

## ST15-21 – Affordable Care Act (ACA) TaxWise Procedures

### **You must apply the updates from Pub 4491-X to your copy of Pub 4012 before proceeding.**

Before beginning the return, ensure that the taxpayer has brought all the necessary documentation / information you will need to complete the return. The following questions will help determine this. If you do not have the answers necessary to complete the return or the return might be out of scope, consult an ACA Level 2 counselor at your site about how to proceed.

#### **Special case: If taxpayer (and spouse, if MFJ) can be claimed on someone else's return:**

- There is no need to ask these questions for this return since ACA tax issues will be handled on the return of the person who can claim them

#### **For taxpayer, spouse, and each person that can be claimed as a dependent:**

- Did each person have health insurance last year? You can rely on the taxpayer's word for this, but he/she may also have ACA forms 1095-A (issued by the Marketplace), 1095-B (issued by health insurer providers), or 1095-C (issued by large employers) as proof.
- For which months was the health insurance in effect for at least one day during the month?
- Was the coverage Minimum Essential Coverage (MEC) (see Pub 4012, Page ACA-4)?
- Was the health insurance obtained through the Marketplace (aka the Exchange / healthcare.gov / Obamacare)?

#### **For any person who did not have health insurance during a particular month:**

- Did the person receive an exemption from the Marketplace?
  - Does the person have a letter from the marketplace with an exemption certificate number?
- Does the person qualify to claim an exemption on their tax return (see Pub 4012 Page ACA-6)?
  - For some exemptions, you will need to know "Household Income" (see below)
  - For exemption Codes A & G (coverage is considered unaffordable), the information needed and analysis required is rather complex. Consult with an ACA Level 2 counselor to ensure that the taxpayer has the needed information.

#### **For any person who had health insurance coverage through the Marketplace:**

- Does the person have one or more Forms 1095-A from the Marketplace?
  - If the person has more than one 1095-A, consult with an ACA Level 2 counselor upfront to be sure that you have the proper information to reconcile any Advance Premium Tax Credits that were received.
- You will need to know "Household Income" if coverage was purchased through the Marketplace.
- Was the Marketplace policy a Shared Policy (i.e. - it covers at least one person that is in the taxpayer's tax family and at least one person that is not in the taxpayer's tax family for ACA purposes)?
  - If so, the return is out of scope for us.
- Did the taxpayer get married during the tax year?
  - If so, there is an alternative calculation that could be used if the taxpayer has to repay any of the Advance Premium Tax Credits that were paid by the Marketplace to the insurance company during the year for the taxpayer's insurance premiums. If the taxpayer wishes to use this alternative calculation, the return is out of scope for us.

#### **Calculating "Household Income" may require information about dependents' income**

- Household Income = Modified AGI (MAGI) for the taxpayer PLUS(+) MAGI for all dependents whose income exceeds the filing thresholds on Pub 4012, Page ACA-8.
  - MAGI for dependents who do not exceed the thresholds on Page ACA-8 do NOT need to be included in household income – even if they are required to file or should file for other reasons.
  - MAGI for Form 8965 (Exemptions) and for the ACA Worksheet (Individual Shared Responsibility Payment) (Pub 4012 Page ACA-9) is not exactly the same as MAGI for Form 8962 (Premium Tax Credit) (Pub 4012 Page ACA-16 line 2b) . Be sure to use the correct calculation for the form you are working on.

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### Procedure Overview

- Step 1 – Interview taxpayer and complete health insurance section of Intake Sheet
- Step 2 – Complete rest of tax return **(and run diagnostics)** before dealing with ACA
- Step 3 – ACA Pgs 1 and 2 – Starting point for ACA
- Step 4 – Form 8965 – If the second question at the top of the ACA Worksheet is answered YES, Form 8965 must be completed to claim an exemption **(If answered NO, skip this step entirely and go to [Step 5](#))**
- Step 5 – Finish ACA Pgs 1 and 2 – If any person listed on ACA Worksheet does not have MEC and does not qualify for an exemption for any month, the ACA Worksheet must be completed correctly to control the calculation of the Individual Shared Responsibility Payment (ISRP)
- Step 6 – Form 8962 – If the first question at the top of the ACA Worksheet is answered YES, Form 8962 must be completed to calculate the Premium Tax Credit (PTC) and to reconcile the actual PTC with any Advance PTC payments sent to the health insurance company during the year to help offset the premiums **(If answered NO, skip this step entirely and go to [Step 7](#))**
- Step 7 – Schedule A Detail - If any person on the return purchased insurance through the Marketplace, use the results from Form 8962 to determine the health insurance premiums to claim as an itemized deduction. Once Sch A is complete, make any manual adjustments to NJ 1040 line 30 that are needed for Section 125 Cafeteria plan insurance premiums

**Procedure Detail**

Part/Line #	Counselor Action	TW Action
<b>Step 1 – Interview taxpayer and complete health insurance section of Intake Sheet</b>		
<p><b>Page 3, Part VI, gray section</b></p>	<p>Complete separate line for taxpayer, spouse, and each dependent listed on return:</p> <ul style="list-style-type: none"> <li>- Check box if person had minimum essential coverage (MEC) for the entire year</li> <li>- Check box if person had no MEC for any part of the year</li> <li>- For person who had only part year MEC, circle months that person had coverage for at least 1 day</li> <li>- If person did not have MEC but qualifies for exemption(s), circle months where exemption(s) applies. You may need to wait until you complete Form 8965 in Step 4 to make a final determination on exemptions</li> <li>- Check box if person qualifies for a full-year exemption. You may need to wait until you complete Form 8965 in Step 4 to make a final determination on exemptions</li> <li>- Write any notes that further explain the situation (especially useful for Quality Reviewer)</li> </ul> <p>NOTE: Use "<a href="#">ACA Information Requirements</a>" to:</p> <ul style="list-style-type: none"> <li>- Help answer the above questions</li> <li>- Make sure you have all the information needed to finish the return</li> <li>- Identify potential out of scope situations</li> </ul>	



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Step 3 – ACA Pgs 1 and 2 – Starting point for ACA		
<b>Questions at top of ACA Pg 1</b>	Answer 2 questions: - "Did the taxpayer, spouse, or any dependent receive insurance through the Marketplace?" - "Was the taxpayer, spouse, or any dependent granted a Marketplace exemption or do you want to apply for a Marketplace, household income or gross income exemption?"	- If this question is answered YES, TW will populate Form 8962 in the forms tree. It must be completed - If this question is answered YES, TW will populate Form 8965 in the forms tree. It must be completed
<b>Lines for taxpayer, spouse &amp; each dependent</b>		TW populates the names of the taxpayer, spouse, and dependents with codes 1, 2, or 3 on Main Info screen TW will not include any non-dependent with code of 0 since, for ACA purposes, that person is the responsibility of the taxpayer who claims him/her as a dependent
<b>• Lines for each individual person</b>	For each person listed: Determine if the person had MEC for the entire year. If so, check the box that says, "Had MEC &/or is applying for or was granted an exemption for the entire year" <b>Consult with an ACA Level 2 counselor if you have any questions about whether coverage qualifies as MEC</b>	If this box is checked for <u>every</u> person, TW will check box labeled "Full-year coverage" on 1040 line 61
	If every person had MEC for the entire year and no person purchased their coverage through the Marketplace, no additional ACA forms need to be completed. <b style="color: red;">In this case: STOP - You're done with ACA for this return</b>	
<b>Modified AGI - ACA Pg 2 Line 7</b>	Modified Adjusted Gross Income (MAGI) on the ACA Worksheet = AGI (1040 line 37) + tax-exempt interest (line 8b) + foreign earned income (out of scope for us)	
<b>• Modified AGI for this return - first line</b>		TW calculates the taxpayer and spouse part of household income, based on the numbers already entered on the tax return, and populates the first line of line 7

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<ul style="list-style-type: none"> <li>• <b>Dependents' MAGI - second line</b></li> </ul>	<p><b>Consult with an ACA Level 2 counselor to determine how to handle dependent income:</b></p> <ul style="list-style-type: none"> <li>• Enter the total MAGI for all dependents listed on the ACA Worksheet who have income above the filing requirement thresholds shown on Pub 4012, Page ACA-8. (Note: Use a scratch pad to document this)</li> <li>• Do not include MAGI for dependents with income below these thresholds - even if they must or should file for other reasons</li> </ul> <p>If there is no dependents' income to enter, "get the red out"</p>	
<ul style="list-style-type: none"> <li>• <b>Household income - third line</b></li> </ul>		<p>TW will add the MAGI for this return that it calculated on the first line + the dependents' MAGI you entered on the second line (if any) to determine household income on the third line</p>

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**Step 4 – Form 8965 – If the second question at the top of the ACA Worksheet is answered YES, Form 8965 must be completed to claim an exemption (If answered NO, skip this step entirely and go to [Step 5](#))**

<b>Part I</b>	Marketplace-Granted Coverage Exemptions for Individuals (shown in a letter that taxpayer should have received from the Marketplace)	
• <b>Column a, b, c</b>	List the name, SSN, and the Exemption certificate number of any person who applied for and was granted an exemption from the Marketplace	
<b>Part II</b>		
• <b>Filing threshold</b>		TW determines the filing threshold based on the filing status and ages of the taxpayer and spouse
• <b>Household income from ACA Wkt</b>		TW transfers the household income from the third line of ACA Pg 2 line 7
• <b>Estimated gross income entered in this return</b>		TW calculates the gross income on this return. Gross income does not include any dependents' income. It also automatically includes only the income from Sch C (no expenses) and no capital losses from Sch D <b>NOTE: Consult with an ACA Level 2 counselor to determine if TW-calculated gross income is accurate if you consolidated gains/losses on Capital Gains Worksheet or if the taxpayer sold his/her main home during the tax year</b>
• <b>Line 7a</b>		TW automatically determines if household income is below the filing threshold, based on the numbers shown above. It checks either Yes or No as appropriate
	If line 7a is checked Yes, taxpayer can claim a full-year exemption for the entire tax family In this case, you don't need to do anything else on Form 8965, and you can <b>Skip directly to <a href="#">Step 5</a></b>	
• <b>Line 7b</b>	Use the numbers in the above boxes to determine if gross income is below the filing threshold – check either Yes or No	
	If line 7b is checked Yes, taxpayer can claim a full-year exemption for the entire tax family In this case, you don't need to do anything else on Form 8965, and you can <b>Skip directly to <a href="#">Step 5</a></b>	

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<b>Part III</b>		
<ul style="list-style-type: none"> <li><b>Lines 8 - 13</b></li> </ul>	<p>Check Pub 4012 Pg ACA-6 to determine if any member of the tax household qualifies for any other exemption</p> <p>If an exemption can be claimed on the tax return, enter the person’s name, Social Security number, and exemption type. Check the Full box if the exemption is for the entire year, or check the boxes for the months for which the exemption applies</p> <p>If an exemption must be granted by the Marketplace, refer the client to healthcare.gov</p> <p><b>NOTE: Consult with an ACA Level 2 counselor to determine if the “Affordability” exemptions (Code A or Code G) or Marketplace hardship exemptions might apply.</b> These exemptions involve some unusual information requirements and some fairly complex (and time-consuming) analysis</p>	<p><b>NOTE:</b> Entries on the TW 8965 screen for exemptions are required to document any exemptions claimed on the return, but do NOT automatically transfer back to the ACA Worksheet. You must manually make sure that the ACA Worksheet is filled in consistently with your entries on the 8965 screen – this is done in the next step</p>
<p><b>Intake Sheet, Page 3, Part VI, gray section</b></p>	<p>As needed, update the answers to any of the ACA questions in the counselor section, based on the results of Form 8965</p>	

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**Step 5 – Finish ACA Pgs 1 and 2 – If any person listed on ACA Worksheet does not have MEC and does not qualify for an exemption for any month, the ACA Worksheet must be completed correctly to control the calculation of the Individual Shared Responsibility Payment (ISRP)**

<p><b>Lines for taxpayer, spouse &amp; each dependent</b></p>	<p>Once you have determined if there are any applicable exemptions in Step 4, you must complete the rest of the ACA Worksheet</p> <p>There are 3 possible situations for each person. Check the appropriate box (if not already checked for full-year MEC in Step 3):</p> <ul style="list-style-type: none"> <li>- "Had MEC &amp;/or is applying for or was granted an exemption for the entire year"</li> <li>- "Had MEC &amp;/or is applying for or was granted an exemption for part of the year"</li> </ul> <p>If this box is checked, must also check the boxes for each month this person did not have MEC and is <b>NOT</b> claiming an exemption on Form 8965. Taxpayer will owe an ISRP for each month checked</p> <ul style="list-style-type: none"> <li>- Did not have MEC and is not claiming an exemption for any part of the year. Taxpayer will owe an ISRP for the entire year</li> </ul> <p>NOTE: Remember that a person is deemed to have MEC for the whole month if he/she has coverage for at least one day of that month</p>	<ul style="list-style-type: none"> <li>- TW will not need to calculate any ISRP for this person</li> <li>- If this box is checked, TW will underline all the month boxes in red</li> </ul> <p>TW calculates the ISRP for the checked months by completing lines 1 - 14 on ACA Pg 2</p> <ul style="list-style-type: none"> <li>- TW calculates the ISRP for the entire year by completing lines 1 - 14 on ACA Pg 2</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Lines 1 - 4</b></li> </ul>		<p>TW totals up the number of adults and the number of children who will be subject to ISRP for each month</p>
<ul style="list-style-type: none"> <li>• <b>Line 5</b></li> </ul>		<p>TW calculates the total ISRP based on the flat dollar amount (\$325 per adult, 1/2 that amount per child, maximum of \$975)</p>
<ul style="list-style-type: none"> <li>• <b>Lines 6 - 10</b></li> </ul>		<p>TW calculates the total ISRP based on 2% of household income that is above the filing threshold for taxpayer's filing status</p>

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<ul style="list-style-type: none"> <li>• <b>Lines 11 - 14</b></li> </ul>		<p>TW calculates the higher of the flat dollar amount or 2% of income above the filing threshold</p> <p>The ISRP is capped at the cost of the national average premium for the bronze level health plan available through the Marketplace for the appropriate family size (see Pub 4012 Page ACA-14)</p> <p>TW transfers the ISRP to 1040 line 61 in the Other Taxes section</p>
	<p><b>If taxpayer owes an ISRP, have an ACA Level 2 counselor review the return to see if there is any other method of reducing the penalty besides exemptions (e.g. - IRA contribution, education expenses adjustment)</b></p>	

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**Step 6 – Form 8962 – If the first question at the top of the ACA Worksheet is answered YES, Form 8962 must be completed to calculate the Premium Tax Credit (PTC) and to reconcile the actual PTC with any Advance PTC payments sent to the health insurance company during the year to help offset the premiums (If answered NO, skip this step entirely and go to [Step 7](#))**

<p><b>"Check here if applying for relief" line</b></p>	<p>Generally, a person filing as Married Filing Separately is not eligible to claim the PTC. However, there can be an exception if the person is an abandoned spouse or a victim of domestic violence. To claim this exception to the MFJ requirement, check the line at the top of Form 8962</p>	
<p><b>Part 1</b></p>		
<p>• <b>Line 1</b></p>		<p>TW calculates the family size, based on taxpayer, spouse and dependents. (Does not include any person listed on Main Info screen with a code of 0 for nondependent)</p>
<p>• <b>Line 2a</b></p>	<p>For purposes of the PTC calculation on Form 8962, MAGI = AGI (line 37) + tax-exempt interest (line 8b) + tax exempt part of Social Security (line 20a – 20b) + foreign earned income (out of scope for us) NOTE: Definition of MAGI is different for PTC than it is for ISRP on ACA Pg 2 and exemptions on Form 8965; PTC MAGI also includes tax-exempt part of Social Security</p>	<p>TW calculates the MAGI for the taxpayer and spouse, based on the numbers on the tax return</p>
<p>• <b>Line 2b</b></p>	<p><b>Consult with an ACA Level 2 counselor to determine how to handle dependent income:</b></p> <ul style="list-style-type: none"> <li>• Enter the total MAGI for all dependents listed on the ACA Wkt who have income above the filing requirement thresholds shown on Pub 4012 Page ACA-8 (NOTE: Use a scratch pad to document this)</li> <li>• Do not include MAGI for dependents with income below these thresholds – even if they must or should file for other reasons</li> </ul> <p>If there is no dependents' income to enter, "get the red out"</p>	<p>TW cannot transfer the MAGI for dependents from ACA Pg 2 line 7, since the definition of MAGI on the ACA Worksheet is different than the definition of MAGI on Form 8962. Therefore, counselor must calculate dependents' MAGI for PTC and enter on line 2b</p>
<p>• <b>Line 3</b></p>		<p>TW calculates household income by adding MAGI from lines 2a + 2b</p>
<p>• <b>Line 4</b></p>	<p>Check box for "Other 48 states and DC"</p>	<p>TW populates the Federal poverty line (FPL) appropriate for NJ</p>
<p>• <b>Line 5</b></p>		<p>TW calculates the % of FPL for the household income</p>

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<ul style="list-style-type: none"> <li>• <b>Line 6</b></li> </ul>	<p>If the calculated answer on line 6 is YES, then taxpayer is not eligible for PTC:                  If taxpayer received advance payment of PTC, <b>Skip lines 7 and 8 and go to line 9</b>                  If taxpayer did not receive any advance payment of PTC, <b>STOP – you're done with ACA</b></p>	<p>TW checks YES or NO to question "Is % on line 5 401%?"                  If answer is NO, TW will continue to calculate PTC</p>
	<p><b>Consult with an ACA Level 2 counselor to answer this question</b>                  If % on line 5 is less than 100%, answer the question, "Did the taxpayer meet the requirements under "Estimated household income at least 100% of the Federal poverty line" or "Alien lawfully present in the U.S." in the instructions?"                  See 8962 instructions for line 6 on Pub 4012 Page ACA-16 for specific requirements                  If the answer to this question is NO, <b>STOP – you're done with ACA</b></p>	
<ul style="list-style-type: none"> <li>• <b>Lines 7 &amp; 8</b></li> </ul>		<p>TW calculates the annual and monthly contribution amounts for health care</p>
<p><b>Part 2</b></p>		
<ul style="list-style-type: none"> <li>• <b>Line 9</b></li> </ul>	<p><b>Consult with an ACA Level 2 counselor to answer this question</b>                  Answer YES or NO to the question, "Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage?" (See instructions for line 9 on Pub 4012 Page ACA-16 for specific situations where this applies)                  - A shared policy allocation may be required when Form 1095-A lists a covered person who is not on this tax return or a person on this tax return was enrolled in another taxpayer's Marketplace coverage (on someone else's 1095-A). See Pub 4012 Page ACA-17 for details                  - When taxpayers with Marketplace coverage marry during the tax year, there is an optional alternative calculation method for reconciling advance PTC payments. This alternative method may increase their refund (see Pub 4012 Page ACA-18 for details)</p>	
	<p>If line 9 is answered YES, then <b>STOP – The return is out of scope</b></p>	

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<ul style="list-style-type: none"> <li>• <b>Line 10</b></li> </ul>	<p>Look at Form 1095-A Part III lines 12-32 to determine the correct answer.            "Check the YES box if ALL the following conditions apply:            - You were enrolled in a qualified health plan for all 12 months of 2015            - Your enrollment premium was the same for every month of 2015 (column a)            - Your second lowest cost silver plan (SLCSP) is the same for every month of 2015" (column b)            If answer is YES, PTC calculations can be done an annual basis            If answer is NO, PTC calculations must be done for each month separately</p>	
<ul style="list-style-type: none"> <li>• <b>Line 11</b></li> </ul>	<p>If answer on line 10 is YES, enter the <u>annual</u> figures from Form 1095-A line 33. (Columns A, B, C on form go in columns A, B, F on the screen)  <b>NOTE: If more than one 1095-A, consult with an ACA Level 2 counselor to verify the correct annual amounts to enter.</b> Use a scratch pad to document the amount used from each 1095-A for each value entered</p>	<p>TW calculates annual figures for columns C, D and E</p>
<ul style="list-style-type: none"> <li>• <b>Lines 12 - 23</b></li> </ul>	<p>If answer on line 10 is NO, enter the monthly figures from Forms 1095-A lines 21 - 32. (Columns A, B, C on form go in columns A, B, F on the screen)  <b>NOTE: If more than one 1095-A, consult with an ACA Level 2 counselor to verify the correct monthly amounts to enter.</b> Use a scratch pad to document the amount used from each 1095-A for each value entered</p>	<p>TW calculates monthly figures for columns C, D and E</p>
<ul style="list-style-type: none"> <li>• <b>Line 24</b></li> </ul>		<p>TW calculates the amount of the PTC taxpayer is entitled to based on tax return figures</p>
<ul style="list-style-type: none"> <li>• <b>Line 25</b></li> </ul>		<p>TW calculates the amount of Advance PTC that was paid to taxpayer's health insurance company during the tax year</p>
<ul style="list-style-type: none"> <li>• <b>Line 26</b></li> </ul>		<p>If the calculated actual PTC amount is larger than the Advance PTC amount, TW calculates the net PTC that taxpayer will receive on 1040 line 69 as a refundable credit</p>
<p><b>Part 3</b></p>		
<ul style="list-style-type: none"> <li>• <b>Line 27</b></li> </ul>		<p>If the calculated actual PTC amount is less than the Advance PTC amount, TW calculates the excess advance PTC</p>

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<ul style="list-style-type: none"><li>• <b>Line 28</b></li></ul>		Taxpayer may not have to repay the entire excess advance PTC depending on income as % of FPL and filing status (see Pub 4012 Page ACA-16). TW populates the repayment limitation
<ul style="list-style-type: none"><li>• <b>Line 29</b></li></ul>		TW populates the amount of excess advance PTC and transfers the amount to 1040 line 46 as an additional tax owed

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**Step 7 – Schedule A Detail - If any person on the return purchased insurance through the Marketplace, use the results from Form 8962 to determine the health insurance premiums to claim as an itemized deduction. Once Sch A is complete, make any manual adjustments to NJ 1040 line 30 that are needed for Section 125 Cafeteria plan insurance premiums**

<p><b>Medical expenses:</b></p> <ul style="list-style-type: none"> <li>• <b>A Detail</b></li>   <li>• <b>NJ Line 30</b></li> </ul>	<p>The Marketplace premium amount to claim will be Total Premiums (Form 8962 line 11a or the sum of lines 12a-23a) minus the calculated PTC (Form 8962 line 24)</p> <ul style="list-style-type: none"> <li>- Enter the Marketplace premium amount on the A Detail screen</li> <li>- If you deferred manual adjustments to NJ 1040 line 30, make the adjustments now</li> </ul>	
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