each additional person.

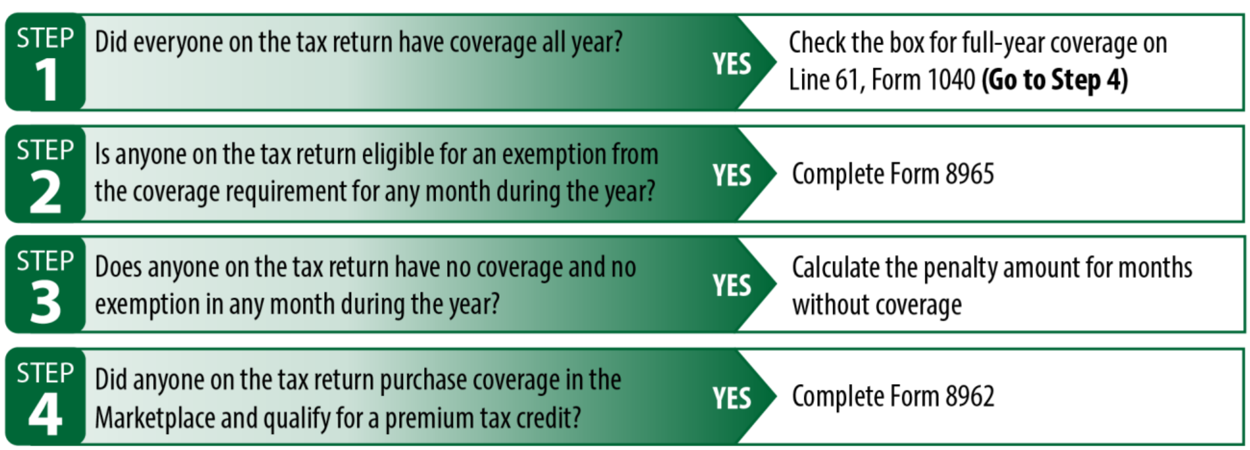
How the ACA Changes the Tax Return

These four items on the tax return relate to the ACA (see Figure 3):

1. Reporting minimum essential coverage (MEC)
2. Determining eligibility for exemptions from the coverage requirement
3. Determining the shared responsibility payment for months without MEC or an exemption, and
4. Reporting and reconciling any advance payments of the premium tax credit with the final premium tax credit amount.

Figure 3 illustrates how tax preparers can approach each of these areas and indicates the tax forms that should be completed for each of the four steps. Not all taxpayers will have to address each of these steps on the tax return. Everyone has to report whether they had MEC; most people do have MEC so the ACA-related portion of their tax return will be as simple as checking a box. In a smaller number of cases, taxpayers will also need to complete additional forms or worksheets to claim an exemption or premium tax credit or to calculate a shared responsibility payment. The following sections describe each of these steps.

Figure 3:
Step by Step Approach to Completing the ACA-Related Portions of the Tax Return

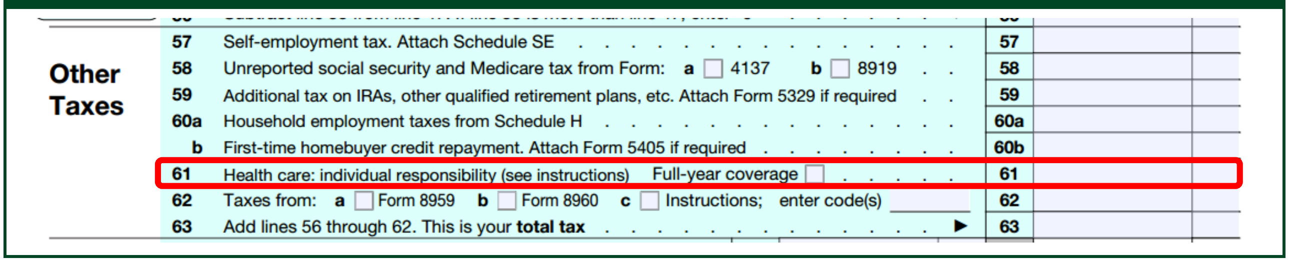


Minimum Essential Coverage

Most people must maintain MEC and report that they have MEC on their tax returns. On Form 1040, this is reported on Line 61 (see Figure 4).

Taxpayers should check the box on Line 61 of Form 1040 only if everyone on the tax return had MEC for all months in 2015. Note that a person who has MEC for at least one day of the month is considered to have coverage for the entire month. For example, someone who has MEC that terminated on May 2 will be considered to have MEC for the entire month of May. Similarly, a person who enrolls in MEC on May 30 will be considered to have MEC for the entire month of May.

Figure 4:
Line 61 on Form 1040



Other Taxes	57	Self-employment tax. Attach Schedule SE	57	
	58	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919	58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a	Household employment taxes from Schedule H	60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61	
	62	Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s)	62	
	63	Add lines 56 through 62. This is your **total tax** ▶	63	

Who Needs to Maintain Minimum Essential Coverage?

Everyone in the United States must maintain MEC, unless specifically exempted by the ACA. The coverage requirement includes foreign citizens who qualify as U.S. residents for income tax purposes. Certain people are treated under the law as having MEC for the entire year, including U.S. citizens who live abroad for at least 330 days within a 12-month period and all residents of the U.S. territories. While these groups of people are considered to have MEC, they indicate their special status by claiming a health coverage exemption, rather than by declaring they have full-year coverage.

What Types of Insurance Are Considered Minimum Essential Coverage?

Most health insurance plans are considered MEC, so most people who have health coverage meet the requirement to maintain MEC. Table 2 lists the types of insurance that satisfy the individual responsibility requirement.

What Types of Insurance Are Not Considered Minimum Essential Coverage?

Plans that provide only limited benefits do not meet the requirement for MEC. The following types of insurance are *not* MEC:

- Coverage consisting solely of "excepted benefits," such as policies that only cover vision care or dental care, accident or disability insurance, or workers' compensation
- Limited-benefit Medicaid coverage (though people who enroll in some forms of limited coverage may qualify for a hardship exemption from the Marketplace)

Table 2:
List of Health Coverage That Is Minimum Essential Coverage

Employer-Sponsored Coverage	Individual Health Coverage	Coverage Under Government-Sponsored Programs
• Employee coverage (including group coverage and self-insured plans) • COBRA coverage • Retiree coverage • Coverage under an expatriate health plan for employees **Other Coverage** • Certain foreign coverage* • Certain coverage for business owners • Coverage recognized by HHS as minimum essential coverage*	• Health insurance purchased directly from an insurance company • Health insurance purchased through the Marketplace • Health insurance provided through a student health plan • Coverage under an expatriate health plan for non-employees	• Medicare Part A coverage • Medicare Advantage plans • Most Medicaid coverage** • Children's Health Insurance Program (CHIP) coverage • Most types of TRICARE coverage • Comprehensive health care programs offered by the Department of Veterans Affairs • Health coverage provided to Peace Corps volunteers • Department of Defense Non-appropriated Fund Health Benefits Program • Refugee Medical Assistance • Coverage through a Basic Health Plan (BHP)

For a complete list of coverage that is MEC, visit: https://www.irs.gov/Affordable-Care-Act/Individuals-and-Families/ACA-Individual-Shared-Responsibility-Provision-Minimum-Essential-Coverage
*Plans recognized by HHS as MEC are listed at: https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/minimum-essential-coverage.html, scroll down and click on Approved Plans
**Medicaid plans that provide limited benefits generally don't qualify as MEC, but HHS will provide a hardship exemption to individuals with certain types of limited-benefit coverage.

- Space available and line of duty TRICARE coverage
- AmeriCorps/AfterCorps coverage

Are Taxpayers Required to Show Proof of MEC?

In general, taxpayers don't need to show proof of their health coverage. Tax preparers can rely on the client's attestation of coverage to determine whether he or she has MEC. Tax preparers need to use due diligence by asking the taxpayer appropriate questions and ensuring that the taxpayer's responses can be reasonably believed.

New for the 2016 filing season, insurers, employers and government agencies that provide MEC to any individual will report that coverage to the Internal Revenue Service (IRS) and the covered individual on Forms 1095-B or -C. However, the deadline for providing forms to individual taxpayers has been delayed until March 31. Taxpayers are encouraged not to wait for Forms 1095-B or -C to file their taxes and, for this year only, are not required to amend their tax return if they receive a Form 1095-B or -C that reports different coverage months than they reported on their previously-filed tax return. Table 3 presents the tax forms that may indicate whether someone has MEC.

Table 3: Available Tax Forms that Contain Information on Whether a Taxpayer Has Minimum Essential Coverage	
Form	**Description**
Form W-2	In Box 12 of the W-2 form, the code DD indicates the cost of employer-sponsored coverage. However, an amount in this code only indicates that the individual had MEC at some point during the year and can't be used to determine for which months he or she had MEC, the employee's cost of coverage, or which family members were covered.
Form SSA-1099, Social Security benefit statement	This form is used to report to an individual any Social Security benefits the individual received during the year. The form shows any Medicare Part B or D premiums deducted from benefits. Similar to the W-2, this form can't be used to determine the months the individual had MEC. However, Medicare beneficiaries generally enroll in Medicare on a continuous basis once they become eligible.
Form 1095-A	The Marketplace will send this form to individuals who enroll in a qualified health plan through the Marketplace. The form will indicate the coverage months for each individual in the policy and the amount of advance premium tax credits received, if any.
Form 1095-B	This form will be provided by insurance companies; Medicaid, Medicare and other providers of public coverage; and small employers that are not subject to the employer responsibility requirement. The form indicates who is covered under the policy and which months each person has coverage.
Form 1095-C	Employers that are subject to the employer responsibility requirement (generally, those with 50 or more full-time employees) will submit this form to the IRS and to the covered employee. The form indicates who was *offered* coverage, how much employee-only coverage cost, and who in the household enrolled.

What If a Taxpayer and/or His or Her Dependents Don't Have Minimum Essential Coverage for the Entire Year?

If there are people on the tax return who don't have MEC for the entire year, the tax preparer should determine whether they qualify for an exemption from the coverage requirement for some or all of the months they were uninsured. Some people may have already received an exemption from the Marketplace, but most will claim exemptions directly on the tax return. The next section discusses the different types of exemptions that are available and how to claim them.

TEST YOUR KNOWLEDGE

When Does Someone Have Minimum Essential Coverage?

SCENARIO 1: *Eddie and Maria adopted a child on April 20. This qualified them for a special enrollment period to enroll in private health insurance coverage, and they sign up for a plan that covered them starting April 20. They keep this coverage for the rest of the year, but before they signed up for it in April, Eddie and Maria were uninsured. For which months do Eddie and Maria have MEC?*

ANSWER: Eddie and Maria have MEC for the months of April through December. Even though they were uninsured for most of April, they are considered to have MEC for that entire month because they had MEC for at least one day in April.

SCENARIO 2: *Jason graduated from college in May. From January 1 to August 31, he was enrolled in a student health plan through his university. On September 1, Jason started a new job that offered health coverage. He enrolled in this coverage from September 1 through December. For which months does Jason have MEC?*

ANSWER: Jason has MEC for the entire year. Both his student health plan and employer plan are considered MEC, and he never experienced a coverage gap.

SCENARIO 3: *Robert and Mona are married. For the entire year, Robert received medical treatment through workers' compensation. From January through August, Mona was uninsured. In September Mona started a job that offered insurance, and she enrolled both herself and Robert. They are covered through Mona's employer plan until the end of the year. For which months do Robert and Mona have MEC?*

ANSWER: Robert and Mona have MEC for the months of September through December. Even though Robert received medical treatment that was covered by workers' compensation for the entire year, coverage through workers' compensation is not considered MEC.

Exemptions from the Requirement to Maintain Minimum Essential Coverage

Some uninsured individuals will qualify for an exemption from the requirement to have MEC and will not have to pay a penalty for months they are uninsured. There are many different exemptions based on income and other circumstances of the uninsured individual, the length of time a person was uninsured, and the availability and affordability of health insurance. Every taxpayer and dependent who didn't have insurance coverage for the entire year should be screened for potential eligibility for an exemption before calculating a shared responsibility payment.

Some exemptions can only be granted by the Marketplace, some can only be claimed on the tax return, and some can be obtained either through the Marketplace or the tax filing process. Table 4 lists the exemptions, which are discussed more fully below.

How Do People Report on Exemptions When They File Taxes?

Taxpayers claim exemptions on Form 8965, which has three parts (see Figure 5):

- **Part I —** Exemptions granted by the Marketplace
- **Part II —** Exemptions that apply to the entire household when household or gross income is below the tax filing threshold
- **Part III —** Exemptions that can be claimed directly on the tax return

**Table 4:
Exemptions from the Coverage Requirement for 2015**

Exemption Type	Process for Obtaining Exemption
U.S. citizens and residents living abroad and certain non-citizens	Tax return only
Short coverage gap	Tax return only
Aggregate cost of employer insurance is unaffordable	Tax return only
Individuals in a state that did not expand Medicaid	Marketplace application or tax return
Insurance is unaffordable	Marketplace application (for prospective months only) or tax return
Indian tribe membership	Marketplace application or tax return
Membership in a health care sharing ministry	Marketplace application or tax return
Incarceration	Marketplace application or tax return
Hardship	Marketplace application only
Religious conscience	Marketplace application only
Limited benefit Medicaid and TRICARE	Marketplace application only

Figure 5:
IRS Form 8965

Form **8965**
Department of the Treasury
Internal Revenue Service

Health Coverage Exemptions

▶ Attach to Form 1040, Form 1040A, or Form 1040EZ.
▶ **Information about Form 8965 and its separate instructions is at *www.irs.gov/form8965*.**

OMB No. 1545-0074
2015
Attachment Sequence No. **75**

Name as shown on return | Your social security number

Complete this form if you have a Marketplace-granted coverage exemption or you are claiming a coverage exemption on your return.

Part I **Marketplace-Granted Coverage Exemptions for Individuals.** If you and/or a member of your tax household have an exemption granted by the Marketplace, complete Part I.

	(a) Name of Individual	(b) SSN	(c) Exemption Certificate Number
1			
2			
3			
4			
5			
6			

Part II **Coverage Exemptions Claimed on Your Return for Your Household**

7a Are you claiming an exemption because your household income is below the filing threshold? . . . . . . ☐ **Yes** ☐ **No**

b Are you claiming a hardship exemption because your gross income is below the filing threshold? . . . . ☐ **Yes** ☐ **No**

Part III **Coverage Exemptions Claimed on Your Return for Individuals.** If you and/or a member of your tax household are claiming an exemption on your return, complete Part III.

	(a) Name of Individual	(b) SSN	(c) Exemption Type	(d) Full Year	(e) Jan	(f) Feb	(g) Mar	(h) Apr	(i) May	(j) June	(k) July	(l) Aug	(m) Sept	(n) Oct	(o) Nov	(p) Dec
8																
9																
10																
11																
12																
13																

For Privacy Act and Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37787G Form **8965** (2015)

Determining Eligibility for an Exemption: Where to Start?

When determining whether a taxpayer qualifies for an exemption, it's best to start with the exemptions that are the easiest to obtain and cover the entire household for the entire year before moving on to exemptions that are more complicated or coverage only certain individuals on a monthly basis. Figure 6 illustrates a step-by-step approach that tax preparers can use to evaluate taxpayers' eligibility for an exemption:

- **Step 1:** Find out if anyone on the tax return has already received an exemption from the Marketplace.
- **Step 2:** Determine eligibility for an exemption based on having income below the tax filing threshold — an exemption that covers everyone on the tax return for the entire year.
- **Step 3:** Consider whether anyone on the return qualifies for an exemption that can be claimed directly on the tax return without applying to the Marketplace.
- **Step 4:** Check to see if anyone on the tax return may qualify for a Marketplace exemption

The following sections provide more details on each of these steps.

Figure 6:
Step-by-Step Approach to Evaluating Eligibility for Exemptions

STEP 1 Does the taxpayer already have an exemption from the Marketplace? **YES** → Enter exemption certificate number (ECN) on Form 8965, Part I

STEP 2 Does the taxpayer have income below the filing threshold? **YES** → Check box 7a or 7b on Form 8965, Part II
Exemption applies to entire household for the entire year

STEP 3 Does anyone in the household qualify for one of the exemptions that can be claimed on the tax return? **YES** → Enter applicable code on Form 8965, Part III
See table

LIST OF EXEMPTIONS FOR INDIVIDUALS	EXEMPTION CODE	DURATION
Individuals who lived in a state that did not expand Medicaid	Code G	Full year
Aggregate cost of employer insurance for two or more household members is unaffordable	Code G	Full year
Insurance is unaffordable	Code A	All months with such status
Certain non-citizens and U.S. citizens and residents living abroad	Code C	All months with such status
Incarceration	Code F	All months with such status
Member of a federally-recognized Indian tribe or eligible for services through the Indian Health Service	Code E	All months with such status
Membership in a health care sharing ministry	Code D	All months with such status
Individual who were born or adopted or who died in 2015	Code H	Month of birth or adoption and prior months. Month of death and subsequent months.
Short coverage gap	Code B	One or two months

STEP 4 Does anyone in the household qualify for a Marketplace hardship exemption? **YES** → **Apply for exemption** and enter "pending" on Form 8965, Part I

Step 1: Find Out if Anyone on the Tax Return Has Already Received an Exemption from the Marketplace

Part I of Form 8965 is where taxpayers enter information on exemptions granted by the Marketplace. Taxpayers must provide an exemption certificate number (ECN), which is a six- or seven-digit alphanumeric code that the Marketplace sends to the taxpayer. The exemption certificate may specify the months the exemption covers. If it doesn't specify any months, the exemption covers the entire year.

In most cases, people must submit a paper exemption application to the Marketplace to receive a Marketplace exemption. Most people won't have Marketplace exemptions when they file their tax return, but it's still worth asking whether they have one. If a taxpayer was granted an exemption but lost the ECN, he can obtain the ECN from the Marketplace call center at 1-800-318-2596 (Connecticut residents call 1-855-805-4325).

In one situation, people automatically received a Marketplace exemption without submitting an application. This occurs when people applied for coverage through the Federally-Facilitated

Marketplace (Healthcare.gov), had income below 100 percent of the poverty line, and were denied Medicaid because their state did not expand coverage. In this case, the taxpayer's eligibility determination notice included an ECN. Either report this ECN in Part I of Form 8965 or claim Code G in Part III for this person.

Step 2: Determine Eligibility for an Exemption Based on Having Income Below the Tax Filing Threshold

Part II of Form 8965 is for exemptions based on having income below the tax filing threshold. If a taxpayer doesn't already have an ECN, the next step tax preparers should take is to check whether the taxpayer has income below the tax filing threshold, which would qualify everyone on the tax return for an exemption for the entire year. There are two ways to calculate eligibility for this exemption:

- **Line 7a — household income below the filing threshold (see table 5).** This method uses household income, which is defined as the Modified Adjusted Gross Income (MAGI) of each individual on the tax return with a tax filing requirement. For this purpose, MAGI is Adjusted Gross Income (AGI, IRS Form 1040, line 37) plus tax-exempt interest (IRS Form 1040, line 8b) and any excluded foreign income (IRS Form 2555, lines 45 and 50). If household income is below the filing threshold, everyone on the tax return qualifies for an exemption. Note that if a dependent on the tax return has a tax filing requirement, his or her MAGI must be included in the household's income.
- **Line 7b — gross income below the filing threshold.** This method looks at gross income, which is all income received from all sources (unless specifically exempt from tax). It includes the taxable portion of Social Security benefits and income (but not losses) on Schedules C, D or F. When using this measure, the income of dependents does not count, even if the dependent has a filing requirement.

Table 5:
What is the Tax Filing Threshold for 2015?

Tax Filing Requirement *under age 65*	
Single	$10,300
Head of Household	$13,250
Married Filing Jointly	$20,600
Qualifying Widow(er)	$16,600
Married Filing Separately	$4,000
Tax Filing Requirement for Dependents *single, under age 65 and not blind*	
Earned Income	$6,300
Unearned Income	$1,050
Earned & Unearned Income	More than the larger of $1,050 or earned income (up to $5,950) plus $350

Income is gross income. Include all income received, except untaxed social security benefits. Include gains but not losses on Schedules C, D, and F.
For complete rules on tax filing thresholds, see IRS Publication 501, Who Must File, at https://www.irs.gov/publications/p501/ar02.html#en_US_2015_publink1000220687

Box 1

Example of How to Calculate Whether a Taxpayer Has Income Below the Tax Filing Threshold

Gladys, age 64, is head of household and claims her dependent grandson, age 17, who lived with her all year. Gladys earned $12,500 in wages, her only income. Her grandson had a summer job and was paid as a tutor during the school year. He earned $6,500 in 2015.

What is Gladys' household income for the purpose of determining eligibility for the Line 7a exemption?

Gladys' household income is $19,000. Her dependent grandson has a tax filing requirement because he has more than $6,300 in earned income, which means his income is counted towards the household's income ($12,500 + $6,500 = $19,000). Since the household income is more than Gladys' filing threshold ($13,250), she does not qualify for the Line 7a exemption.

What is Gladys' gross income for the purpose of determining eligibility for the Line 7b exemption?

Gladys' gross income is $12,500. For the Line 7b exemption, a dependent's income is never included, regardless of whether the dependent has a tax filing requirement. Since her gross income ($12,500) is less than her filing threshold ($13,250), Gladys can claim the Line 7b exemption, which applies to both her and her grandson.

Box 1 shows how to calculate income using these two different approaches. Note that this is the only exemption that applies to the entire household, so if everyone in the household is uninsured everyone can be exempted from the penalty without having to consider additional exemptions. Also, people without a tax filing requirement don't need to file a tax return just to claim this exemption. If a taxpayer isn't required to but chooses to file anyway (perhaps to claim the Earned Income Tax Credit), he should file Form 8965 to claim the 7a or 7b exemption if one or more people on the tax return are uninsured.

Step 3: Consider Whether Anyone on the Return Qualifies for an Exemption that Can Be Claimed Directly on the Tax Return without Applying to the Marketplace

As noted previously, there are a number of exemptions that people can claim on their tax returns. Tax preparers should evaluate eligibility for these exemptions for each individual on the tax return who is uninsured if they don't already have a Marketplace exemption and the household doesn't qualify for an exemption for having income below the tax filing threshold. Taxpayers who qualify for these individual exemptions, which are discussed in more detail below, will enter the appropriate code on Form 8965, Part III.

- **Resident of a state that did not expand Medicaid:** An exemption is available for a person whose household income is less than 138 percent of the poverty line and who lived at any time during the year in a state that didn't expand Medicaid coverage by January 1, 2015. The definition of MAGI for this exemption is the same as the definition of MAGI for premium tax credits, which is discussed in more

TIP

What documentation must be submitted to claim an exemption through the tax return?

Tax filers do not need to submit documentation to claim an exemption on their tax returns. Like everything submitted on the return, information pertaining to a coverage exemption is submitted under penalty of perjury. So while tax filers are not required to submit documentation, they are responsible for producing documentation if they are audited by the IRS.

detail later in the guide. The key difference is that for this exemption, include the non-taxable portion of Social Security benefits.

- **Aggregate cost of employer insurance is unaffordable:** This exemption is available for families when two or more people in the family have an offer of employer-sponsored coverage that is affordable (costing each individual with the offer less than 8.05 percent of household income) but the combined cost to cover them both is greater than 8.05 percent of household income. Table 6 shows how to calculate the affordability of employer coverage for the purpose of this exemption.

- **Insurance is unaffordable:** This exemption is available when the cost of coverage exceeds 8.05 percent of household income. Tax preparers should try this exemption only when another exemption isn't available.

  Key to understanding this exemption is knowing which health plan to use in measuring the cost of coverage against household income. If a person had an offer of employer-sponsored coverage, either as an employee or as a family member of an employee who is on the same tax return, use the lowest cost offer to the employee or the family member to calculate whether the offer of coverage was affordable. If a person has no offer of employer-sponsored coverage, use the cost of the lowest cost "bronze" plan, after premium tax credits, to determine affordability. Table 6 details how affordability is determined. The applicable plan cost is compared to the household income of the family, and the plan is unaffordable if it is greater than 8.05 percent of income.

- **U.S. citizens living abroad and certain noncitizens:** U.S. citizens and residents who live abroad for more than 330 full days in the calendar year, as well as U.S. citizens who are bona fide residents of another country for the entire tax year are exempt from the shared responsibility payment. Residents of U.S. territories and 1040NR (or 1040NR-EZ) filers are also exempt.

Table 6:
How to Calculate Affordability of Insurance Coverage

Household Income:	*Adjusted gross income (AGI) + Tax-exempt interest + Excluded foreign income* *PLUS any pre-tax deduction for employer-sponsored insurance*		
Offer of Coverage Through an Employer	**As an employee**	**As a member of the employee's family**	**Two or more family members have offers of employer coverage**
	Does the *lowest-cost self-only plan* offered by the employer cost more than 8.05% of income? **If YES, enter Code A** for each applicable month	Does the *lowest-cost plan that covers everyone on the tax return who is eligible for coverage* and is not otherwise exempt cost more than 8.05% of income? **If YES, enter Code A** for each applicable month	Are the (1) individual offers of coverage affordable but (2) *their combined cost* is greater than 8.05% of household income and (3) is no family coverage offered for less than 8.05% of household income? **If YES to all three, enter Code G** for entire year
No Offer of Coverage Through an Employer	Does the *lowest-cost bronze Marketplace plan for all household members not offered employer-sponsored coverage and not otherwise exempt* cost more than 8.05% of household income? (Factor in any PTC the individuals would be eligible to receive.) **If YES, enter Code A** for each applicable month		

Individuals who are *not* U.S. citizens or nationals, and who are not lawfully present as defined by the ACA, are also eligible for this exemption. This includes undocumented individuals, people with Deferred Action for Childhood Arrivals (DACA or "Dreamers"), and certain other immigrants who are *not* included in Healthcare.gov's list of immigrants who qualify for Marketplace coverage. In most cases, this exemption will apply for the entire year.

- **Incarceration:** Individuals who are in a jail, prison, or similar penal institution or correctional facility are exempt from the penalty. The exemption is not available for months an individual is on probation, parole, or home confinement, or the months they were in jail awaiting trial. A person can claim this exemption for any month he was incarcerated for at least one day. Taxpayers can also apply for this exemption through the Marketplace.

> **TIP**
>
> **When someone qualifies for an exemption that can be obtained through the Marketplace and the tax return, which option should he or she choose?**
>
> Claim the exemption directly on the tax return! In the future, there will be fewer options about how to claim exemptions. Beginning in the 2016 tax year, several exemptions that can be obtained through the Marketplace or on the tax return will only be available on the tax return.

- **Indian tribe membership:** This exemption applies to members of a federally recognized Indian tribe or individuals eligible for services through an Indian health care provider. People can also obtain this exemption by applying through the Marketplace.
- **Health care sharing ministry:** Members of health care sharing ministries, which share health care costs among people who hold similar beliefs, are exempt from the penalty. Health care sharing ministries are operated by not-for-profit religious organizations that act as a clearinghouse for people who have medical expenses and want to share their costs. To qualify for this exemption, an individual must be a member of a health care sharing ministry that has been in existence (and sharing medical expenses) at all times since December 31, 1999, and which undergoes an annual audit by an independent certified public accountant, available to the public upon request. Taxpayers can also apply for this exemption through the Marketplace.
- **Individuals who were born or adopted or who died in 2015:** People are required to have coverage during full months alive or adopted. This exemption is used for the months of and prior to birth or adoption and for the months of and after death. However, if the rest of the family is otherwise covered in every month of the year, simply checking the box on Line 61 of Form 1040 is sufficient; this exemption need not be noted.
- **Short coverage gap:** This exemption applies to individuals who went without coverage for *less than* three consecutive months during the year. If the gap is three or more consecutive months, none of the months within the gap will qualify. Also, if there are multiple gaps in a year, the exemption is only available for the first gap in coverage. The exemption has a lookback period but does not look forward. So, if a person was uninsured in January 2015, the taxpayer will not be eligible for exemption if consecutive months uninsured and without exemption, including those at the end of 2014, exceed 3 months. However, a person who is uninsured in December 2015 does not need to consider uninsured months in early 2016.

Step 4: Check to See if Anyone on the Tax Return May Qualify for a Marketplace Exemption

If after going through steps 1 through 3, there are still individuals on the tax return who don't have an exemption for months they were uninsured, the final step tax preparers should take is to check if they may qualify for a Marketplace exemption. Two types of exemptions can only be obtained by submitting an application to the Marketplace:

- **Religious conscience:** Members of a religious sect that is recognized as conscientiously opposed to accepting any insurance benefits are exempt from the mandate penalty. The Social Security Administration administers the process for recognizing these sects. Such sect or division must have been in existence since December 31, 1950.
- **Hardship:** People who have suffered a hardship that makes them unable to obtain coverage may qualify for an exemption. There are many categories of hardship, including:
    - Homelessness
    - Eviction in the last 6 months or facing eviction or foreclosure
    - Receipt of a utility shut-off notice
    - Domestic violence
    - Recent death of a close family member
    - Disaster that resulted in significant property damage
    - Bankruptcy in the last 6 months
    - Debt from medical expenses in the last 24 months
    - High expenses caring for an ill, disabled or aging relative
    - Failure of another party to comply with a medical support order for a dependent child who is determined ineligible for Medicaid or CHIP
    - Through an appeals process determined eligible for a Marketplace QHP, PTC, or CSR but was not enrolled
    - Determined ineligible for Medicaid because the state did not expand
    - Individual health insurance plan was cancelled and the individual believes that the available plan options are more expensive than the plan that was cancelled
    - Other hardship in obtaining coverage (including for people who enrolled in certain limited-benefit Medicaid programs)

> **TIP**
>
> **Should tax preparers refer clients to a health care assister to complete a hardship exemption application?**
>
> A referral to a health care assister is one option, but it causes additional delay. Consider helping the client complete the hardship application at the tax site. No special health care knowledge is required to complete the process. In most cases, the information needed to complete a hardship exemption application includes:
>
> - Client's name and contact information
> - Dependents' name and information
> - Documentation of hardship
> - Taxpayer's signature

A person who wishes to claim an exemption through the Marketplace can visit www.healthcare.gov/exemptions to find the correct exemption application. The Federally-Facilitated

Marketplace processes exemptions for all states except Connecticut. (Connecticut residents should visit Access Health CT website at www.ct.gov/hix for information on how they can apply for exemptions.)

Applying for an exemption doesn't need to delay tax filing. A person who has applied for an exemption (or is applying simultaneously when filing their tax return) can write "pending" in the ECN column on Form 8965, Part I. If the exemption is approved, the Marketplace will notify the IRS and the taxpayer doesn't need to amend the return. If the exemption is not approved, the Marketplace will notify the taxpayer of the denial. The taxpayer can then apply for an alternative exemption or amend his tax return to reflect the amount of the shared responsibility payment he or she may owe for the months without coverage or exemption.

TEST YOUR KNOWLEDGE

Who Qualifies for an Exemption from the Mandate Penalty?

SCENARIO 1: *John lost his insurance on December 31, 2014, and was uninsured at the start of 2015. He got a new job with insurance that started on March 15. Does John qualify for an exemption?*

ANSWER: Yes, John qualifies for the short coverage gap exemption because his coverage gap was less than three full months. He is considered to have coverage in March because he had coverage for at least one day of that month. Therefore, his gap is only two months. He should enter Code B on Form 8965 for January and February.

SCENARIO 2: *Fatima has an ITIN and files taxes but she is not lawfully present in the U.S. Her husband and daughter are U.S. citizens. Does Fatima qualify for an exemption?*

ANSWER: Yes, people who are not lawfully present in the U.S. qualify for an exemption on Form 8965; Fatima should enter Code C for herself for the entire year. Her husband and daughter are not eligible for this exemption because they are citizens.

SCENARIO 3: *Sonia and Gilberto are married and have two children. Sonia has an offer of health insurance through her job, but she doesn't accept it. Her household income was $47,000 in 2015. Sonia's share of the premium for employee-only coverage would have been $2,350 per year, which is 5 percent of income. Her share of the premium for employee plus children coverage would have been $4,700 per year, or 10 percent of income. No spousal coverage was offered through her employer. Do Sonia and her family qualify for an exemption?*

ANSWER: Sonia's share of the premium for employee-only coverage is less than 8.05 percent of the household's income. Therefore, it is affordable and Sonia doesn't qualify for this exemption.

For the children, the only plan that would cover them through Sonia's employer would cost 10 percent of their household income. Because it costs more than 8.05 percent of income, insurance for the children is unaffordable, and they qualify for this exemption. Enter Code A for each child on Form 8965 for the entire year.

Affordability for Gilberto is based on the lowest-cost bronze plan in the Marketplace covering only Gilberto because he didn't have an offer of employer coverage. Let's say that the lowest-cost bronze plan, after taking into account premium tax credits, would have cost $2,000 a year in 2015 which is 4 percent of household income. In this case, the plan would be considered affordable and Gilberto is not eligible for an affordability exemption.

SCENARIO 4: *Bob and Joan each have jobs that offer health coverage. Their combined household income was $45,000 in 2015. Bob's share of the premium for his employer plan would have been $2,400 a year or 5.3 percent of their household income. Joan's share of the premium for her employer plan would have been $2,100 a year or 4.7 percent of income. Neither is offered family coverage. Combined, their cost of coverage would have been $4,500 a year in 2015, which is 10 percent of their household income. Do Bob and Joan qualify for an exemption?*

ANSWER: Yes, even though individually, the cost of covering Bob and Joan is less than 8.05 percent of their income, Bob and Joan both qualify for an exemption for the entire year because the *aggregate* cost of coverage is more than 8.05 percent of their income. They can enter Code G on Form 8965 for the entire year.

The Individual Responsibility Payment for People Who Neither Maintain Minimum Essential Coverage nor Claim an Exemption

Individuals who don't maintain the minimum level of coverage and don't qualify for an exemption must pay a tax penalty.

Who is Subject to the Penalty?

Individuals of all ages are subject to a penalty for not having MEC unless they qualify for an exemption. The taxpayer who claims a dependent on his or her tax return is responsible for making the payment if the dependent does not have coverage or an exemption.

How is the Penalty Amount Determined?

The penalty is either a flat amount, or a percentage of household income, whichever is greater. The amount of the penalty varies in 2014, 2015 and 2016 according to the schedule outlined in Table 7. Beginning in 2017, the flat dollar amounts are increased annually by the cost of living. Figure 7 illustrates how household income affects the penalty amount for a single individual and for a married couple filing a joint tax return.

TIP

Who is responsible for reporting on coverage for a tax dependent who files a tax return?

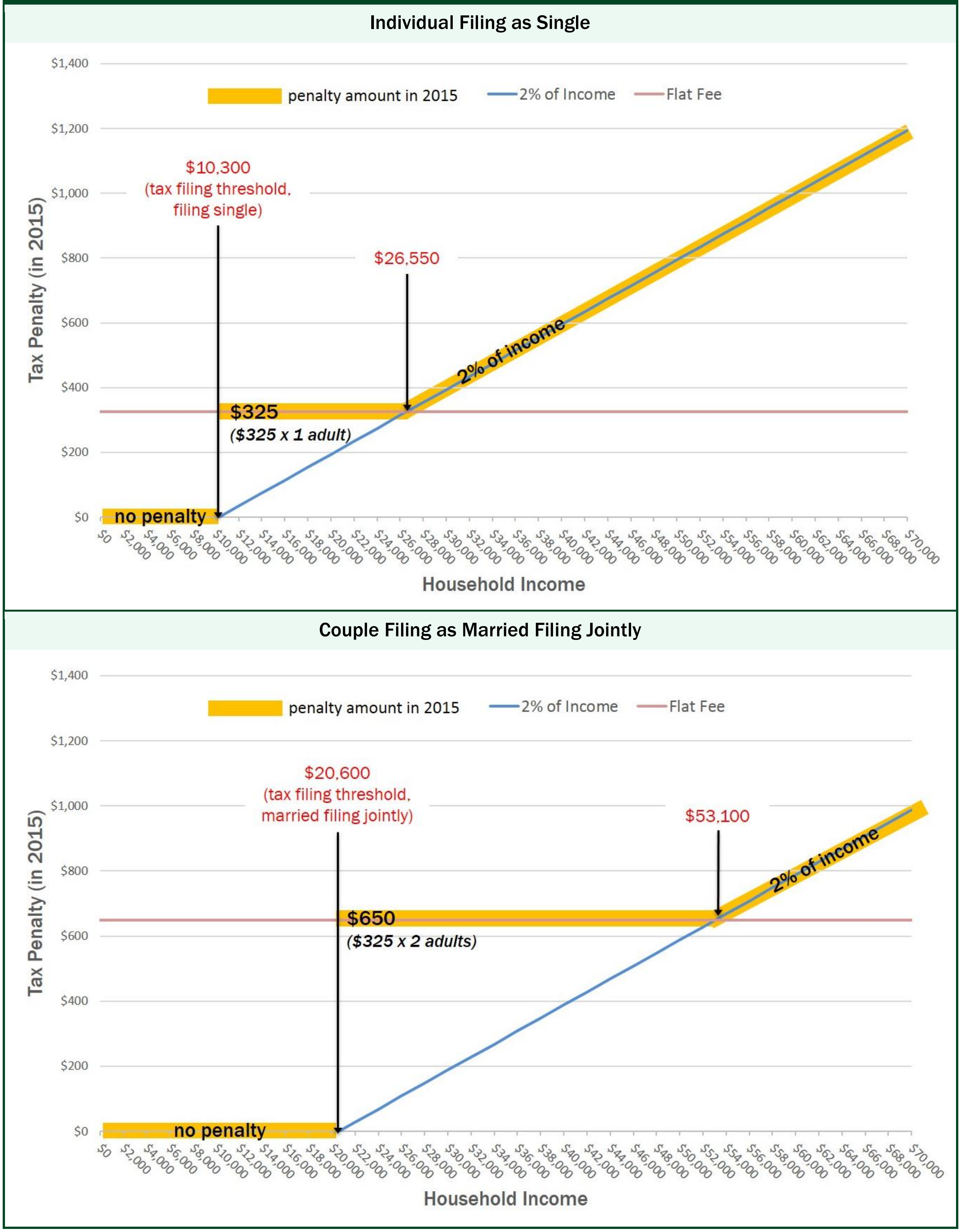
If a dependent files a tax return but still qualifies as the tax dependent of another tax filer, he or she doesn't need to report coverage, claim an exemption or make an individual responsibility payment on his or her tax return. The person who is claiming the dependent's exemption is responsible for reporting the dependent's coverage or exemption and making any individual responsibility payment that may be required if the dependent is uninsured and doesn't qualify for an exemption.

Table 7: Penalty for Not Maintaining MEC

Tax Year	Penalty will be the greater of:	
2014	$95 for each adult and $47.50 for each dependent under 18 years old in the household, up to $285 per family	1 percent of household income over the income tax filing threshold[1] (up to cap[2])
2015	$325 for each adult and $162.50 for each dependent under 18 years old in the household, up to $975 per family	2 percent of household income over the income tax filing threshold (up to cap[2])
2016	$695 for each adult and $347.50 for each dependent under 18 years old in the household, up to $2,085 per family	2.5 percent of household income over the income tax filing threshold (up to cap[2])

[1] Tax filing threshold for tax year 2015 is $10,300 for a single filer and $20,600 for married filers
[2] Capped at national average premium of a bronze level plan purchased through a Marketplace. For 2015, the cap is $2,484 per individual with a maximum of $12,420 for a family with five or more members.

**Figure 7:
How Household Income Affects the Penalty**



Center on Budget and Policy Priorities

The penalty is prorated for the number of months without coverage, so for each month that a person is uninsured he will be assessed 1/12th of the annual penalty. Also, the penalty is capped in one of two ways, depending on which method is used. If using the flat dollar amount, the penalty is capped at three times the adult penalty. If using the percentage of income method, the penalty is capped at an amount equal to the national average premium for bronze level coverage in the health insurance Marketplace. For 2015, that cap is $2,484 a year ($207 per month) per individual, with a maximum of $12,420 a year ($1,035 per month) for a family with five or more members.

Tax software will help taxpayers figure out their penalty amount. The instructions for Form 8965 also include a worksheet to help calculate the penalty. The penalty amount is entered on Line 61 of Form 1040.

What Happens if a Client Can't Pay the Penalty?

Taxpayers who are subject to the penalty but don't pay it will receive a notice from the IRS stating that they owe the penalty. The IRS can collect the funds by reducing the amount of a taxpayer's tax refund for that year or future years. However, the IRS can't seize or place a lien on a taxpayer's property if he or she doesn't pay the penalty. Any balances due on the penalty will accrue interest, but the IRS can't impose additional penalties for failure to pay.

TIP

What should tax preparers tell a client who has to make a shared responsibility payment for being uninsured?

There are some things that tax preparers can do to help clients understand the penalty and avoid it in the future:

- **Determine potential eligibility for an exemption.** Explain the types of situations for which exemptions are available. This educates the client and shows the client that you did your best to help.
- **Ask about their insurance status for 2016.** If they don't have insurance, refer them to the Marketplace or to a local health care assister. Depending on what kind of insurance he or she qualifies for, there may be rules allowing enrollment only at certain times of the year (open enrollment) or under certain circumstances (special enrollment).
- **Remind the client that penalties increase substantially next year.** Helping them think ahead about their 2016 coverage is no different than advising a client to adjust their tax withholding at their place of employment for the coming year.

TEST YOUR KNOWLEDGE

What is the Shared Responsibility Payment?

SCENARIO 1: *Jerry has household income of $17,000 and will file his taxes as Single. He did not have insurance coverage in 2015 and does not qualify for an exemption. What is Jerry's penalty?*

ANSWER: Jerry's penalty is the higher of two amounts: 1) a flat amount of $325, or 2) 2 percent of his household income above his filing requirement of $10,300 ($17,000 — $10,300 = $6,700 x 2% = $134). Jerry's penalty amount is $325. Enter this amount on Line 61 of Form 1040.

SCENARIO 2: *Same scenario except Jerry was uninsured with no exemption for only 6 months of the year. What is Jerry's penalty?*

ANSWER: Figure out the monthly penalty under each method of calculation by multiplying each result above by 1/12. Under the flat dollar method, the monthly penalty is $325 x 1/12 = $27.08 per month. Under the percentage-of-income method, the monthly penalty is $11.17 per month. Use the higher amount and multiply by the number of months Jerry is uninsured and not exempt ($27.08 x 6 = $162.48, rounded to $162.) Enter $162 on Line 61 of Form 1040.

SCENARIO 3: *Eloise and Marcus are married with two young sons. None of them had insurance in 2015. They will file jointly with household income of $39,500. What is their penalty?*

ANSWER: Their penalty is the higher of two amounts. The flat dollar amount is: $325 x 2 (number of adults) + $162.50 x 2 (number of children) = $975. The percentage-of-income amount is $39,500 — $20,600 = $18,900 x 2% = $378. The higher of the two amounts — $975 – is entered on Line 61 of Form 1040.

SCENARIO 4: *Same family as in Scenario 3 except only Marcus is uninsured all year. Everyone else had full-year coverage. What is their penalty?*

ANSWER: The flat-dollar amount is $325 for one adult. However, the amount calculated under the percentage-of-income method ($378) is the same amount as above, regardless of the number of family members that were uninsured all year. Enter $378 on Line 61, Form 1040.

The Premium Tax Credit

The health reform law provides financial assistance to help people buy health coverage through a premium tax credit (PTC). The PTC lowers the cost of private health insurance purchased in a Health Insurance Marketplace. Taxpayers who purchase coverage in a Marketplace can receive an advance payment of the credit to lower their monthly premium costs or they can wait and claim the credit on their tax return. This section explains the eligibility requirements for the PTC, how the Marketplace determines eligibility, and how the PTC is calculated.

Eligibility for the Premium Tax Credit

Taxpayers must meet four conditions to claim the PTC, which are discussed below:

1. A taxpayer or household member must be enrolled in a health plan through the Marketplace.
2. The enrolled person must not be eligible for other MEC.
3. The enrolled person must have an eligible tax filing and dependent status.
4. The taxpayer must have household income between 100 percent and 400 percent of the poverty line, with some exceptions for people with income below the poverty line.

1. Enrollment in a Marketplace Plan

Most people are eligible to purchase insurance in the Marketplace, but some people are not. A person can't purchase Marketplace coverage if he is incarcerated or an undocumented immigrant. Furthermore, Marketplace plans in each coverage area can only be sold to residents of the area. For example, if a person lives in Connecticut but works in New York, the person would only be eligible to purchase a plan in the Connecticut Marketplace, not in the New York Marketplace.

2. Ineligible for Other MEC

The premium tax credit is only available to people who aren't eligible to enroll in other MEC, other than coverage in the individual market. The Marketplace assesses eligibility for other MEC in determining eligibility for advance payments of the PTC.

In general, a person who is eligible for Medicaid, Medicare or other public coverage is ineligible for premium tax credits, even if the individual doesn't enroll in the public coverage that is available. Similarly, people are also ineligible for premium tax credits if they are eligible for employer-sponsored insurance, regardless of whether they enroll in that coverage.

There is an exception. A person may be eligible for the PTC despite an offer of employer-sponsored insurance if: (1) he did not enroll in the coverage; and (2) the coverage is inadequate or unaffordable. A plan is *adequate* if it meets the minimum value standard, which means the plan pays at least 60 percent of health care costs covered by the plan for a typical population. Minimum value is a technical concept; most people will need to ask their employer or insurance plan whether their plan meets the standard.

In 2015, a plan is *unaffordable* if the lowest-cost plan that meets the minimum value standard costs more than 9.56 percent of household income to cover the employee. (The percentage used to measure affordability goes up each year. In 2016, it is 9.66 percent.) An employee's family members who are offered coverage through the employee's plan are also considered to have an offer of MEC if the employee-only plan is minimum value standard and affordable. Family coverage is considered affordable if employee-only coverage costs less than 9.56 percent of income, even if the cost of covering the family costs a greater percentage of household income.

A person who has an offer of employer-sponsored coverage through another person isn't barred from receiving the PTC if he or she isn't claimed on that other person's tax return as a dependent. This might happen, for example, in the case of a child with an offer of coverage from a non-custodial parent but who will not be claimed as a tax dependent by that parent, an adult child not claimed as a dependent who could enroll in his parent's employer coverage, or a person who is eligible for coverage through their domestic partner's employer but who will not or cannot file taxes with their partner (see Box 2).

3. Eligible Tax Filing and Dependent Status

Most taxpayers who file their taxes as Married Filing Separately can't claim the premium tax credit. However, a married person who doesn't file taxes with a spouse but qualifies for the Head of Household filing status can claim the premium tax credit.

There are also exceptions for spouses who file separately and are survivors of domestic violence or who have been abandoned by their spouse. In either case, the taxpayer should check the box indicating "Relief" on the top right-hand corner of Form 8962. Relief can be claimed by individuals who live apart from their spouse and file as Married Filing Separately due to domestic abuse; the IRS does not require taxpayers to submit documentation of the abuse with the tax return. In the case of abandoned spouses, the taxpayer can claim relief if he or she files separately and is unable to

TIP

What happens on the tax return when the affordability of employer coverage changes in the middle of the year?

Determinations about the affordability of employer coverage and whether it meets minimum value are made at the time of application. If the Marketplace found that employer-sponsored insurance was unaffordable based on information given at the time of application, this determination stands at tax time. This applies even if the insurance cost at the end of the tax year ends up being less than 9.56 percent of the household's MAGI, for example because household income was higher than expected.

Is there any help for families if employer-sponsored family coverage is unaffordable?

Family coverage offered by an employer is considered affordable if the employee-only coverage is affordable regardless of the cost to cover other family members. Having an offer of "affordable" coverage bars a person from receiving premium tax credits. If family members are barred from receiving PTC because of the offer but can't afford the employer-sponsored coverage, consider the affordability exemption (Code A) for uninsured family members. Eligibility for the affordability exemption takes into account the actual cost family coverage.

Box 2

Example of When a Tax Dependent Can Have an Offer of Adequate and Affordable Employer Coverage and Still Qualify for the Premium Tax Credit

A couple is divorced and will file taxes separately. They have one son, who will be claimed as a dependent by his mother, the custodial parent. The child's father has employer-sponsored coverage that includes an offer of family coverage. The mother enrolls in Marketplace coverage for herself and her son.

In this scenario if all other eligibility criteria are met, the child is eligible for premium tax credits. The child doesn't have an offer of coverage that prevents him from being eligible for premium tax credits despite his father's offer of family coverage because he is the tax dependent of his mother.

locate their spouse using reasonable diligence. A taxpayer can only claim each of these exceptions for a maximum of three consecutive years.

If a taxpayer received advance payment of premium tax credits but is Married Filing Separately and no exception applies, they will need to repay all advance payments of premium tax credits received, up to the repayment cap in Table 8.

Filers also can't claim premium tax credits for themselves if they are or could be the dependent of another person. Only the taxpayer who claims the enrollee's personal exemption can claim the PTC.

4. Household Income between 100 and 400 Percent of FPL

To be eligible for the premium tax credit eligibility a taxpayer's household income must be between 100 percent and 400 percent of the poverty line. (A discussion of household income is below.)

If someone received advance payments of the PTC, and year-end household income is above 400 percent of the poverty line, all of the advance payments must be repaid. No repayment cap applies and there are no exceptions.

However, if income is below 100 percent of the poverty line, there are two circumstances in which a person may qualify for the PTC. First, people who are lawfully present in the U.S. and who are ineligible for Medicaid due to their immigration status are able to claim the PTC even if their income is below the poverty line. Second, if at the time of enrollment the Marketplace estimated that a taxpayer's income would be between 100 and 400 percent of the poverty line, and the taxpayer received advance premium tax credits, he can claim the PTC even if his year-end income is less than 100 percent of the poverty line.

How Does the Marketplace Assess Eligibility?

A person seeking health insurance at the Marketplace completes an application to determine whether they are eligible for Medicaid, CHIP or Marketplace coverage. The application asks questions to determine current and projected annual income, the members of the household and their relationships to each other, and the availability of employer-sponsored coverage. Each individual applying for coverage is first screened for Medicaid or CHIP eligibility. If the applicant is found ineligible for Medicaid or CHIP, the Marketplace then determines eligibility for premium tax credits.

Table 8:
Repayment Caps for APTC

Income (as % of the federal poverty line)	Taxpayers Filing as SINGLE Will Pay Back No More Than:	Taxpayers Using Other Filing Statuses Will Pay Back No More Than:
Under 200%	$300	$600
At least 200% but less than 300%	$750	$1,500
At least 300% but less than 400%	$1,250	$2,500
400% and above	Full repayment	Full repayment

Definition of Family or Household for Premium Tax Credit Eligibility

For premium tax credit eligibility, the household includes the tax filer and all individuals for whom the tax filer claims a personal exemption. Individual members of a tax household may not be eligible for the PTC (for example, because they have other minimum essential coverage), but they will still be included in the household for determining the poverty level income of the household members who are eligible.

Definition of Income for Premium Tax Credit Eligibility

To determine eligibility for the PTC, the Marketplace uses a household's projected income for the calendar year in which the credit will be claimed. A household's income is the sum of the MAGI of each family member with a tax filing requirement. MAGI is adjusted gross income, as defined by the IRS, plus any excluded foreign income, non-taxable social security benefits, and tax-exempt interest received for the tax year (see Figure 8).

If a dependent has a tax filing requirement, the dependent's MAGI is calculated and added to the taxpayer's MAGI to determine household income.

How Does the Marketplace Estimate and Verify Income, Household Size and Tax Filing Status?

The taxpayer projects the income and the number of household members he expects for the year and attests that he will not file taxes as Married Filing Separately. Sometimes these projections are difficult, especially when the taxpayer or spouse have fluctuating incomes, when the inclusion of a person as a dependent on the tax return is uncertain, and when the taxpayer's marital and filing status may change during the year. If payments of the premium tax credit are taken in advance, a mistake in the projection of income, family size or filing status can result in the taxpayer receiving too much premium tax credit, which must be repaid, or too little credit, making it difficult to pay the

Figure 8:
Formula for Calculating Modified Adjusted Gross Income (MAGI)

Adjusted Gross Income (AGI)	+	**Non-Taxable Social Security Benefits**	+	**Tax-Exempt Interest**	+	**Excluded Foreign Income**
As defined by the IRS, AGI is gross income minus adjustments to income		Social Security benefits not included in gross income		Interest income that is not subject to federal income tax		Foreign earned income excluded from taxation of individuals who live abroad
Line 37 IRS Form 1040		*Line 20a minus 20b IRS Form 1040*		*Line 8b IRS Form 1040*		*Lines 45 and 50 IRS Form 2555*

= **Modified Adjusted Gross Income (MAGI)** taxpayer's share of monthly premiums. Other changes that happen during the year, such as changing to a filing status of Married Filing Separately or income that rises over 400 percent of the poverty line, may result in the loss of eligibility for the PTC and require repayment of some or all of the credit.

The Marketplace verifies most of the information provided on the application. It checks income projections on the application against the taxpayer's most recent income tax return (for 2015 eligibility, the most recent tax information available during open enrollment was from tax year 2013) and wage data. When the taxpayer's attestation of projected income is inconsistent with the information available through electronic data sources, he may be asked to provide documents to verify his projected income.

How Is the Tax Credit Amount Determined?

Taxpayers who are eligible for the premium tax credit are expected to contribute a portion of the premium cost based on household income, as measured by the federal poverty line. This expected contribution increases as income increases. For 2015, the expected contribution for taxpayers with income at or below 138 percent of the poverty line is two percent of their household income. The percentage of income increases as income increases and reaches 9.56 percent of household income for families with income between 300 and 400 percent of the poverty line. (In 2016, these figures are adjusted upwards for inflation.)

The premium tax credit is the difference between the cost of a benchmark plan and the amount the taxpayer is expected to contribute toward the cost of coverage (see Figure 9). The benchmark plan is the second lowest cost plan in the "silver" tier of Marketplace plans for each covered individual, which is based on their ages and where they live. (Marketplace plans are categorized according to their cost-sharing as platinum, gold, silver, or bronze plans.)

Once the Marketplace calculates an advance premium tax credit amount based on the benchmark plan, the taxpayer can use that credit amount to purchase any plan in any metal tier offered in the Marketplace. If the taxpayer enrolls in a plan with a premium that is higher than the benchmark plan's premium, the taxpayer will pay the difference. However, if he or she enrolls in a plan with a premium that is lower than the benchmark plan's premium, the taxpayer's contribution will be less than the expected contribution, though the premium tax credit can never exceed the total premium cost. (For an in-depth explanation of how the premium tax credit is calculated, visit the Center on Budget and Policy Priorities' "Beyond the Basics" project website at www.healthreformbeyondthebasics.org.)

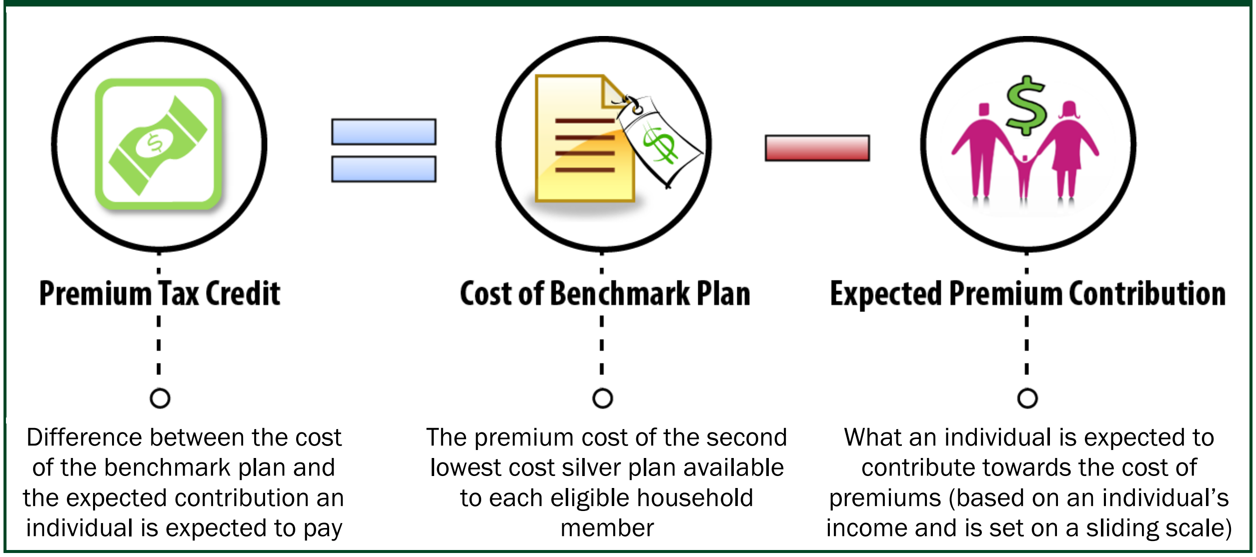
TIP

How is the calculation of household income for premium tax credits different from the calculation of income for tax purposes?

For premium tax credits, household income is the taxpayer's MAGI, plus the MAGI of each person in the tax household who is claimed as a dependent and has a filing requirement. The potential inclusion of dependent income in household income means additional information may be needed to complete a tax return, including:

- The income of each dependent on the tax return
- How much of the dependent's income was earned and how much was unearned
- Whether each dependent has a filing requirement (the filing requirements are available in Form 1040 Instructions, page 8 and 9).

Figure 9:
Formula for Calculating the Premium Tax Credit Amount



Reconciling the Advance Payment of the Premium Tax Credit with the Final Premium Tax Credit Amount

A taxpayer must file a tax return if she or anyone on the tax return received advance payments of the premium tax credit. A taxpayer also must file if she received advance payments on behalf of someone whom she told the Marketplace she would claim as a dependent but ultimately was not claimed by the taxpayer or anyone else. The amount of the advance payment is a preliminary determination by the Marketplace; the actual credit amount is determined based on information reported on the tax return. Therefore, when the taxpayer files her return, she will have to reconcile the amount of advance payments she received against the final credit amount for which she is eligible. The taxpayer will need two forms — Form 1095-A and Form 8962 — to reconcile the advance payment of the premium tax credit with the final premium tax credit amount.

Form 1095-A

The Marketplace will send Form 1095-A to everyone who purchased health insurance through the Marketplace. This form provides the information necessary to determine the premium tax credit on Form 8962, including who was covered in the Marketplace plan and for which months, the premium cost of the plan the enrollee selected, the premium for the benchmark plan that helps establish the credit amount, and the amount of any advance payments of the premium tax credit that were received.

Like other tax forms, the Marketplace will mail Form 1095-A to enrollees by January 31 after the coverage year. Only the person who was listed as the principal contact will receive the Form 1095-A. If another taxpayer was enrolled in the same plan, the person who receives Form 1095-A should share a copy of the form with the other party. In most cases, the form will also be accessible online in the taxpayer's Marketplace account.

If the taxpayer discovers an error in the advance payment amounts reported in Form 1095-A, she should report it to the Marketplace call center. The Marketplace will investigate the error and may issue a corrected Form 1095-A. Taxpayers who receive a corrected Form 1095-A after filing their tax return may need to file an amended tax return.

Certain errors on Form 1095-A do not need to be reported or corrected by the Marketplace, however. Errors in name and address information do not require correction, nor do errors in the second lowest cost silver plan (SLCSP). The taxpayer can get the correct SLCSP from their Marketplace. Enrollees in the FFM can use the look-up tool at www.healthcare.gov/tax-tool.

Form 8962

Form 8962 is used to determine the final premium tax credit and any overpayment or underpayment of advance payments (see Figure 10). The form has five parts:

1. Determination of the amount the taxpayer is expected to contribute to the cost of coverage, based on income and household size.
2. Determination of the premium tax credit amount and reconciliation of the advance payment of the credit.
3. Amount of excess advance premium tax credits, if any, that must be repaid

4. Allocation of premiums and premium tax credits, as applicable, for policies shared among more than one taxpayer.
5. Special premium tax credit calculation for taxpayers who marry during the year.

On Form 8962, the taxpayer's actual premium, the premium for the benchmark plan (referred to as the SLCSP on Forms 1095-A and 8962) applicable to the covered individuals, and the amount of premium tax credit received in advance are reported based on the information in Form 1095-A. The final premium credit is calculated by subtracting the expected contribution computed based on poverty level income reported on the tax return from the SLCSP. This amount is then compared to the advance payments received by the taxpayer to determine whether there was an underpayment or overpayment of the credit. If the taxpayer received less advance credit than the allowable amount computed on the return, the additional PTC is reported on Line 69 of Form 1040 as a payment (a refundable credit). If the premium tax credit received in advance exceeds the allowable premium tax credit calculated on Form 8962, the taxpayer will have to repay some or all of the premium tax credit. The amount of premium tax credit that must be repaid is capped (see Table 8). After the application of the caps, the Excess Advance Premium Tax Credit is reported on Line 46 of Form 1040.

Parts 4 and 5 of Form 8962 deal with complex situations that are not covered in this guide. Part 4 of Form 8962 applies when taxpayers who are enrolled in a Marketplace plan and received premium tax credits in advance separate or divorce during the tax year, when a person the taxpayer enrolled in coverage will be claimed by someone else, or when the taxpayer is claiming a person who was enrolled by someone else. Part 5 of Form 8962 applies to taxpayers who married during the year, when someone in their household received advance payments of the premium tax credit before they were married. Additional guidance is expected from the IRS on these complex situations in Publication 974.

Identifying and Resolving Duplicate Coverage

In general, a person is not eligible for PTC if he or she is eligible for other minimum essential coverage. However, several special rules allow taxpayers to claim PTC despite eligibility for or enrollment in other coverage. A person's PTC eligibility should be evaluated under these rules if he or she receives both Form 1095-A, documenting Marketplace coverage, and Form 1095-B or -C, documenting other coverage, for overlapping months.

A person who is eligible for PTC and then becomes eligible for a government-sponsored program can continue to receive PTC until the first day of the month after they become eligible for benefits. For Medicaid and CHIP, this generally means the taxpayer continues to be eligible for PTC until the first day of the month after the month of determination. So, a person who is determined eligible for Medicaid on March 2 does not lose PTC eligibility until April 1. If APTC is being paid and the Medicaid eligibility determination results in an award of retroactive coverage, PTC is not lost retroactively. PTC can still be claimed until the first day of the first month following the determination of eligibility, even though there may be several months of duplicate coverage.

Box 3

Example of Consumer with Duplicate Coverage During Year

Carly is enrolled in a qualified health plan in the Marketplace and receives advance payments of PTC starting January 1. When her work hours are reduced, she reports the change to the Marketplace on July 11. On August 14, she is determined eligible for Medicaid, and the coverage is awarded retroactively for the months of May, June and July. She calls the Marketplace to cancel her plan and advance PTC as of September 1.

She receives Form 1095-A indicating coverage in January through August and Form 1095-B indicating Medicaid coverage in May through December. On her tax return, Carly is eligible for PTC from January through August. Even though she also had Medicaid coverage from May through August, the rules allow her to claim PTC until the first day of the month following her Medicaid determination.

A taxpayer receiving APTC and who becomes eligible for government-sponsored benefits must complete the necessary steps to enroll in the new coverage by the first day after the third full month after the event that makes them eligible. If the individual fulfills that obligation, he or she can continue to be eligible for PTC until the first day of the first full month in which he or she can receive benefits through the new coverage. If the necessary steps to enroll in the new coverage are not taken, the person is considered to be eligible for government-sponsored insurance and is ineligible for PTC starting the first day after the third full month after the eligibility event.

This rule is most commonly applied in the case of someone who becomes eligible for Medicare after turning 65 years old. For example, a person receiving APTC at the start of the year and who becomes Medicare eligible on May 4 must complete the steps necessary to enroll in Medicare by August 31 (before the first day of the month following the third full month after the eligibility event). If she enrolls in Medicare on August 31, she'll be eligible for Medicare benefits starting November 1, and can receive PTC until that time. If she doesn't enroll by August 31, her PTC eligibility ends September 1 (the first day after the third full month after the event that makes them eligible).

Special rules also apply when a person receiving premium tax credits is eligible for employer-sponsored coverage. This might be discovered if the person works for a large employer and receives Form 1095-C, which indicates the offer of coverage and its cost, as well as actual enrollment. However, under the rules, a person is eligible for PTC despite an offer of affordable coverage, if they disclosed the offer and its cost to the Marketplace and the Marketplace determined the offer to be unaffordable based on the individual's projected income. Even if a subsequent Form 1095-C appears to indicate an affordable employer offer, the Marketplace's determination of eligibility stands.

For tax year 2015, the deadline for Forms 1095-B and -C has been delayed until March 31. Taxpayers should not wait to receive these forms to complete their returns. If a taxpayer prepares their return with coverage information they believe to be accurate, and the Forms 1095-B or –C subsequently report coverage information that is different, there is no requirement for tax year 2015 to amend the return.

Guidance for Taxpayers Who Must Repay Some or All of the Premium Tax Credit

Tax preparers who have clients who have to repay some or all of their premium tax credit should refer them to the Marketplace or someone familiar with health coverage, such as a health care navigator, certified application counselor or insurance agent or broker, for additional help. For 2016 coverage, many people who were enrolled in Marketplace plans in 2015 were automatically renewed in the same plan for 2016. This means that a person who received excess advance payments of the premium tax credit in 2015 may face the same problem in 2016 unless the taxpayer updated his or her income or dependent information with the Marketplace. Income and household information can be updated at any time of the year, although people can only enroll in a health plan during open or special enrollment periods as explained earlier in the guide.

Figure 10:
Sample Form 8962 with APTC Repayment

Form **8962**

Department of the Treasury
Internal Revenue Service

Premium Tax Credit (PTC)

► Attach to Form 1040, 1040A, or 1040NR.

► Information about Form 8962 and its separate instructions is at *www.irs.gov/form8962*.

OMB No. 1545-0074

2015

Attachment Sequence No. **73**

Name shown on your return | Your social security number

You cannot claim the PTC if your filing status is married filing separately unless you are eligible for an exception (see instructions). If you qualify, check the box. ☐

Part I Annual and Monthly Contribution Amount

1 Tax family size. Enter the number of exemptions from Form 1040 or Form 1040A, line 6d, or Form 1040NR, line 7d **1**

2a Modified AGI. Enter your modified AGI (see instructions) . . . . . **2a** | **b** Enter the total of your dependents' modified AGI (see instructions) . . . **2b**

3 Household income. Add the amounts on lines 2a and 2b **3**

4 Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-2, or 1-3 (see instructions). Check the appropriate box for the federal poverty table used. **a** ☐ Alaska **b** ☐ Hawaii **c** ☐ Other 48 states and DC **4**

5 Household income as a percentage of federal poverty line (see instructions) . . . . . **5** %

6 Did you enter 401% on line 5? (See instructions if you entered less than 100%.)

☐ **No.** Continue to line 7.

☐ **Yes.** You are not eligible to receive PTC. If advance payment of the PTC was made, see the instructions for how to report your excess advance PTC repayment amount.

7 Applicable Figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions . . **7**

8a Annual contribution amount. Multiply line 3 by line 7 . . . . **8a** | **b** Monthly contribution amount. Divide line 8a by 12. Round to whole dollar amount . . **8b**

Part II Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage (see instructions)?

☐ **Yes.** Skip to Part IV, Shared Policy Allocation, or Part V, Alternative Calculation for Year of Marriage. ☐ **No.** Continue to line 10.

10 See the instructions to determine if you can use line 11 or must complete lines 12 through 23.

☐ **Yes.** Continue to line 11. Compute your annual PTC. Then skip lines 12–23 and continue to line 24.

☐ **No.** Continue to lines 12–23. Compute your monthly PTC and continue to line 24.

Annual Calculation	**(a)** Annual enrollment premiums (Form(s) 1095-A, line 33A)	**(b)** Annual applicable SLCSP premium (Form(s) 1095-A, line 33B)	**(c)** Annual contribution amount (line 8a)	**(d)** Annual maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	**(e)** Annual premium tax credit allowed (smaller of (a) or (d))	**(f)** Annual advance payment of PTC (Form (s) 1095-A, line 33C)
11 Annual Totals						

Monthly Calculation	**(a)** Monthly enrollment premiums (Form(s) 1095-A, lines 21–32, column A)	**(b)** Monthly applicable SLCSP premium (Form (s) 1095-A, lines 21–32, column B)	**(c)** Monthly contribution amount (amount from line 8b or alternative marriage monthly contribution)	**(d)** Monthly maximum premium assistance (subtract (c) from (b), if zero or less, enter -0-)	**(e)** Monthly premium tax credit allowed (smaller of (a) or (d))	**(f)** Monthly advance payment of PTC (Form(s) 1095-A, lines 21–32, column C)
12 January						
13 February						
14 March						
15 April						
16 May						
17 June						
18 July						
19 August						
20 September						
21 October						
22 November						
23 December						

24 Total premium tax credit. Enter the amount from line 11(e) or add lines 12(e) through 23(e) and enter the total here **24**

25 Advance payment of PTC. Enter the amount from line 11(f) or add lines 12(f) through 23(f) and enter the total here **25**

26 Net premium tax credit. If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Form 1040, line 69; Form 1040A, line 45; or Form 1040NR, line 65. If you elected the alternative calculation for marriage, enter zero. If line 24 equals line 25, enter zero. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27 . **26**

Part III Repayment of Excess Advance Payment of the Premium Tax Credit

27 Excess advance payment of PTC. If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here **27**

28 Repayment limitation (see instructions) **28**

29 Excess advance premium tax credit repayment. Enter the smaller of line 27 or line 28 here and on Form 1040, line 46; Form 1040A, line 29; or Form 1040NR, line 44 . . . . **29**

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37784Z Form **8962** (2015)