Introduction

The Patient Protection and Affordable Care Act, commonly referred to as the Affordable Care Act (ACA), will affect the health insurance and federal income taxes of nearly every American over the next few years. How small or big the impact primarily depends on whether you have health insurance and from where your insurance is obtained. TaxACT, a leading provider of affordable online tax return preparation and filing, has created this white paper to provide all the information you need to confidently navigate the changes over the next few years.
2013

Tax Implications of the Affordable Care Act on Your 2013 Tax Return Due April 15, 2014.
Most people didn’t see a change in income tax liability on their 2013 tax returns because of the ACA. If you have significant medical expenses or you are in a relatively high income tax bracket, however, a few new laws may now affect your tax refund or balance due.

**Reporting of employer-sponsored health coverage.**

If you or your employer contribute to your employer-sponsored health coverage, the total amount for the year will be in Box 12, with Code DD, on your Form W-2.

Although you must report the amount in Box 12, Code DD on your tax return, it does *not* change the amount of tax you owe. The IRS says the amount is there to help you compare information on the costs of your coverage.
Not all health insurance expenses and contributions made by you and your employer are included in the amount.

If your employer files fewer than 250 Forms W-2, for example, reporting this information on your W-2 is optional.

Your employer also is not required to report this information if you stop working at a job during the year and make a written request for a Form W-2 before the end of the year.
Form W-2 reporting of employer-sponsored health coverage does not include the following payments and contributions made by you...

- Health Flexible Spending Arrangement (FSA) contributions you make solely by reductions to your salary
- Contributions (by you or your employer) to a Health Savings Arrangement (HSA) or Archer Medical Savings Account (Archer MSA)
- Hospital indemnity or specified illness premiums you pay with after-tax income
- Coverage you or your family member receive from the government as a member of the military
- Specialized insurance plans, including long-term care, liability insurance, supplemental liability insurance, worker’s compensation, automobile medical payment insurance, or credit-only insurance
- If you are a 2% shareholder employee, the payment or reimbursement of your health insurance premiums included in your gross income
Increased “floor” for medical expense deductions.

It’s now a little harder for most people to take a medical expense deduction.

You can only begin deducting medical expenses for you, your spouse and your dependents after your total medical expenses exceed 10% of your adjusted gross income (AGI). That means if your AGI is $50,000, you can only deduct medical expenses that exceed $5,000 ($50,000 X 10% = $5,000).

If you are age 65 or older, you can still deduct total medical expenses that exceed 7.5% of your AGI. This is true for both you and your spouse, if at least one of you is age 65 or older.

TaxACT calculates your AGI, medical expense “floor,” and your medical expense deduction based on the information you enter in the Q&A.
Additional 3.8% tax on net investment income for high-income taxpayers.

If your AGI is $200,000 or more ($250,000 if filing jointly, or $125,000 if married filing separately), you'll pay this additional tax on income from interest, dividends, capital gains, rental and royalty income, and certain other investment income.

Your investment income is reduced by expenses that you can allocate to your investment income, including investment interest expense, advisory and brokerage fees, and rental and royalty expenses.

Your investment income is also reduced by state and local income taxes that can be allocated to investment income items.

Nonresident aliens are not subject to the additional 3.8% tax.

TaxACT calculates your additional tax, if any, from the information on your income tax return and reports it on IRS Form 8960, Net Investment Income Tax.
Additional Medicare tax on wages and compensation for high-income taxpayers.

If you earn more than $200,000 from one employer, your employer will deduct an additional 0.9% tax on your wages over $200,000.

You are liable for the Additional Medicare Tax if your wages, compensation, and self-employment income, along with that of your spouse if filing jointly, exceeds $200,000 ($250,000 if filing jointly, or $125,000 if married filing separately).

In many cases, the amount of additional Medicare tax you have withheld will be more or less than the actual amount you owe.

For example, if you earn more than $200,000 in wages and compensation, but were paid by more than one employer, neither employer may have withheld the additional tax. In that case, the Additional Medicare Tax will be added to your total tax liability.

On the other hand, if you are married and you earn more than $200,000, but less than $250,000, and your spouse has no earned income, you may have had the Additional Medicare Tax withheld.

However, if you file jointly, you do not owe the tax because your total wages and compensation are not more than $250,000.

Your total tax liability will be reduced by the amount of Additional Medicare Tax you had withheld.
If you know you will not owe the Additional Medicare Tax, you cannot claim an exemption from having it withheld from your employer.

However, you can adjust your other income tax withholding as necessary to have the right amount of total tax withheld from your pay.

Your employer will report the additional 0.9% tax withheld from your pay on Form W-2.

You enter information from your Form W-2 and other tax documents, and TaxACT calculates any additional Medicare tax or withholding adjustment for you.
2014
Tax Implications of the Affordable Care Act on Your 2014 Tax Return Due April 15, 2015.
As of January 1, 2014, the Affordable Care Act requires you to have minimum essential coverage for health insurance, or pay a tax penalty.

The penalty, also known as the individual shared responsibility payment, applies to you if you are without coverage for at least three consecutive months of the year.

If you have employer-sponsored health insurance, an individual plan you purchase yourself, or insurance through a government program such as Medicaid or Medicare, you do not need to purchase other health insurance.

However, insurance that only covers vision or dental care, worker's compensation, coverage for specific diseases or conditions, or discount plans do not meet the requirements.

You may receive IRS Form 1095-B and/or 1095-C from your employer or insurance company in January 2015. (The forms aren’t required until January 2016, so you may not receive one in 2015.).

Simply enter the form information when TaxACT prompts you and your coverage will be properly reported on your return.
You can apply online for health insurance through health insurance marketplaces, also known as exchanges.

Your state may have its own marketplace, use the federal government’s Health Insurance Marketplace, or offer a hybrid of the two.

You can apply through marketplaces during open enrollment periods. (Enrollment for 2015 coverage begins November 15, 2014 and ends February 15, 2015.)

After open enrollment ends, you can only apply through a marketplace if you’ve experienced a certain life change such as marriage, divorce, birth or adoption of a child, loss of job-based coverage or a move to a new state.

Some companies sell private plans outside the marketplaces that count as minimum essential coverage and can be purchased any time of year.

If you are applying for Medicaid or Children’s Health Insurance Program (CHIP), you can also enroll any time of the year.

Did you have marketplace coverage in 2014?

You’ll receive IRS Form 1095-A from your marketplace in January 2015. Simply enter the form information when TaxACT prompts you and your coverage will be properly reported on your return.

Unless you have minimum essential coverage or qualify for an exemption, you’ll pay a penalty, also known as a shared responsibility payment, on your tax return if you’re uninsured for three or more months in 2014.

The penalty is 1% of your 2014 income or $95 per adult – whichever is higher – and $47.50 per uninsured dependent under the age of 18, up to $285 total per family.

At tax time, TaxACT will ask simple questions to calculate your shared responsibility payment.
Health coverage exemptions include:

- Hardships such as cancellation of previous coverage, bankruptcy and homelessness
- Income low enough that the lowest cost health plan costs more than 8% of your income or you aren’t required to file a tax return
- Certain noncitizens, federally-recognized Indian tribes, religious sects and Health Care Sharing Ministry members
- Incarceration

Some exemptions require you to submit an application and supporting documentation. If accepted, your marketplace will issue an exemption certificate number (ECN) that you must report on your tax return in order to avoid the penalty. Application processing time depends on your request, whether your application is complete and whether you submit all required supporting documentation.

Only paper applications are being accepted.

Find out if you qualify for an exemption and print ECN applications at [www.healthcare.gov/exemptions](http://www.healthcare.gov/exemptions).
Claiming an exemption?
Submit your application for an exemption certificate number (ECN) now!

Tax time may seem far away, but it could take weeks or even months to process your application. Print and mail the application for your exemption type at www.healthcare.gov/exemptions.

Since you must report your ECN on your tax return, don’t wait to apply - doing so could delay your federal refund!

Tax credit for minimum essential coverage.
If you purchase insurance through a health insurance exchange, you may be able to have part of your premiums offset by an advanced premium tax credit, which is paid directly to your insurance company.

This credit is based on the type of health insurance you choose and your estimated annual household income.
To qualify for the tax credit, you must meet **all** these conditions:

- You purchase coverage through a marketplace.
- You don’t have access to affordable employer-sponsored insurance, which means:
  - You don’t have access to employer-sponsored insurance, or
  - Your employer-provided insurance covers less than 60% of covered benefits, or
  - Your premium is more than 9.5% of your annual household income.
- You don’t qualify for government programs like Medicare and Medicaid.
- Your annual household income is between 100% and 400% of the federal poverty level, depending on your state.
At tax time, you may receive a bigger tax credit or have to pay back some or all of the credit if your actual income is more or less than the amount you estimated at the time you purchased coverage.

If you prefer, you can pay your entire premium yourself and receive the credit as a refund when you file your income tax return.

This may be a good idea if your income is unpredictable, for example, and you want to be sure you don’t owe a tax bill when you file.

Simply enter the form information into TaxACT, and the program will calculate whether you receive a larger refund or need to pay back some or all of the credit based on your income.

See if you qualify for the premium tax credit with TaxACT’s Health Care Tax Penalty Calculator at healthcareact.com.
2015
Tax Implications of the Affordable Care Act on Your 2015 Tax Return Due April 15, 2016.
The tax penalty for not having coverage in 2015, which will be paid on your 2015 tax return due April 2016, rises to 2% of your annual 2015 income or $325 per person, whichever is higher.

You pay the penalty for yourself, your spouse, and each of your dependents. The maximum penalty per family is three times the per-person flat-dollar penalty, or $975.

Did you purchase coverage from the federal marketplace in 2014? All 2014 federal plans will be up for renewal in 2015.

If your income or household size has changed, notify the marketplace to verify your eligibility for the premium tax credit and to avoid a surprise on your tax return. Review your plan to make sure it still meets your health needs.

If your income or household size is the same, review your plan to make sure it still meets your needs. If it does, you don’t need to do anything – your insurance will auto-renew. If you want to change plans, contact the marketplace.

Renewal processes and rules vary in state marketplaces.
2016
Tax Implications of the Affordable Care Act on Your 2016 Tax Return Due April 2017.
The tax penalty for not having coverage in 2016, which will be paid on your 2016 tax return due April 2017, rises to 2.5% of your annual 2014 income or $695 per person, whichever is higher.

You pay the penalty for yourself, your spouse, and each of your dependents.

The maximum penalty per family is three times the per-person flat-dollar penalty, or $2,085.
Year-by-Year Guide

Tax Implications of the Affordable Care Act

Changes for Small Business
2010

Small Business Health Care Tax Credit.

If you have fewer than 25 full-time equivalent employees with average wages less than $50,000 (amount will be adjusted for inflation in 2014), and you pay premiums for them under a qualified health insurance arrangement offered through a Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement, you may qualify for a credit.

The credit is up to 50% of premiums paid for small business employers and 35% paid for small tax-exempt employers of the lesser of your contribution to your employee’s coverage for the year, or the amount you would have contributed based on average premiums for the small group market in which you offered coverage. TaxACT calculates these figures for you.
2014

Small Business Health Care Tax Credit changes.

The maximum credit you can receive for premiums you pay for your employees’ health care coverage increases from 35% to 50%.

If you’re a tax-exempt business, the maximum credit increases from 25% to 35%. You can receive this credit for two consecutive taxable years.

To receive this credit, you must have fewer than 25 full-time equivalent (FTE)* employees whose average annual wage is less than $50,000. You must also pay at least 50% of employees’ (not spouse or dependent) premiums for a qualified health plan offered through a SHOP Marketplace or qualify for an exception to this requirement.

*A full-time employee is defined as an employee who works on average a minimum of 30 hours per week.
2015

Business health insurance requirement.

Starting in 2015, businesses with more than 50 FTEs in 2014 (or a combination of full-time and part-time employees equivalent to 50 FTEs) must either offer a minimum level of health care coverage to employees and their dependents, or pay Employer Shared Responsibility payments to the IRS for any FTEs who purchase coverage through a marketplace and receive the premium tax credit.

The IRS will determine if any FTEs receive the premium tax credit and whether employers owe shared responsibility payments.

Employers will be contacted by the IRS and have an opportunity to respond to the IRS before payment is assessed.
The small group marketplace, SHOP, will become available to employers with up to 100 employees in 2016.

**2018**

**Small Business excise tax on cadillac plans.**

Starting in 2018, employers must pay a 40% excise tax on high-value health insurance, also known as “Cadillac Health Plans.” The tax applies to individual coverage that costs more than $10,200 for individual coverage or $27,500 for family coverage. These amounts are indexed to inflation and contain exceptions for high-risk professions and employers with a disproportionately older population.
About TaxACT

TaxACT is the critically acclaimed leader of affordable digital and download tax preparation solutions for consumers, business owners and tax professionals. In the 2005 tax season, TaxACT became the first to offer free federal tax software and e-file to all U.S. taxpayers. TaxACT is a business of Blucora, Inc. (NASDAQ: BCOR).


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