

HEALTH REFORM ISSUE BRIEF

Federal Tax Filing: Reconciliation & Exemptions

Overview

This issue brief will focus on the Affordable Care Act's (ACA) tax filing requirements with regard to premium tax credit reconciliation and exemptions from the penalty for not having insurance coverage and how these provisions may interact with HIV/AIDS and viral hepatitis programs. For questions about how these systems will impact your state's HIV/AIDS and viral hepatitis programs, please contact [Amy Killelea](#) or [Xavior Robinson](#).

Since January 1, 2014, tens of thousands of people living with HIV and viral hepatitis have enrolled in Qualified Health Plans (QHPs) through state and federally facilitated Marketplaces across the country. The majority of people who enrolled in QHPs qualified for federal premium tax credits to help them afford coverage. Because the premium tax credits are available to eligible individuals *in advance*, anyone who received a premium tax credit must file a federal tax return and reconcile actual income over the year in which the tax credit was received with the income the federal government used to determine the monthly premium tax credit amount.

Filing federal taxes is also a way to apply for an exemption from the ACA's requirement that everyone have a form of "minimum essential coverage" or pay a penalty. The reconciliation process and implications for AIDS Drug Assistance Programs (ADAPs) are discussed in detail below.

ACTION STEPS

As programs implement policies and procedures to align insurance purchasing programs with new tax filing requirements, consider the following:

1. Align ADAP and Ryan White Program income eligibility with federal tax filings for clients receiving premium tax credits;
2. Require clients to accept the full amount of the premium tax credit in advance;
3. Ensure that clients report changes in income to the Marketplace throughout the year;
4. Implement policies to ensure "vigorous pursuit" of IRS refunds that go directly to clients and to assist clients with overpayments owed back to the IRS
5. Ensure that clients and case managers understand the criteria for exemptions from the penalty for not having coverage and how to apply

Federal Subsidies Overview

	Eligibility	Amount
Premium Tax Credits	<ul style="list-style-type: none"> Income between 100 and 400% FPL who are not eligible for Medicaid and who do not have access to affordable employer-sponsored health coverage U.S. citizens and legal permanent residents (five-year Medicaid ban does NOT apply) Reside within the Marketplace service area Not incarcerated 	Sliding scale; individual pays 2-9.5% of his/her income and federal government pays the difference between the individual contribution and an average plan premium (based on second lowest-cost silver level plan offered in the Marketplace). <ul style="list-style-type: none"> Use the Kaiser Family Foundation Premium Tax Credit Calculator
Cost-sharing Reductions	<ul style="list-style-type: none"> Income between 100 and 250% FPL who are not eligible for Medicaid and who do not have access to affordable employer-sponsored health coverage <i>Must enroll in a silver level plan</i> U.S. citizens and legal permanent residents (five-year Medicaid ban does NOT apply) Reside within the Marketplace service area Not incarcerated 	People eligible for cost-sharing reductions will receive a plan that is more generous (i.e., the plan pays more of the covered costs and the consumer pays less in out-of-pocket costs like co-payments and deductibles). Cost-sharing reductions result in lower annual out-of-pocket maximums: <ul style="list-style-type: none"> 100-200% FPL: \$2,200 maximum 200-250% FPL: \$5,200 maximum

Note: Tax credits and cost-sharing reductions are also available for legal immigrants with incomes below 100% FPL and not eligible for Medicaid because of the five-year Medicaid ban

Premium Tax Credit Reconciliation

Because the advance premium tax credit is paid monthly beginning when someone enrolls in coverage (as opposed to as a refund when a person files his/her taxes) and is based on projected annual income, there is a reconciliation process when the person receiving the advance premium tax credit files a federal tax return.

The reconciliation process compares the income information used to calculate the advance premium tax credit throughout the year to the actual amount of income reported on a person's federal tax return for the year in which he/she received the premium tax credits. Here's how it works:

- If a person was underpaid by the IRS throughout the year (e.g., the person's actual income as reported on the federal tax return was *lower* than that used to determine eligibility for the advance premium tax credit), he/she will receive a refund when filing federal taxes.
- If a person was paid an excess amount in advance premium tax credits (e.g., the person's actual income as reported on the federal tax return was *higher* than that used to determine eligibility for the advance premium tax credit), he/she is liable for the overpayment and must include that payment when filing federal taxes.

Step 1: Form 1095-A

In January, anyone who received a premium tax credit will receive a form in the mail from the Marketplace ([IRS Form 1095-A](#)), which will include: the individual's monthly premium amount; the monthly premium amount of the second lowest cost silver plan (this is the benchmark the federal government uses to determine how much a person will receive in advance premium tax credits); and the amount the person received in advance premium tax credits every month.

Part III Household Information

Month	A. Monthly Premium Amount	B. Monthly Premium Amount of Second Lowest Cost Silver Plan (SLCSP)	C. Monthly Advance Payment of Premium Tax Credit
21 January			
22 February			
23 March			
24 April			
25 May			

Step 2: Form 8962

When a person files federal taxes, he/she will need to fill out [IRS Form 8962](#) to document premium tax credits received and actual amount of premium tax credits owed based on income for that year.

Form 8962 Department of the Treasury Internal Revenue Service Name shown on your return		Premium Tax Credit (PTC) Attach to Form 1040, 1040A, or 1040NR. Information about Form 8962 and its separate instructions is at www.irs.gov/form8962 .		OMB No. 1545-0074 2014 Attachment Sequence No. 73
Your social security number		Relief (see instructions) <input type="checkbox"/>		
Part 1: Annual and Monthly Contribution Amount				
1	Family Size: Enter the number of exemptions from Form 1040 or Form 1040A, line 6d, or Form 1040NR, line 7d	1		
2a	Modified AGI: Enter your modified AGI (see instructions)	2a		
	b Enter total of your dependents' modified AGI (see instructions)	2b		
3	Household Income: Add the amounts on lines 2a and 2b	3		
4	Federal Poverty Line: Enter the federal poverty amount as determined by the family size on line 1 and the federal poverty table for your state of residence during the tax year (see instructions). Check the appropriate box for the federal poverty table used. a <input type="checkbox"/> Alaska b <input type="checkbox"/> Hawaii c <input type="checkbox"/> Other 48 states and DC	4		
5	Household Income as a Percentage of Federal Poverty Line: Divide line 3 by line 4. Enter the result rounded to a whole percentage. (For example, for 1.542 enter the result as 154, for 1.549 enter as 155.) (See instructions for special rules.)	5	%	
6	Is the result entered on line 5 less than or equal to 400%? (See instructions if the result is less than 100%.) <input type="checkbox"/> Yes. Continue to line 7. <input type="checkbox"/> No. You are not eligible to receive PTC. If you received advance payment of PTC, see the instructions for how to report your Excess Advance PTC Repayment amount.			

Form 8962 Boxes 1 through 5 determine the amount of premium tax credit a person was eligible for based on MAGI

A person will use the information provided in the 1095-A to compare the amount received in advance premium tax credits to the amount the person was entitled to based on the federal income reported that year.

Annual Calculation	A. Premium Amount (Form(s) 1095-A, line 33A)	B. Annual Premium Amount of SLCSP (Form(s) 1095-A, line 33B)	C. Annual Contribution Amount (Line 8a)	D. Annual Maximum Premium Assistance (Subtract C from B)	E. Annual Premium Tax Credit Allowed (Smaller of A or D)	F. Annual Advance Payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals						
Monthly Calculation	A. Monthly Premium Amount (Form(s) 1095-A, lines 21-32, column A)	B. Monthly Premium Amount of SLCSP (Form(s) 1095-A, lines 21-32, column B)	C. Monthly Contribution Amount (Amount from line 8b or alternative marriage monthly contribution)	D. Monthly Maximum Premium Assistance (Subtract C from B)	E. Monthly Premium Tax Credit Allowed (Smaller of A or D)	F. Monthly Advance Payment of PTC (Form(s) 1095-A, lines 21-32, column C)

Finally, the person will record the amount owed as a refund (on line 26) or the excess payment owed back to the IRS (line 29).

24	Total Premium Tax Credit: Enter the amount from line 11E or add lines 12E through 23E and enter the total here	24	
25	Advance Payment of PTC: Enter the amount from line 11F or add lines 12F through 23F and enter the total here	25	
26	Net Premium Tax Credit: If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Form 1040, line 69; Form 1040A, line 45; or Form 1040NR, line 65. If you elected the alternative calculation for marriage, enter zero. If line 24 equals line 25, enter zero. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27	26	
Part 3: Repayment of Excess Advance Payment of the Premium Tax Credit			
27	Excess Advance Payment of PTC: If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here	27	
28	Repayment Limitation: Using the percentage on line 5 and your filing status, locate the repayment limitation amount in the instructions. Enter the amount here	28	
29	Excess Advance Premium Tax Credit Repayment: Enter the smaller of line 27 or line 28 here and on Form 1040, line 46; Form 1040A, line 29; or Form 1040NR, line 44	29	

Line 26 of Form 8962 will tell you if the person will receive a **refund** from the IRS

Line 29 of Form 8962 will tell you if the person **owes an amount** to the IRS

Step 3: Putting It Together on the Federal Tax Return

When a person files his/her federal tax returns (e.g., IRS Form 1040 shown below), specified boxes are provided to document either money owed to the client as a refund or money owed to the IRS because of an overpayment. When individuals file their tax returns, they will include either payment for any money owed to the IRS or will receive a refund from the IRS. It is important to note that tax liabilities and refunds are assessed in the aggregate. This means that if a person owes the IRS an amount because of a premium tax credit overpayment, the IRS will first look to whether there are other refunds owed and take the payment directly out of those refunds. Conversely, if a person is owed a refund by the IRS because of a premium tax credit underpayment, the IRS will first look to whether the person owes other tax liabilities for that year and apply the refund to those liabilities first.

The image shows a portion of the IRS Form 1040 (2014) with two callout boxes. The first callout box, on the left, points to line 46 and contains the text: "Line 46 on IRS Form 1040 indicates excess premium tax credits a person owes to the TDC". The second callout box, on the right, points to line 69 and contains the text: "Line 69 on IRS Form 1040 indicates net premium tax credit (i.e., amount owed to the)".

The ACA includes an important protection for low-income individuals who may owe money to the IRS as a result of the premium tax credit. The total amount owed to the IRS is capped based on income (see chart below). ADAPs should ensure that clients, case managers, and enrollment staff are aware of this protection.

Amount of Premium Tax Credit Overpayment Owed to IRS is Capped

Income	Single filers	All other filers
< 200% FPL	\$300	\$600
At least 200% FPL and < 300% FPL	\$750	\$1,500
At least 300% FPL and < 400% FPL	\$1,250	\$2,500
400% FPL and greater	N/A	N/A

Exemptions from the Shared Responsibility (Individual Mandate) Penalty

Federal tax returns are also the way that many people will apply for and/or report an exemption from the new federal requirement that most individuals have "[minimum essential coverage](#)" throughout the year.

Individuals who did not have minimum essential coverage in 2014, must pay a penalty (for 2014, this penalty is the greater of \$95 or 1% of income above the taxing filing threshold). However, many individuals who did not have coverage may qualify for an exemption from the penalty. The chart below provides some examples of common exemptions and how to apply for them, and a full list of exemptions can be found on the [IRS website](#).

Common Exemptions from the Individual Mandate	
Below tax filing threshold (\$10,150 for an individual in 2014)	No need to apply; exemption is automatic
Live in non-Medicaid expansion state, but would have been eligible for Medicaid expansion had state expanded	Marketplace application OR federal tax return <ul style="list-style-type: none"> <i>Note: to be found eligible for this exemption, a person does NOT have to receive a Medicaid denial.</i>
Hardship exemption (includes homelessness, natural disaster, and domestic violence)	Marketplace application
Unaffordable coverage (defined as over 8% of household income)	Marketplace application OR federal tax return <ul style="list-style-type: none"> <i>Note: if a person is claiming exemption because projected income made coverage unaffordable, he/she must apply for Marketplace exemption; if person claims actual income met the unaffordability test, he/she may apply for exemption on federal tax return.</i>
Short coverage gaps (a gap that last less than three months)	Federal tax return
Indian Tribes	Marketplace application OR federal tax return
Insular areas and territories	No need to apply; exemption is automatic

People will report coverage exemptions on [IRS Form 8965](#) and attach this form to their federal tax return. There are two ways to request an exemption (depending on what type of an exemption it is):

- An application through the Marketplace; or
- When a person files a federal tax return.

If a person is granted a coverage exemption from the Marketplace, the Marketplace will send a notice with an "Exemption Certificate Number." When a person files federal taxes, he/she will enter this number on their tax return. For a coverage exemption claimed on a tax return instead of through a Marketplace application, a person only needs to attach Form 8965 to the tax return.

To align ADAP and Ryan White Program insurance assistance systems and processes with new federal tax filing requirements, programs are considering the following:

- [Aligning ADAP and Ryan White Program income eligibility with federal tax filings for clients receiving premium tax credits](#)

Because recipients of the ACA's premium tax credits *must* file federal taxes in the year in which they receive the tax credit, ADAPs are considering requiring clients receiving ADAP premium support to provide federal tax return information during the reconciliation process to determine ongoing program eligibility and to assess whether clients will be receiving refunds for overpayment of advance premium tax credits by the IRS. Educating clients about tax filing and directing them to tax preparation resources (see resource section below) will be particularly important given the fact that many clients do not currently file federal taxes.

- [Requiring clients to accept the premium tax credit in advance](#)

Applicants have the choice to receive the premium tax credit in advance (meaning that the credit is paid directly to the plans on a monthly basis at the point a person enrolls in coverage) or to forego the full amount of the advance payments, pay the full cost of premiums, and receive the tax credit when federal taxes are filed (meaning that the credit would be paid directly to the taxpayer). For administrative purposes, if ADAPs are assisting clients by paying premiums, they should consider requiring clients to take the premium tax credit in advance. Clients indicate this decision when applying for insurance and the premium tax credit during enrollment. This allows ADAPs to better track

the amount of premium tax credit clients are receiving and to coordinate monthly payment of any remaining premium obligation. It may also prevent the ADAP from having to attempt collection of any overpayments returned to the client at the end of the year.

- *Ensuring that clients report changes in income to the Marketplace throughout the year*
Clients should also be made aware that they must promptly report changes in income that would affect their premium tax credit amount to the Marketplace. If the federal government overpays the client's advance premium tax credits, the overpayment will be recouped when the client files federal taxes for the year in which he/she received the credit.
- *Implementing policies to ensure "vigorous pursuit" of IRS refunds that go directly to clients*
If a client is owed money by the IRS because income reported on a federal tax return was actually lower than the income used to calculate advance premium tax credits throughout the year, the refund will go directly to the client/taxpayer. This is problematic when ADAP or another Ryan White Program insurance purchasing program is paying premiums on behalf of a client. The refund is not actually owed to the client; it is owed to the program or third party that was paying the remaining premium amount on behalf of the client. In this case, ADAPs and Ryan White insurance purchasing programs should reach out to clients to ensure clients return refunds to the appropriate program. As discussed above, the amount owed because of a premium tax credit refund is noted on the federal tax return separate from any other refunds or tax liabilities (though the premium tax credit refund will be paid to the taxpayer as part of the total tax liabilities and refunds owed for that year and not as a separate check). An analogous policy may be that used to recoup Medical Loss Ratio rebate checks that also were sent directly to clients, but were in fact owed to the third party paying premiums. In that case, programs sent letters to clients notifying them of the rebate checks and requiring checks to be sent to ADAP/Ryan White Program. For clients that may have received a large refund, it may make sense to put in place a re-payment plan. HRSA has clarified in [Policy Clarification Notice 14-01](#) that recovered excess premium tax credit refunds are not considered program income. As such, grantees and sub-grantees must use recovered excess premium tax credits in the Health Insurance Premium and Cost-sharing Assistance service category in the grant year when the refund is received by the grantee or sub-grantee.
- *Implementing policies to assist clients with amounts owed to the IRS as a result of premium tax reconciliation*
HRSA/HAB [Policy Clarification Notice 14-01](#) also clarifies the role of ADAP when a client owes a premium tax credit amount back to the IRS as a result of reconciliation. In this scenario, Ryan White Program grantees and sub-grantees may pay the IRS this amount on behalf of the client, while ensuring that:
 - Grantees and sub-grantees are responsible for establishing and maintaining policies and procedures for coordinating payments to the IRS (direct payments to clients are prohibited).
 - The payment to the IRS must be made from funds available in the year when the tax liability is due, even if the premiums that generated the tax liability were incurred in a previous funding year.
 - Grantees and sub-grantees may only pay the amount directly attributed to the reconciliation of the premium tax credits; under no circumstances can Ryan White Program funds be used to pay the fee/penalty for a client's failure to enroll in minimum essential coverage.

Programs should put in place policies and procedures for identifying client overpayments and working directly with the IRS to administer a payment for the premium tax credit liability. HRSA/HAB has published [Frequently Asked Questions](#) that include administrative considerations for implementing this policy.

- *Ensuring that clients and case managers understand the criteria for exemptions from the penalty for not having coverage and how to apply*
The ACA's penalty for not having insurance coverage throughout the year will be administered through the IRS when people file federal taxes. Many individuals, including ADAP and Ryan White Program clients, may be eligible for an exemption from the penalty. To ensure that everyone who is eligible for the exemption applies for it, programs are incorporating information about the eligibility criteria for exemptions and how to apply (i.e., through the Marketplace application or directly through federal tax returns) into enrollment assistance activities.

Resources on ACA Federal Subsidy and Tax Filing Provisions

NASTAD Resources

- [NASTAD Health Reform Website](#) houses NASTAD's presentations, issue briefs, fact sheets, and other resources on health reform.
- [NASTAD Blog](#) provides timely updates and breaking news with regard to federal and state health reform implementation.

Other Resources

- [Health Resources and Services Administration HIV/AIDS Bureau, Ryan White & The Affordable Care Act](#) provides Ryan White Program grantees information on how the ACA interacts with federal policies, including payer of last resort.
 - Spotlight: [HRSA/HAB and IRS Webinar: ACA Premium Tax Credits and the Reconciliation Process](#)
- IRS and HHS Resources
 - IRS, [Health Care Law: What's New for Individuals and Families](#)
 - Healthcare.gov, [How Health Coverage Affects Your 2014 Federal Income Tax Return](#)
 - HHS, [No Health Coverage? What that Means for Your Taxes](#)
 - IRS, [Volunteer Income Tax Assistance \(VITA\) program](#) offers free tax help to low-income people, persons with disabilities, and others. The website includes a list of VITA sites by location.
- [The JSI ACE TA Center](#) helps Ryan White Program grantees and sub-grantees enroll diverse clients, especially people of color, in health insurance.
- [Center on Budget and Policy Priorities Health Reform: Beyond the Basics](#) provides ACA analysis and tools for assisters and consumers, including a webinar series covering topics such as ACA enrollment, premium tax credit reconciliation, and MAGI.
 - Spotlight: [CBPP The Health Care Assister's Guide to Tax Rules](#)