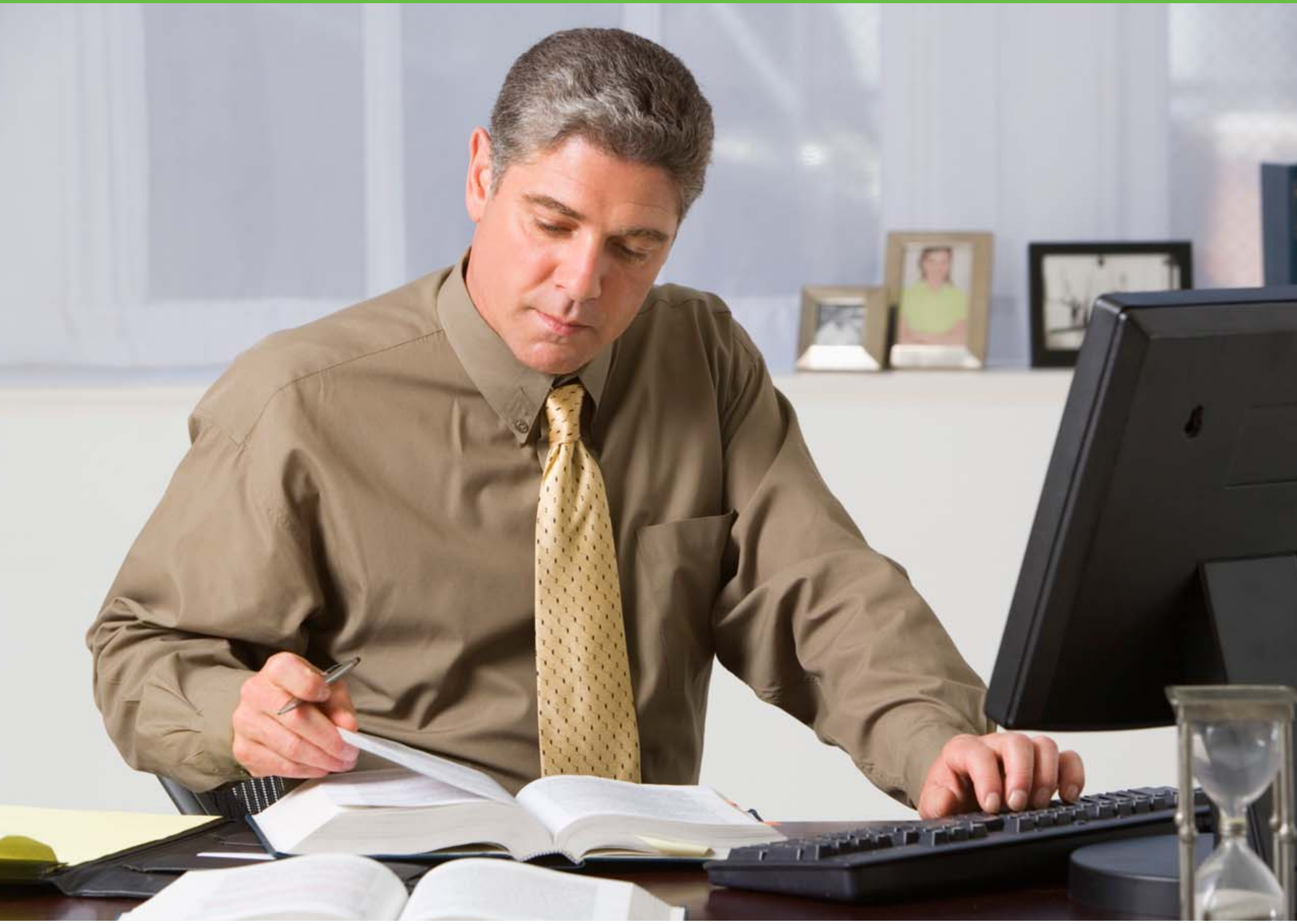
Wolters Kluwer
CCH Small Firm Services



Understanding the Affordable Care Act Premium Tax Credit

Most Americans are Required to Have Health Care Coverage

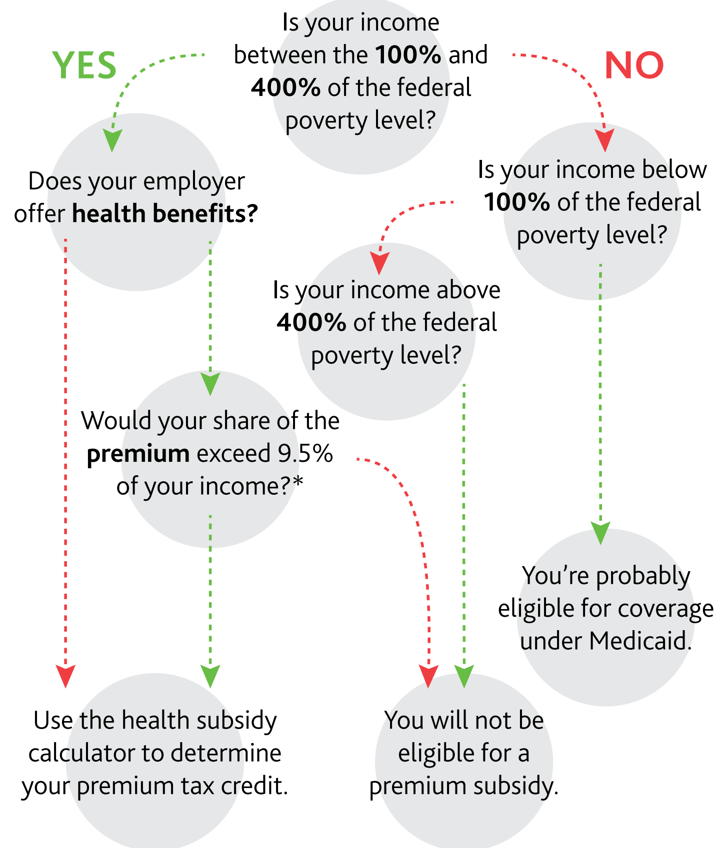
The Affordable Care Act (ACA), or health care law, requires most U.S. citizens and legal U.S. residents to have minimum health insurance coverage or pay a penalty. The ACA contains health insurance coverage and financial assistance options for individuals and families.

Certain individuals and families will be technically subject to the ACA requirement to maintain minimum essential health coverage, but will be exempt from the penalty for noncompliance, including:

- Individuals unable to afford coverage because the health insurance premiums exceed 8% of their household income.
- Taxpayers with household income below the income tax filing threshold ($10,150 single; $20,300 for married filing jointly, $3,950 married filing separately for 2014). Persons not required to file a tax return for a year are automatically exempt from owing a penalty for that year.
- Hardship cases.
- Persons residing outside the United States.
- Dependents, since the person claiming them as such is the responsible party. Note that the spouse is not considered a "dependent" for purposes of these rules.
- An individual is exempt from the requirement to have minimal essential health coverage if the coverage gap is a continuous period of less than three months.

For more information on coverage options and financial assistance, visit HealthCare.gov.

Determining Who Will Receive a Tax Credit



*Also eligible for credit if employer's plan does not offer minimum value

Under the Affordable Care Act, low and middle income Americans will receive tax credits to help pay for health insurance.

Starting in 2014, individuals and families can take a new premium tax credit to help them afford health insurance coverage purchased through an Affordable Insurance Exchange. The premium tax credit is refundable so taxpayers who have little or no income tax liability can still benefit. The credit also can be paid in advance to a taxpayer's insurance company to help cover the cost of premiums.

The Health Insurance Premium Assistance Refundable Credit

A refundable tax credit, the "premium assistance credit" is available to help subsidize the purchase of health insurance. The credit is not available when affordable minimum essential health coverage is available from an employer or government.

An employer-sponsored plan is not considered "affordable minimum essential coverage" if the required employee's contribution for self-only coverage exceeds 9.5% of household income or the plan fails to provide a minimum value of coverage.

The following conditions are required to qualify as an Applicable Taxpayer for purposes of the subsidy:

- The taxpayer's Household Income must be between 100% and 400% of the federal poverty line (FPL) for the taxpayer's family size (for 2014, $23,850 to $95,400 for a family of four).
- If married at year end, the taxpayers generally must file a joint return.
- The taxpayer must not be claimed as a dependent on another taxpayer's tax return.
- The taxpayer must be a U.S. citizen or national or an alien lawfully in the U.S. and not incarcerated.
- The taxpayer must be enrolled in a qualified health plan which is certified as eligible to be offered by an Exchange.

The Health Insurance Premium Assistance Refundable Credit

The PAC can be administered as an advance credit if the taxpayer so chooses

- If the taxpayer elects to use an advance credit when they apply for coverage, the PAC calculated by the state exchange is paid directly to the insurance provider.
- The taxpayer pays the cost of their desired coverage minus the amount of calculated PAC.
- When the taxpayer later files their income tax return for the year in which the coverage was in effect, the tax return will show a reconciliation between the state exchange-calculated PAC applied against the cost of coverage and the actual PAC that will be calculated and shown on the tax return for that year.
- Any amount of state exchange-calculated PAC paid to the insurance plan that was over and above the actual tax return PAC that the taxpayer qualifies for will be recovered in the form of an additional tax liability.

The individual mandate and the premium tax credit

The rules and tests are applied on a monthly basis, for each month

- Determine if the individual had coverage.
- Coverage gaps of up to three consecutive months are allowed.
- Determine whether the individual had coverage on an exchange and qualified for the premium tax credit.
- Determine the individual mandate tax and the premium tax credit on Form 1040.

How Individuals Get the Credit

To qualify for the credit, individuals must get insurance through the Health Exchange Marketplace.
If individuals are eligible for the credit, they can choose to:

- **Get It Now:** have some or all of the estimated credit paid in advance directly to the insurance company to lower what they pay out-of-pocket for monthly premiums; or
- **Get It Later:** wait to get all of the credit when the tax return is filed.

Premium credits are determined during the enrollment through the Health Exchange Marketplace, using information that the individual provides about projected income and family composition for the year. The Exchange will estimate the amount of the premium tax credit that the individual/family will be able to claim on the tax return. The individual/family will then decide whether to have all, some or none of the estimated premium credit paid in advance directly to the insurance company.

How to Administer the Premium Tax Credit

Claiming the Credit on Federal Tax Returns

For any tax year, if an advance credit payment is received in any amount or if the individual/family plans to claim the premium tax credit, the credit must be filed under the federal income tax return for that year.

If the individual/family chose the get it now option: When the tax return is filed, subtract the total advance payments received during the year from the amount of the premium tax credit calculated on the tax return. If the premium tax credit computed on the return is more than the advance payments made during the year, the difference will increase the refund or lower the amount of tax owed. If the advance credit payments are more than the premium tax credit, the difference will increase the amount owed and result in either a smaller refund or a balance due.

If the individual/family chose to get it later: They will claim the full amount of the premium tax credit when the tax return is files. This will either increase the refund or lower the balance due.

Recovery of Excess Advance Credit Payments

For those taxpayers with household incomes of less than 400% of the poverty income guidelines for their family size, there is a cap on the amount of additional tax liability that will be imposed in order to recover any excess advance credit payments.

Household Income Percentage of Poverty Income	
Less than 200%	$300 Single, $600 Others
At least 200% but less than 300%	$750 Single, $1500 Others
At least 300% but less than 400%	$1250 Single, $2500 Others

Note: The amounts in the above table will be subject to inflation indexing
Source: U.S. Department of Health & Human Services

More Information

More detailed information about the premium tax credit is available at www.hhs.gov.

The Tax Penalty For Not Having Health Care Coverage

Those persons without health plan coverage must pay a tax penalty to be included on their 2014 tax return if they do not have appropriate coverage for 2014

- The penalty is paid for each individual that did not have coverage.
- That could include the taxpayer, the taxpayer's spouse on a joint return, and the dependents claimed on the return.

The amount of the penalty for any month is equal to the lesser of the monthly national average premium for bronze level coverage (in 2014, $204 per individual), or 1/12th of the greater of a flat amount or a percentage of the individual's household income. The flat amount is generally $95 per individual, up to a maximum of three times that amount ($285) per family. The percentage of household income is 1% of the excess of household income over the individual's tax return filing threshold. These dollar amounts are phased in and adjusted for inflation after 2016.

The $95 penalty amount is phased-in according to the following schedule:	The 1% penalty amount is phased-in according to the following schedule:	There is a maximum flat dollar amount that may be imposed on a family:
$95 in 2014	1% for 2014	$285 for 2014
$325 in 2015	2% for 2015	$975 for 2015
$695 in 2016 for the flat fee amount	2.5% for 2016	$2,085 for 2016

There are several exemptions from the requirement to maintain minimum health coverage including those for
Members of recognized religious sects opposed to accepting health care insurance due to religious beliefs
Members of health care sharing ministries where members share ethical or religious beliefs
Persons not U.S. citizens or U.S. nationals
Incarcerated individuals
Indian tribe members
Persons whose income is below the income tax return filing threshold
Persons whose premium for self-only coverage exceeds 8% of their household income

The IRS Administers the Penalty

The penalty for not having health care coverages is treated as an additional amount of federal tax owed, however, IRS enforcement provisions are limited.

- Non-compliance with the requirement to have health coverage is not subject to criminal or civil penalties.
- This penalty may not be collected by the use of liens or other seizures authorized for the collection of taxes.
- No interest on an unpaid penalty will accrue.

The Tax Forms that you'll need to complete for the 2015 filing season include:

- Form 8962: Reconciliation of the Premium Tax Credit
- Form 8965: Exemption from the Affordable Care Act

For more information find answers to the individual shared responsibility provision at http://www.irs.gov/uac/Questions-and-Answers-on-the-Individual-Shared-Responsibility-Provision.