ACA meets IRS

By April 15, everyone filing their federal income taxes must indicate if they had health insurance during 2014. For most tax filers this simply will mean checking a box on their IRS 1040 form.

- The 6.8 million who enrolled in health insurance on a State or Federal Marketplace and may have received an Advance Premium Tax Credit (APTC) subsidy in the form of a reduced health insurance premium, will have to grapple with a series of new tax forms to RECONCILE their actual income, the projected income they entered on healthcare.gov, and the premium subsidy they received during 2014. In doing so, they may learn that their anticipated tax refund is less than they expected.
- For those individuals who did not have health insurance in 2014, an estimated 26 million will qualify for EXEMPTIONS based on a list of 30 waivers exempting them from the individual mandate to have insurance. However, it’s unclear how many of these 26 million are aware of the exemptions.
- A recent survey by Kaiser Family Foundation found that only 3% of the uninsured knew about the PENALTY for not having insurance in 2014, and H&R Block estimates that approximately 4 million uninsured persons will have to pay that penalty.

No doubt the services of tax preparers will be in high demand between now and April 15. H&R Block has begun running television ads urging people who want to know more about the relationship between the ACA and their taxes to come into their offices. Liberty Tax Service, with 8,000 offices across the nation, is said to be gearing up for tax season. On the Internet, Intuit, has created a free on-line tool for its TurboTax ® to allow tax filers to check their possible exemption from the individual requirement to have health insurance in 2014.

One place tax filers will find it difficult to get assistance is said to be the Internal Revenue Service (IRS), itself. Since 2010, IRS has had to reduce its work force by approximately 13,000 employees. It is warning people that only half of those seeking assistance with their taxes over the telephone may get through, and if they do, the wait times may be up to 30 minutes or more.

Reconciling

- People who bought subsidized insurance on the exchanges received what is actually an advance on a tax credit. Since the amount of help taxpayers received was based on 2012 income, it will need to be reconciled against what they actually earned in 2014, particularly if they earned more or less and did not update their income data on the exchange.

Some people will be surprised that they must pay some of that money back, or at least have it deducted from what they would have received in a refund. Conversely, people who earned less money in 2014, and who received subsidies that were too small, may receive money back.

“This is the part that can be very complex,” said Kathy Pickering, executive director of the Tax Institute at H&R Block. “People think of the tax credit as a discount on their premium. But realizing it can be something you repay a portion of is going to be a surprise.”
H&R Block estimates that approximately one-half of the 6.8 million people who enrolled in health insurance through the Federal and State marketplaces may have to refund money to the Federal government.

For those who did not have health insurance in 2014 and cannot check the box on their 1040 form, some may be exempted from the requirement to have health insurance, while others who simply did not apply will be subject to a monetary penalty. Either way, now is the time to find out. Individuals who did not apply will need to determine how much the penalty will cost for not having health insurance in 2014, especially if they have not yet enrolled in the state or federal Marketplaces for health insurance in 2015.

**Exemptions**

- TurboTax has a free exemption check tool that can determine if taxpayers qualify and help them apply.

Consumer advocates said they were concerned that some taxpayers might not realize that they needed to apply for certain exemptions, and, in some cases, substantiate their circumstances.

Some exemptions must be applied for through the exchanges, others can be claimed only on income tax returns, and some can be granted through either channel. (The I.R.S. and Healthcare.gov have lists of where to apply for each). For instance, people who cannot find affordable coverage, costing 8 percent of household income or less, must claim that exemption on their tax returns.

But the most time-consuming exemptions require mailing a signed paper application to the exchanges. These are processed manually, which can take a couple of weeks. The exemptions include several hardships, such as foreclosure, the death of a family member, unpaid medical bills and eviction, as well as religious reasons for not using insurance. “Do it now because it’s a cumbersome process,” advised Mark Steber, chief tax officer at Jackson Hewitt Tax Service.

Once an exemption is approved (and if it’s not, the applicant can appeal), a taxpayer is sent an “exemption certificate number,” which should be entered on the tax return.

**Penalties**

- The penalties for not having insurance will rise sharply over the next couple of years, so taxpayers contemplating paying the penalty instead of buying insurance for the coming year should run those calculations soon. Open enrollment on the health care exchanges ends February 15.

Some health policy analysts are predicting a crisis after February 15, 2015, the close of Open Enrollment, as people filing their taxes, learn they must pay a fine, and even worse are subject to an even larger penalty next year because they missed the February 15 deadline for Open Enrollment.

Uninsured people who cannot qualify for an exemption will be required to pay a penalty, also known as the individual shared responsibility payment.
For the 2014 tax year, individuals pay whichever is more: $95 or 1 percent of the portion of their modified adjusted gross income that exceeds the federal income tax filing threshold. For example, for those with single filing status, the cost would be $10,150. Payments are calculated on a monthly basis for each household member.

Those figures are about to double. A family of four earning $100,000 who skipped coverage in the last year would owe just shy of $800 in 2014, but it would need to pay nearly $1,650 in 2015, according to the Tax Policy Center’s calculator, which can determine how much a taxpayer might pay.

### Fine Time

Consumers who didn’t have health insurance in 2014 will face penalties when filing tax returns in the coming months. Penalty amount for select types of filers younger than 65:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Single</th>
<th>Head of Household</th>
<th>Married, Filing Jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Size</td>
<td>One adult</td>
<td>One adult, two children</td>
<td>Two adults, two children</td>
</tr>
<tr>
<td>Income</td>
<td>$60,000</td>
<td>$150,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Penalty</td>
<td>$498.50</td>
<td>$1,369.50</td>
<td>$2,297</td>
</tr>
</tbody>
</table>

Note: Penalty based on 1% of gross income after subtracting the minimum income threshold required for filing a federal income-tax return. Filers may qualify for an exemption; for example, if insurance would cost more than 8% of their household income.

Sources: Internal Revenue Service; Healthcare.gov; Kaiser Family Foundation; The Wall Street Journal

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