Introduction

This lesson covers some of the tax provisions of the Affordable Care Act (ACA). You will learn how to determine if taxpayers satisfy the individual shared responsibility provision by enrolling in minimum essential coverage, qualifying for an exemption, or making a shared responsibility payment. You will also learn how to determine if taxpayers are eligible to receive the premium tax credit. A glossary is included at the end of the lesson to help you understand new terms related to ACA.

What do I need?

- ☐ Intake and Interview Sheet
- ☐ Publication 4012, Volunteer Resource Guide
- ☐ Form 8962 & Instructions
- ☐ Form 8965 & Instructions
- ☐ Form 1095-A & Instructions
- ☐ Publication 974
- ☐ Publication 17

Optional

- ☐ Publication 5120
- ☐ Publication 5121
- ☐ Publication 5156
- ☐ Publication 5172
- ☐ Form 1095-B & Instructions
- ☐ Form 1095-C & Instructions

Objectives

At the end of this course, using your resource materials, you will be able to:

- Determine what is minimum essential coverage (MEC)
- Determine if taxpayers qualify for a health care coverage exemption
- Calculate the shared responsibility payment (SRP), if applicable
- Determine eligibility for the premium tax credit (PTC)
- Calculate the premium tax credit, if applicable
- Report taxpayers' health insurance coverage, premium tax credit, exemption from coverage, or shared responsibility payment on the tax return

What is the Affordable Care Act?

Under the Affordable Care Act (ACA), the federal government, state governments, insurers, employers, and individuals share responsibility for improving the quality and availability of health insurance coverage in the United States. The ACA reforms the existing health insurance market by prohibiting insurers from denying coverage or charging higher premiums because of an individual's preexisting conditions. The ACA also creates the Health Insurance Marketplace. For more information about the Marketplace, see www.healthcare.gov.

The Marketplace is where taxpayers find information about health insurance options, purchase health insurance, and, if eligible, obtain help paying premiums and out-of-pocket costs. The premium tax credit (PTC) is available through the Marketplace and helps eligible taxpayers pay for coverage.

The ACA requires individuals to have qualifying health care coverage (called minimum essential coverage, or MEC) for each month of the year, qualify for a coverage exemption, or make a shared responsibility payment (SRP) when filing their federal income tax returns.

Some taxpayers may qualify for a coverage exemption, which means they are not required to have MEC or make an SRP when filing their federal income tax return.

Who must have health care coverage?

For each month of the tax year, individuals must:

- Have MEC, or
- Qualify for a coverage exemption, or
- Make an SRP when filing their federal income tax return

Individuals are treated as having MEC for a month as long as they are enrolled in and entitled to receive benefits under a plan or program identified as MEC for at least one day during that month.

A taxpayer is subject to an SRP for the taxpayer, the taxpayer's spouse (if filing a joint return), and any individual claimed as a dependent on the tax return if they don't have MEC or a coverage exemption. A taxpayer is liable for each person the taxpayer can, but does not, claim as a dependent.

All U.S. citizens are subject to the individual shared responsibility provision, as are all non-U.S. citizens who are in the U.S. long enough during a calendar year to qualify as resident aliens for federal income tax purposes (see the Determining Residency Status Decision Tree in the Volunteer Resource Guide, ITIN Returns tab). Foreign nationals who are present in the U.S. for a short enough period that they do not become resident aliens for tax purposes are exempt from the individual shared responsibility provision even though they may have to file U.S. income tax returns.

All bona fide residents of U.S. territories are treated as having MEC and are not required to take any action to comply with the individual shared responsibility provision other than to indicate their status on their federal income tax returns if they are required to file.

An individual is included in a taxpayer's tax household in a month only if he or she is alive for the full month. For example, Tommy was born July 5th. He is included in the tax household beginning in August. Also, if the taxpayer adopts a child during the year, the child is included in the taxpayer's tax household only for the full months that follow the month of adoption.

Tax Software Hint: See the Volunteer Resource Guide, ACA tab, for software entries related to an individual who was born or died during the year.

What is minimum essential coverage (MEC)?

Under the ACA, minimum essential coverage (MEC) is a health care plan or arrangement specifically identified in the law as MEC, including:

- Specified government-sponsored programs (e.g., Medicare Part A, Medicare Advantage, most Medicaid programs, CHIP, most TRICARE programs, and comprehensive health care coverage of veterans)
- Employer-sponsored coverage under a group health plan (including self-insured plans)
- Individual health coverage (e.g., health insurance purchased through the Marketplace or directly from an insurance company)
- Grandfathered health plans (in general, certain plans that existed before the ACA and have not changed since the ACA was passed)
- Other plans or programs that the Department of Health and Human Services, in coordination with the Treasury, recognizes as MEC for the purposes of the ACA

The chart in The Volunteer Resource Guide, ACA tab, shows these and other types of coverage that qualify as MEC and some that do not. Family members are not required to have the same type of coverage. Each individual may be covered by a different plan.

Tax Software Hint: Check the “Full” box on the ACA worksheet for each member of the tax household that had MEC all year. The software will check the box on Form 1040, page 2 if all members of the household had coverage all year. See the Volunteer Resource Guide, ACA Tab for software entries.

EXERCISES

Please use the Minimum Essential Coverage Chart in Publication 4012, ACA tab, and this text to answer the following questions.

Question 1: Sandy is covered under health insurance offered by her spouse’s employer. Does she have MEC? ☐ Yes ☐ No

Question 2: Keith and Kathy are married with dependent children. Must they all be covered under the same policy or plan to have MEC? ☐ Yes ☐ No

Question 3: Peter’s employer has a health plan that is “grandfathered.” Is Peter’s employer’s health plan MEC? ☐ Yes ☐ No

Question 4: James is retired and too young to be eligible for Medicare. He received his health coverage through a retiree health insurance plan offered by his former employer. Is the retiree plan MEC? ☐ Yes ☐ No

Question 5: Valerie is a local government employee and she enrolls in group health insurance coverage offered by her employer. Does she have MEC? ☐ Yes ☐ No

Question 6: Jessie is 20 years old, going to school full-time and working to support herself (she provides more than half of her own support), although Jessie still lives with her parents. Is Jessie responsible for her health coverage under ACA? ☐ Yes ☐ No

Question 7: (Continuing from Question 6) If Jessie’s parents provided more than half of Jessie’s support, are they responsible for Jessie’s health coverage under ACA? ☐ Yes ☐ No

How do I know if taxpayers have MEC?

While conducting an interview with taxpayers using Form 13614-C, Intake/Interview & Quality Review Sheet, you will determine whether taxpayers, their spouse (if filing a joint return), and their dependents had MEC for the entire year, part of the year, or not at all. Taxpayers may have insurance cards or receive Forms 1095-A, 1095-B, or 1095-C from the Marketplace, their insurance provider, or employer. While taxpayers may provide these forms, they are not required to verify MEC. These forms may indicate the taxpayer or a member of the tax household had MEC for some or all months during the year, but volunteers should rely primarily on their interview with the taxpayer.

What are the health coverage exemptions?

Members of the tax household may be eligible to claim an exemption from the requirement to have MEC. Some exemptions apply to the entire tax household for the tax year:

- Household income below the return filing threshold – The taxpayer's household income is below the taxpayer's minimum threshold for filing a tax return. Include the Modified Adjusted Gross Income (as defined in the glossary) of any dependent who has a filing requirement.
- Gross income below the filing threshold – Gross income of taxpayer (and spouse if Married Filing Jointly) is below the filing threshold (do not include income of dependents).

The following exemptions apply to each member of the tax household individually and generally apply on a monthly basis:

- Short coverage gap – The individual went without coverage for **less than** three consecutive months during the year.
- Citizens living abroad and certain noncitizens – The individual was:
  - A U.S. citizen or resident who spent at least 330 full days outside of the U.S. during a 12–month period;
  - A U.S. citizen who was a bona fide resident of a foreign country or U.S. territory;
  - A resident alien who was a citizen of a foreign country with which the U.S. has an income tax treaty with a nondiscrimination clause, and was a bona fide resident of a foreign country for the tax year;
  - A nonresident alien; or
  - Not a U.S. citizen, not a U.S. national, and not an individual lawfully present in the U.S. For more information about who is treated as lawfully present for purposes of this coverage exemption, visit healthcare.gov.
- Incarceration – The individual was in a jail, prison, or similar penal institution or correctional facility after the disposition of charges. Does not include time in jail pending disposition of charges (being held but not convicted of a crime), time in probation, parole, or home confinement.
- Ineligible for Medicaid in a state that did not expand Medicaid – Taxpayer was determined ineligible for Medicaid solely because the state in which the taxpayer resides did not participate in Medicaid expansion under the ACA.
- Members of federally recognized Indian tribes – The individual was a member of a federally recognized Indian tribe, including an Alaska Native Claims Settlement Act (ANCSA) Corporation Shareholder (regional or village), or was otherwise eligible for services through an Indian health care provider or the Indian Health Service.
- Members of certain religious sects – The individual was a member of a religious sect in existence since December 31, 1950, that is recognized by the Social Security Administration (SSA) as conscientiously opposed to accepting any insurance benefits, including Medicare and Social Security.
- Unaffordable coverage – The amount the individual would have paid for the lowest cost employer-sponsored coverage available, or for self-only coverage through the Marketplace, is more than 8.05% of the taxpayer's household income for 2015.
- Aggregate self-only coverage considered unaffordable – Two or more family members' aggregate cost of self-only employer-sponsored coverage was more than 8.05% of household income, as was the cost of any available employer-sponsored coverage for the entire family.

There are other coverage exemptions granted by the Marketplace:

- General hardship – Taxpayers experienced hardships that prevented them from obtaining coverage under a qualified health plan.
- Coverage considered unaffordable based on projected income – Taxpayer did not have access to coverage that is considered affordable based on the taxpayer's projected household income.

If taxpayers think they qualify for a coverage exemption, how do they obtain it?

How taxpayers can receive a coverage exemption depends upon the type of exemption for which they are eligible. Some exemptions are granted only by the Marketplace, others are claimed only on a tax return, and some exemptions may be obtained from the Marketplace or claimed on the tax return.

Taxpayers whose gross income is below their applicable minimum threshold for filing a federal income tax return are exempt from the individual shared responsibility provision and are not required to file a federal income tax return to claim the coverage exemption. However, if the taxpayer files a return anyway (for example, to claim a refund), he or she can claim a coverage exemption with his or her tax return.

> **TIP**
> Some Marketplace exemptions based on hardship may be retroactive.

Coverage exemptions are claimed on Form 8965, Health Care Coverage Exemptions.

How are health care coverage exemptions reported?

Taxpayers who are granted a coverage exemption from the Marketplace will receive exemption certificate numbers (ECNs) from the Marketplace. Enter their ECNs in Part I (Marketplace-Granted Coverage Exemptions for Individuals) of Form 8965, column c. Taxpayers will use Part II (Coverage Exemptions for Your Household Claimed on Your Return) of Form 8965 to claim a coverage exemption based on household or gross income below the filing threshold. All other coverage exemptions may be claimed in Part III (Coverage Exemptions for Individuals Claimed on Your Return) of Form 8965. Use a separate line for each individual and exemption type claimed on the return.

> **TIP**
> If the Marketplace has not processed an individual application for a coverage exemption before the tax return is filed, complete Form 8965, Part I and enter "pending" in column c for each applicable individual.

EXERCISES (continued)

Question 8: Randy was covered by Medicaid until February 23rd. He started a new job and his employer-sponsored health coverage started on May 1st. Does an exemption apply? ☐ Yes ☐ No

What is the shared responsibility payment (SRP)?

If a taxpayer (or anyone the taxpayer can claim as a dependent) doesn't have MEC and doesn't qualify for a coverage exemption, they will need to make an SRP when filing their tax return.

The annual SRP amount is the lesser of the sum of the monthly penalty amounts or the sum of monthly national average bronze plan premiums.

The monthly penalty amount is 1/12 of the greater of the flat dollar amount or the excess income amount.

The "flat dollar amount" is the sum of the applicable dollar amounts for all nonexempt individuals without MEC in a given month. The applicable dollar amount for one adult is $95 for 2014, increasing to $325 for 2015 and $695 for 2016. After 2016, the applicable dollar amount increases for a cost-of-living adjustment. The applicable dollar amount for an individual under the age of 18 is one half of the regular applicable dollar amount. The total "flat dollar amount" for a family cannot exceed 300% of the "applicable dollar amount."

The "excess income amount" is the excess portion of household income over the federal income tax filing threshold for the primary tax filer (or joint filers) in the family, multiplied by the income percentage. The income percentage is 1 percent for 2014, 2 percent for 2015, and 2.5 percent for years after 2015.

The annual SRP amount cannot be greater than the sum of monthly national average bronze plan premiums for coverage appropriate for nonexempt family members without MEC in a given month. The IRS publishes guidance setting forth the monthly national average bronze plan premium and the maximum monthly national average bronze plan premium for each year.

For 2015, the monthly penalty amount is:

- 1/12 of the greater of:
  - 2 percent of the household income that is above the tax return filing threshold for the taxpayer's filing status, or
  - The family's flat dollar amount, which is based on the applicable dollar amount of $325 per adult and $162.50 per child (under age 18 as of the first day of the month), limited to a family maximum of $975.
- The annual SRP amount for 2015 is the lesser of the sum of the monthly penalty amounts or the sum of the monthly national average bronze plan premium for coverage through the Marketplace in 2015 that would cover everyone in the tax household who doesn't have coverage and doesn't qualify for a coverage exemption. For 2015, the monthly national average bronze plan premium is $207 per individual, with the maximum premium set at $1,035 for a family of five or more people.

For 2016 and subsequent years, the excess income amount will be 2.5 percent of household income. For 2016, the applicable dollar amount will be $695 per adult. After 2016, the applicable dollar amounts may increase with cost-of-living adjustment.

Taxpayers must know their household income and their applicable income tax return filing thresholds to calculate the SRP amount owed. See the Filing Requirement threshold in Publication 4012, ACA tab. Taxpayers should use the worksheets located in the Instructions to Form 8965 to figure the SRP amount due.

In the examples below, determine the SRP due for 2015.

example

Single individual with $40,000 income:

Jim, an unmarried 30-year-old with no dependents, did not have MEC for any month during 2015 and does not qualify for a coverage exemption. For 2015, Jim's household income was $40,000 and his filing threshold is $10,300. The monthly national average bronze plan premium for an individual is $207.

- To determine his monthly payment amount using the income formula, subtract $10,300 (filing threshold) from $40,000 (2015 household income). The result is $29,700. Two percent of $29,700 equals $594.
- Jim's flat dollar amount is $325.

Because $594 is greater than $325, Jim's monthly penalty amount for each month is $49.50, or 1/12 of the $594 amount. For Jim, the sum of all monthly penalty amounts is $594.

The sum of the monthly national average bronze plan premiums for Jim is $2,484 (or $207 multiplied by 12).

Jim's SRP for 2015 is $594, the lesser of the sum of the monthly penalty amounts or the sum of the monthly national average bronze plan premiums. Jim will make his SRP for the months he was uninsured when he files his 2015 income tax return.

example

Married couple under age 65 with two children and $70,000 income:

Eduardo and Julia are married and have two children under 18. They file a joint return for 2015. They did not have MEC for any family member for any month during 2015 and no one in the family qualifies for a coverage exemption. For 2015, their household income was $70,000 and their filing threshold is $20,600.

To determine their excess income amount, subtract $20,600 (filing threshold for married filing jointly) from $70,000 (2015 household income) and multiply the result ($49,400) by 2 percent. The excess income amount is $988.

Eduardo and Julia's flat dollar amount is $975, the applicable dollar amount of $325 per adult and $162.50 per child, not to exceed 300 percent of the $325 amount.

Because $988 is greater than $975, which is 300% of the applicable dollar amount of $325 (and is less than the national average premium for bronze level coverage for 2015), Eduardo and Julia's monthly penalty amount is $82.33 for each month the family was uninsured (1/12 of $988 equals $82.33).

The sum of the monthly penalty amounts for Eduardo and Julia for 2015 is $988.

The monthly national average bronze plan premium for Eduardo and Julia's family is $828, or $207 multiplied by four. The sum of the monthly national average bronze plan premiums for Eduardo and Julia is $9,936.

Eduardo and Julia's SRP for 2015 is $988, or the lesser of the two sums. Eduardo and Julia will make their SRP for the months they and their children were uninsured when they file their 2015 income tax return.

EXERCISES (continued)

Question 9: Jared and Alice have a child. Jared's employer offered him family coverage. The cost of the policy would have been 7.5% of Jared's modified adjusted gross income. If Jared did not enroll in the coverage and does not qualify for an exemption, will he owe an SRP? ☐ Yes ☐ No

What about U.S. citizens living abroad?

U.S. citizens living abroad are subject to the individual shared responsibility provision. However, U.S. citizens who are not physically present in the United States for at least 330 full days within a 12-month period are treated as having MEC for that 12-month period regardless of whether they enroll in any health care coverage.

In addition, U.S. citizens who are bona fide residents of a foreign country (or countries) for an entire taxable year are treated as having MEC for that year. In general, these individuals qualify for the foreign earned income exclusion under section 911.

Individuals may qualify for this rule even if they cannot use the section 911 exclusion for all of their foreign earned income because, for example,

they are employees of the United States. Individuals that qualify for this rule need take no further action to comply with the individual shared responsibility provision during the months when they qualify. They will report their status with their federal income tax return on Form 8965.

U.S. citizens who meet neither the physical presence nor residency requirements need to have MEC, qualify for a coverage exemption, or make an SRP when they file their federal income tax returns. Note that MEC may include a group health plan provided by an overseas employer.

TIP

See Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, for further information on the foreign earned income exclusion.

Who is allowed a premium tax credit (PTC)?

The premium tax credit (PTC) helps eligible taxpayers pay for health insurance. When enrolling in health coverage through the Marketplace, eligible taxpayers choose to have advance payments of the premium tax credit (APTC) made on their behalf to their insurance company, or to forego APTC and get all of the benefit of the PTC when they claim the credit on their federal tax return. Those who choose to get the benefit of APTC must file a federal tax return for the year the payments are made even if they have gross income for the year that is below the income tax filing threshold.

In general, taxpayers are allowed a PTC if they meet all of the following:

- The taxpayer, spouse (if filing a joint return), or dependents were enrolled at some time during the year in one or more qualified health plans offered through the Marketplace.
- One or more of the individuals listed above were not eligible for MEC, other than coverage in the individual market, during one or more months they were enrolled in the qualified plan through the Marketplace. The portion of the premiums for the plan or plans in which the taxpayer and his or her family members enroll is paid by the due date of the taxpayer's return (not including extensions).
- The taxpayer is an applicable taxpayer. A taxpayer is an applicable taxpayer if he or she meets the following three requirements:
  - – The taxpayer's income is at least 100% but not more than 400% of the federal poverty line for the taxpayer's family size. The following exceptions allow a taxpayer with household income below 100% of the federal poverty line to be an applicable taxpayer:
    - The taxpayer, the taxpayer's spouse, or a dependent who enrolled in a qualified health plan is not a U.S. citizen, but is lawfully present in the U.S. and not eligible for Medicaid because of immigration status.
    - A person who applied for the PTC, 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.
  - – If married, the taxpayer files a joint return with his or her spouse (unless the taxpayer is considered unmarried for Head of Household filing status, or meets the criteria which allows certain victims of domestic abuse or spousal abandonment to claim the PTC using the Married Filing Separately filing status). See the instructions for Form 8962, Premium Tax Credit, for more details about these exceptions.
  - – The taxpayer cannot be claimed as a dependent by another person.

Federal Poverty Line (FPL)

The federal poverty line (FPL) is an income amount adjusted for family size considered poverty level for the year. The U.S. Department of Health and Human Services (HHS) determines the FPL amounts annually and publishes a table reflecting these amounts at the beginning of each calendar year. You can also find this information on the HHS website at www.hhs.gov.

HHS provides three sets of federal poverty guidelines:

- one for residents of the 48 contiguous states and D.C.,
- one for Alaska residents, and
- one for Hawaii residents.

For purposes of the PTC, eligibility for a certain year is based on the most recently published set of poverty guidelines as of the first day of the annual open enrollment period. As a result, the PTC for the current tax year is based on the prior year guidelines (for example, the guidelines used for 2015 are the guidelines for 2014, the most recently published guidelines at the time of the open season for 2015 enrollments). The FPL tables are in the Volunteer Resource Guide, ACA tab.

What is household income and what are its limits?

A taxpayer's household income is the total of the modified adjusted gross income (MAGI) of the taxpayer (and spouse, if married) and the MAGI of all dependents required to file a federal income tax return.

example

David and Melinda are Married Filing Jointly taxpayers. They have one child, Philip, age 17, whom they claim as a dependent. Philip works part time and has a filing requirement. David and Melinda's household income calculation would include their MAGI, as well as Philip's MAGI.

MAGI, for the purpose of the PTC, is the adjusted gross income on the federal income tax return plus any excluded foreign income, nontaxable Social Security benefits (including tier 1 railroad retirement benefits), and tax-exempt interest. It does not include Supplemental Security Income (SSI).

EXERCISES (continued)

Question 10: Jocelyn and Larry file jointly and claim their child, Hank. Hank has a part-time job and earns $5,000. Hank will file a return to get a refund of the tax that was withheld from his paychecks.

Will Jocelyn and Larry include Hank's $5,000 as part of their Household Income for ACA purposes?
☐ Yes ☐ No

Question 11: (Continuing from Question 10) If Hank earned $7,000, would Jocelyn and Larry include Hank's income as part of their Household Income for ACA purposes? ☐ Yes ☐ No

In general, only taxpayers and families whose household income for the year is between 100 percent and 400 percent of the FPL for their family size may be eligible for the PTC. A taxpayer who meets these income requirements must also meet the other eligibility criteria to claim PTC.

TIP

Please see the Volunteer Resource Guide, ACA tab, for the current year Poverty Guidelines.

Are taxpayers allowed a PTC for all enrolled family members?

A taxpayer is allowed a PTC only for months that a member of the taxpayer's tax family is (1) enrolled in a policy offered through the Marketplace and (2) not eligible for minimum essential health coverage (other than individual market coverage) for one or more months of enrollment. Also, the taxpayer is not allowed a PTC for a month unless the portion of the enrollment premiums for which the taxpayer is responsible has been paid by the unextended due date of the taxpayer's return. The taxpayer's tax family consists of the taxpayer, the taxpayer's spouse if filing jointly, and all other individuals for whom the taxpayer claims a personal exemption deduction. The tax family members who meet the above two requirements (enrolled in coverage through the Marketplace and not eligible for other MEC) are the taxpayer's "coverage family." The importance of the tax family and coverage family in computing the PTC is explained later.

Are taxpayers allowed a PTC if offered coverage from an employer?

Generally, a person who is eligible for employer-sponsored coverage is not eligible for a PTC for coverage purchased in the Marketplace for those months, even if he or she turns down the employer's coverage. This includes the employee or a family member of the employee who is eligible to enroll in the employer coverage as a result of a relationship to the employee. A person may be eligible for a PTC despite an offer of employer coverage if the employer's coverage is unaffordable or fails to meet a minimum value standard (employers will provide employees with information concerning whether the minimum value standard is met).

In general, the determination of whether employer coverage is affordable is made by comparing the employee's cost of the employer coverage for self-only coverage to household income. If for 2015, the employee's cost for the employer coverage is more than 9.56 percent of household income (9.5 percent for 2014), the employer coverage is unaffordable. The affordability test for family members is the same as the test for the employee (compare the cost of the employee's self-only coverage to household income). However, if during the Marketplace application process, the Marketplace determines that, based on projected household income, the employer coverage would be unaffordable, the employer coverage is considered unaffordable for the employer's plan year even if it would have been affordable based on the household income reported on the tax return.

If a household member actually enrolls in the employer plan, he or she is ineligible for a PTC for the months of enrollment, regardless of the affordability or minimum value of the plan. That means that a PTC is not allowed for this individual's coverage for the months the individual is enrolled in employer coverage.

> example
>
> Cedric is single and has no dependents. When enrolling through the Marketplace during open enrollment, Cedric was not eligible for employer-sponsored coverage.
>
> In August of the tax year, Cedric began a new job and became eligible for employer-sponsored coverage on September 1st. Since Cedric became eligible for employer-sponsored coverage on September 1st, he may be able to claim a PTC only for the months January through August.

Are taxpayers allowed the PTC if they are eligible for coverage through a government sponsored program?

An individual eligible for coverage through a government-sponsored program such as Medicaid, Medicare, CHIP or TRICARE, is not a member of the coverage family for the months in which the individual is eligible for government-sponsored coverage. Therefore, a PTC is not allowed for this individual's coverage for the months the individual is eligible for the government-sponsored coverage. However, an individual is treated as not eligible for Medicaid, CHIP, or a similar program for a period of coverage under a qualified health plan if, when the individual enrolls in the qualified health plan, the Marketplace determines or considers the individual to be not eligible for Medicaid or CHIP.

TIP

A person is considered eligible for other MEC and not eligible for a PTC for a month only if the person is eligible for MEC for every day of that month. For example, if a person becomes eligible for employer- or government-sponsored coverage on the 5th day of a month, he or she continues to be eligible for a PTC for that month. The person will not be eligible for PTC for the following month. Thus, the person should alert the Marketplace to the change and discontinue any APTC being paid for the Marketplace coverage.

example

Adele is single with no dependents. She works part-time and has no offer of employer-sponsored health coverage. She projects her income to be $17,500 for the year (roughly 150% of FPL), based on her earnings at the same job in the prior year. She enrolls in a qualified health plan in the Marketplace and is determined eligible for APTC.

Adele's place of employment was closed for two weeks, unexpectedly lowering the number of hours she worked. Her employer also didn't pay an end-of-year bonus that she anticipated. Adele's actual household income for the year was $16,000. This income would make her eligible for Medicaid under her state's eligibility rules. However, based on Adele's projection of income when she enrolled in Marketplace coverage the Marketplace determined that she was not eligible for Medicaid. Therefore, Adele is treated as not eligible for Medicaid for the year and may be eligible for the PTC.

How does the taxpayer get the APTC?

During enrollment, the taxpayer projects household income and family composition. The Marketplace verifies this information through various data sources, including prior year tax information, Social Security Administration data, and state-level wage data. Using all of this information, the Marketplace estimates the amount of PTC a taxpayer will be able to claim.

Taxpayers may choose to:

- Have some or all of the estimated credit paid in advance to the insurance company to lower what is paid for monthly premiums; or
- Pay all the premiums and get all the benefit of the credit when they file their tax return

The amount of advance credit payments will appear on Form 1095-A, Health Insurance Marketplace Statement.

How is the amount of PTC determined?

The law bases the size of the PTC on a sliding scale. A taxpayer with household income at 200 percent of the FPL for the taxpayer's family size may get a larger credit to help cover the cost of insurance than a taxpayer with the same family size who has household income at 300 percent of the FPL. In other words, the higher the household income, the lower the amount of the credit. As explained earlier, FPL is based on household income and tax family size.

The PTC is the sum of the credit amount for each month. The credit amount for a month is the lesser of two amounts: (1) the monthly premium for the plan or plans in which the taxpayer's family enrolled (enrollment premiums) and (2) the monthly premium for the taxpayer's applicable second lowest cost silver plan (SLCSP) minus the taxpayer's monthly contribution amount. This calculation is done on Form 8962. The applicable SLCSP premium is the premium for the second lowest cost silver plan that applies to the coverage family discussed earlier (the members of the taxpayer's tax family enrolled and not eligible for other minimum essential coverage). It will generally be determined by the Marketplace and included on Form 1095-A. If it does not appear on Form 1095-A, the taxpayer has to do a shared policy allocation (out of scope), or the SLCSP amount reported on Form 1095-A is incorrect because of a change in circumstances the Marketplace did not know about, the taxpayer must find the correct applicable SLCSP premium on either www.healthcare.gov (for taxpayers who enroll in coverage through a federally facilitated Marketplace), the website for the taxpayer's state-based Marketplace, or by calling the Marketplace customer service.

A taxpayer's contribution amount is a percentage of the taxpayer's household income determined by multiplying the taxpayer's household income by the applicable figure (from the table in the instructions for Form 8962). The applicable figure is based on FPL; the higher the FPL, the higher the percentage of household income that constitutes the contribution amount. The contribution amount is an annual amount because it is a percentage of household income, which is an annual amount.

The monthly contribution amount is the contribution amount divided by 12. Taxpayers enrolled in the same qualified health plan for all 12 months of the year and who have the same applicable SLCSP premium for all 12 months can do a single, annual calculation to compute their PTC. See the Volunteer Resource Guide, ACA tab, for instructions on completing Form 8962.

Taxpayers who have a Form 1095-A showing changes in monthly amounts must do a monthly calculation to determine their PTC in Part II of Form 8962. Taxpayers who have changes in monthly amounts not shown on Form 1095-A must also do a monthly calculation to determine their PTC (for example, a taxpayer enrolled in a qualified health plan became eligible for employer coverage during the year, but did not notify the Marketplace).

If taxpayers received the benefit of advance credit payments, they will reconcile the APTC with the amount of the actual PTC that is calculated on the tax return (more information on reconciliation is provided under How is the PTC claimed on the return, later).

The PTC is a refundable tax credit. If the amount of a taxpayer's net PTC (the excess of PTC over APTC) is more than the amount of a taxpayer's tax liability on the return, the taxpayer will receive the difference as a refund. If a taxpayer has no tax liability, all of the net PTC is paid to the taxpayer as a refund.

What happens if income or family size changed during the year?

Part of the PTC calculation is the contribution amount, which will be higher at a higher FPL (and lowers the amount of the credit). FPL is based on household income and family size. Therefore, a taxpayer's PTC for the year will differ from the APTC payment amount estimated by the Marketplace if the taxpayer's family size or household income as estimated at the time of enrollment is different from the family size or household income reported on the return. The more the family size or household income differs from the initial projections used to compute the APTC payments, the more significant the difference will be between the advance credit payments and the actual credit.

Taxpayers should notify the Marketplace about changes in circumstances when they happen, which allows the Marketplace to update the information used to determine the expected amount of the PTC and adjust the APTC payment amount. This adjustment decreases the likelihood of a significant difference between the advance credit payments and the actual PTC. Changes in circumstances that can affect the amount of the actual PTC include:

- Increases or decreases in household income
- Marriage
- Divorce
- Birth or adoption of a child

- Other changes in household composition
- Gaining or losing eligibility for government-sponsored or employer-sponsored health care coverage
- Change of address

What documentation will taxpayers receive?

By January 31 of the year following the year of coverage, the Marketplace will send Form 1095-A to taxpayers who purchased insurance through the Marketplace. The information statement includes the monthly premium for the applicable SLCSP used to compute the credit, the total monthly enrollment premiums (the premiums for the plan or plans the taxpayer and his or her family members enrolled in), the amount of the APTC payments, the SSN and names for all covered individuals, and all other required information. The Marketplace also reports this information to the IRS.

Use the information on Form 1095-A to compute taxpayers' PTC on their tax returns and to reconcile the advance credit payments made on their behalf with the amount of the actual PTC on Form 8962. If Form 1095-A was lost or never received, the taxpayer must contact the Marketplace. These forms can be downloaded by taxpayers through their Marketplace account. Volunteers cannot prepare a return without this information.

How is the PTC claimed on the tax return?

Taxpayers claim the PTC on the tax return. Taxpayers who received the benefit of APTC payments must file a tax return even if they otherwise are not required to file. Remember, the PTC is only available to taxpayers who purchased health coverage through the Marketplace.

A taxpayer computes the amount of PTC on Form 8962 and reconciles it with the APTC payments for the year. If the PTC computed on the return is more than the APTC payments made on the taxpayer's behalf during the year, the difference will increase the refund or lower the amount of tax owed. This will be reported in the Payments section of Form 1040, 1040A, or 1040NR. If the APTC payments are more than the PTC (excess APTC), some or all of the difference will increase the amount owed and result in either a smaller refund or a balance due. This will be entered in the Tax and Credits section of the return. There may be a limitation on the amount of tax liability a taxpayer with household income below 400 percent of the FPL owes as a result of excess APTC. The limitation is based on the taxpayer's household income as provided in the repayment limitation table, below.

Repayment Limitation Table

Household Income Percentage of Federal Poverty Line	Limitation Amount for Single	Limitation Amount for all other filing statuses
Less than 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% or more	No limit	No limit

For taxpayers who use the Married Filing Separately filing status, the repayment limitation above applies to the spouses separately based on the household income reported on each return.

Taxpayers who chose not to get advance credit payments will get all of the benefit of their PTC on their tax return. This will either increase their refund or lower the balance due.

example

Brandon Talbot is single with no dependents. When he enrolled through the Marketplace, Brandon was approved for advance credit payments based on his projected household income. Brandon's Form 1095-A shows advance credit payments of $1,486. Brandon's actual modified AGI is more than 400% of the FPL for a family of 1 (see the Volunteer Resource Guide, ACA tab). Since Brandon's household income is above 400% of the FPL, he may not claim any PTC. In addition, Brandon is not allowed a repayment limitation. Brandon must increase his tax liability by the amount of his advance credit payments. He will complete Form 8962 and enter $1,486 on the excess advance premium tax credit repayment line on his tax return.

EXERCISES (continued)

Question 12: Pedro is retired and covered by Medicare. His wife Camilla is too young for Medicare. Both are U.S. citizens. Even though Pedro is on Medicare, can Camilla buy coverage through the exchange? ☐ Yes ☐ No

Question 13: You are completing the return for Antonio, who purchased health coverage on the exchange and received APTC. In completing Form 8962, you note that Antonio's MAGI is 401% of the FPL and the calculation shows that he has to repay the entire APTC. Assuming that Antonio would be entitled to an IRA deduction if he made an IRA contribution, can Antonio reduce his 2015 MAGI for the PTC calculation even though it is now 2016 and his 2015 tax year has ended? ☐ Yes ☐ No

Question 14: Piper's income is 300% of the FPL for her family size. She purchased health insurance through her employer. Is Piper eligible to take the PTC for her coverage? ☐ Yes ☐ No

Question 15: Harry purchased insurance through the Marketplace. What form will he receive from the Marketplace to prepare his tax return?

A. Form 8962

B. Form 1095-A

C. Form 8965

D. Form W-2

Question 16: Roger's APTC payments are $2,500. He is single with no dependents, and lives in Mississippi. On Form 8962, he calculates an actual PTC of $1,000. His household income is over 300% of the FPL but under 400% of the FPL for a family size of one. How much of the excess APTC will be included as an additional income tax liability on his tax return?

A. $0

B. $1,250

C. $1,500

D. $2,500

Question 17: Judy is single with no dependents. In December, Judy enrolled through the Marketplace in a qualified health plan for the following year. On July 14, Judy enlisted in the Army and was immediately eligible for government sponsored minimum essential coverage. For what period is Judy able to claim a PTC (if she meets all of the eligibility criteria)?

A. The entire tax year

B. January through June

C. January through July

D. Judy is not eligible for the PTC

What about unusual situations?

This lesson does not cover all the situations you may encounter. For situations listed below, consult the instructions for Form 8962 and Publication 974.

What if taxpayers have a shared policy purchased through the Marketplace?

If a taxpayer is enrolled, or has a family member who is enrolled, in a policy with a person not in the taxpayer's tax family (a shared policy), the taxpayer may have to allocate the items on Form 1095-A (the enrollment premiums, the premium for the applicable SLCSP, and the advance credit payments) with another taxpayer (a shared policy allocation). The following taxpayers may have to do a shared policy allocation:

- Taxpayers who got divorced or legally separated during the tax year
- A taxpayer who claims a personal exemption deduction for an individual enrolled in a policy by another taxpayer
- A taxpayer who enrolls an individual in a policy, but another taxpayer claims a personal exemption deduction for the individual
- A taxpayer who files a separate return from his or her spouse

Taxpayers complete the shared policy allocation on Form 8962, Part IV. This is out of scope for the VITA/TCE programs.

What if taxpayers get married during the year?

If taxpayers got married during the tax year and one or both spouses received APTC payments for the year, the spouses may be eligible to use an alternative calculation to determine their excess advance credit payments. The alternative calculation can be used to reduce excess APTC, but not to increase net PTC. See the instructions for Form 8962 for eligibility. If eligible, taxpayers will complete Form 8962, Part V, Alternative Calculation of Year of Marriage. This is out of scope for the VITA/TCE programs.

What about individuals not lawfully present?

The PTC is not allowed for the coverage of an individual who is not lawfully present in the United States. All APTC paid for a not lawfully present individual who enrolls in a qualified health plan must be repaid. If a member of the family is not lawfully present and is enrolled in a qualified health plan with family members who are lawfully present for one or more months of the year, use the instructions in Publication 974 to find out how much APTC, if any, must be repaid. If all family members enrolled in a qualified health plan are not lawfully present, all APTC must be repaid. There is no repayment limitation on excess APTC attributable to the coverage of an individual not lawfully present in the United States. Complete Form 8962 as directed in Publication 974.

Summary

The Affordable Care Act addresses health insurance coverage and financial assistance options for individuals and families, including the PTC. It also includes the individual shared responsibility provision and coverage exemptions from that provision.

In general, all U.S. taxpayers must have MEC for each month, qualify for a coverage exemption, or make a payment when filing his or her federal income tax return. Some coverage exemptions are granted only by the Marketplace, some exemptions can be claimed only on a tax return, and some exemptions may be granted by the Marketplace or claimed on a return.

Only taxpayers who purchase MEC through the Marketplace for themselves or a family member are allowed a PTC. Eligible taxpayers may choose to get the benefit of advance credit payments, the amount of which is based on their estimated PTC, to reduce the cost of monthly premiums. Taxpayers who chose to forgo advance credit payments get all of the benefit of the PTC when they claim it on the tax return. The PTC is calculated and the advance credit payments are reconciled on Form 8962. Taxpayers will receive Form 1095-A from the Marketplace, which will contain the information necessary to complete Form 8962.

Taxpayers who have MEC all year will indicate this on Form 1040 by checking the box in the Other Taxes section. The PTC is claimed in the Payments section of Form 1040. Any excess APTC that must be repaid is entered in the Tax and Credits section of the Form 1040.

Coverage exemptions are claimed on Form 8965.

Any SRP is entered on Form 1040, in the Other Taxes section. Taxpayers should use the Shared Responsibility Payment Worksheet in the instructions to Form 8965 to figure the amount of the SRP due.

What situations are out of scope for the VITA/TCE programs?

The following are out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Self-employed health coverage deductions
- Form 8962 Parts IV and V

EXERCISE ANSWERS

Answer 1: *Yes. Employer-sponsored coverage is generally minimum essential coverage. If an employee enrolls in employer-sponsored coverage that provides minimum value for himself and his family, the employee and all of the covered family members have minimum essential coverage.*

Answer 2: *No. They do not have to be covered under the same policy or plan. However, they must all have minimum essential coverage or qualify for a coverage exemption, or Keith and Kathy will owe an SRP when they file a return.*

Answer 3: *Yes. Grandfathered group health plans are minimum essential coverage.*

Answer 4: *Yes. Retiree health plans are generally minimum essential coverage.*

Answer 5: *Yes. Employer-sponsored coverage is minimum essential coverage regardless of whether the employer is a governmental, nonprofit, or for-profit entity.*

Answer 6: *Yes. Because Jessie will claim her own exemption, she is responsible for her own coverage.*

Answer 7: *Yes. Jessie's parents would be entitled to claim Jessie if she does not provide more than half of her own support and would therefore be responsible for her coverage.*

Answer 8: *Yes. Randy is eligible for the short coverage gap exemption because he was without coverage for less than three months.*

Answer 9: *Yes. While Jared is not required to take his employer's offer of coverage, if anyone in Jared's tax family is without coverage and without an exemption, Jared may have an SRP. Jared has choices on where to get coverage for each member of his tax family: he can accept his employer's offer, he can purchase a policy in the individual market, coverage under Medicaid or other government-sponsored plan may be possible, and/or he could purchase coverage through the Marketplace (although he will be ineligible to get APTC because he has an affordable employer offer of coverage.)*

Answer 10: *No. Hank's gross income is below the filing threshold for a dependent with earned income so his parents will not include his MAGI in the Household Income for ACA purposes.*

Answer 11: *Yes. Hank's income is now above the filing threshold for a dependent with earned income, so his parents will include his MAGI in the Household Income for ACA purposes.*

Answer 12: *Yes. Camilla can buy coverage through the exchange.*

Answer 13: *Yes, Antonio can make a deductible IRA contribution up until April 18, 2016.*

Answer 14: *No, the coverage must have been purchased through the Marketplace.*

Answer 15: *B. Form 1095-A.*

Answer 16: *B. $1,250. Roger received a $1,500 overpayment of APTC. However, his repayment is limited to $1,250.*

Answer 17: *C. Judy is eligible for the PTC from January through July.*