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## 2016 Tax Matters: Affordable Care Act Newsletter

Every year at about this time we send out a newsletter to our clients, usually sharing multiple topics ranging from new tax laws, planning ideas, and other topics to keep you informed. Due to the nature of the newest Tax Beast in the U.S., we feel it is very important to review the Affordable Care Act (ACA) as it relates to everybody's Form 1040. 2015 was the first tax reporting year where your health insurance situation need to be reported on your tax return.

This is very important information due to the far reaching regulations and complexity of the ACA. The time necessary to complete 2016 tax returns will increase from prior years, especially for those who received their health insurance through a Health Insurance Exchange; or for taxpayers and dependents who did not have coverage during the year (see "Penalty" section). Those who have **every** tax return dependent covered with at least "minimum essential coverage" (defined later) will not have additional tax forms to file. They will, however, need to verify with us in writing before we start their tax return that each person claimed as a dependent on the return has coverage. Tax Preparers industry-wide are gearing up for these new reporting requirements.

### General rules of the 2010 Health Care Bill:

Starting on January 1, 2014, most Americans were required to obtain "minimum essential health care coverage". Those who did not cover themselves or their dependents claimed on their tax returns this year will most likely incur a penalty, also known as the "shared responsibility payment". That penalty is explained below. There are a few exceptions to the coverage rules that are also noted below. Those who received insurance through the Health Care Exchanges may have obtained a "premium reduction credit" based on their income level, which was basically a prepaid *income tax credit*. That prepaid credit will be reconciled with your actual credit when your 2016 tax return is prepared. You are not able to purchase insurance through the exchanges except for the open enrollment periods, the second of which started November 15, 2016, and going through February 15, 2017, or for 60 days after a "Qualifying Life Event" (marriage, child birth, etc.).

<http://www.irs.gov/pub/irs-pdf/p5152.pdf>

**Minimum Essential Coverage:** <http://www.irs.gov/uac/Newsroom/Find-Out-if-Your-Health-Insurance-Coverage-is-Considered--Minimum-Essential-Coverage-Under-the-Affordable-Care-Act> (Medicare; Medicaid; TRICARE; CHIP; Veteran's Health; Employer Sponsored Plans; or at least a Bronze level plan (as defined in the Exchange plan options).

**Insurance Exchange:** A state or federally run insurance store that acts as a middleman for insurers and consumers. The Exchange establishes certain requirements and guidelines for four different policy types of insurance (Bronze, Silver, Gold or Platinum... or similar designations), and insurers then submit policies to the exchange for approval and classification.

**Exceptions to Having Coverage:** <http://www.irs.gov/pub/irs-pdf/p5172.pdf>

Religious conscience (opposed to accepting insurance benefits); not required to file a tax return; short coverage gap of less than three months; unaffordable coverage options (based on income level and premium costs); and “hardships” (things like homelessness, bankruptcy, eviction, foreclosure, death of a close family member, human or natural disasters, and a few others).

**Penalty or “Shared Responsibility Payment”:** <http://www.irs.gov/pub/irs-pdf/p5156.pdf>

The penalty for not having coverage is calculated on a month-by-month basis. It is calculated and paid via the income tax return process.

2016: \$695 per adult, \$348 per child, or 2.5% of family income, whichever is greater.

## **NEW TAX FORMS**

**Form 1095-A:** If you get insurance through any federal or state health insurance exchange, you should receive this form from the exchange by January 31, 2017. We will require this tax form before we prepare a tax return, and before any related tax credits can be obtained. We will be asking every client if they received one, and our Tax Guide and Organizer will do the same.

**Form 1095-B:** This form will be from an insurance company and will report proof of minimum essential coverage, so covered taxpayers can avoid a penalty. The 1095-B form should be much more common for the 2016 filing season.

**Form 1095-C:** This form will be from employers to show employees’ proof of coverage. This form will be issued by companies with greater than 50 employees. We need to receive this form if our clients receive it.

### **Form 8962—Premium Tax Credit:**

This tax form only applies to those who obtained health insurance through an Exchange. It calculates any premium tax credit based on your *actual* reported 2016 income, and compares it to *anticipated* income when the exchange application was filed over a year prior. Any differences are either a tax due (underestimated income at the application process) or a tax refund (overestimated income at the application process). Form 1095-A from the Exchange is REQUIRED to complete this form.

**Penalty Worksheet** (No separate tax form; calculated tax from the worksheet is entered on Form 1040.):

This worksheet reports any penalties (*shared responsibility payments*) from not having minimum essential health coverage. Completion of this worksheet involves pulling information from various sources. Preparing this tax form, if necessary, is why many tax prep chains are talking about large fee increases. Sadly, it is often the taxpayers who can least afford additional fees that will need this additional filing requirement.

One additional point of emphasis about premium tax credits. There is a good chance that someone could have (honestly) underestimated their 2016 income when they applied for coverage at the Exchange one year

ago. This could lead to a tax liability, basically having to “pay back” those prepaid tax credits (which were in the form of premium discounts). This should be a concern for those who underestimated income by a sizable amount when applying for coverage at the Exchange.

### **What Now?**

In our Tax Guide and Organizer, we will have a **Health Care Coverage Questionnaire** that **MUST** be filled out before we can even start on any tax return this year.

### **Summary:**

1. Be prepared to supply the following information or documents:
  - a. Form 1095A, B, or C (treat this form just like a W2 or 1099 form - **WE MUST HAVE IT**).
  - b. A listing of each person claimed on your tax return, and whether or not they had health insurance coverage, what company or government program it was through and, if not covered for any portion of the year, which months they were not covered. The Health Care Coverage Questionnaire on page 4 of this insert will assist you in providing this necessary information.
  - c. Be ready to have extra patience with the additional questions you have never been asked before by our office, as we work through the ACA reporting requirements.
  
2. If you get Health insurance through an Exchange, take the time to understand how the Premium Reduction Credits and Premium Tax Credits work so you can avoid tax return surprises.

Thank you for allowing us to assist with your tax filing, planning and consulting needs.

## HEALTH CARE COVERAGE QUESTIONNAIRE

MUST Print Each Person On Your Tax Return	Indicate For Each Person If They Had Health Care & Which Applies		
	For Entire Year	Less Than 12 Months	None At All

**YES [ ] NO [ ] Did anyone besides taxpayer or spouse pay for health care coverage for anyone listed above?**

**YES [ ] NO [ ] Did you pay for health care coverage for anyone not listed above?**

**If you had coverage for any part of the year:**

**Where was the policy obtained? Please circle one below...**

*Employer / Medicare / Medicaid / Marketplace (Exchange) / Insurance Co. / Other*

**\*\*\* If received please provide Form 1095A, 1095B or 1095C to the Tax Preparer \*\*\***

**If you didn't have coverage for any part, or all of the year:**  
Answer **YES** if it applies to **ANY** member of the household. Please answer each question.

**YES [ ] NO [ ]** Was your previous insurance policy cancelled in 2016?

**YES [ ] NO [ ]** Do you have an Exemption from the Marketplace (also called the Exchange)?

**YES [ ] NO [ ]** Was coverage offered by taxpayer's or spouse's employer?

**YES [ ] NO [ ]** Are you a member of a federally-recognized Indian tribe?

**YES [ ] NO [ ]** Are you eligible for services through an Indian health care provider?

**YES [ ] NO [ ]** Are you a member of a health care sharing ministry?

**YES [ ] NO [ ]** Did you live in the United States the entire year?

**YES [ ] NO [ ]** Are you enrolled in TRICARE?

**YES [ ] NO [ ]** Did you apply for CHIP coverage?

**YES [ ] NO [ ] Do any of the following apply to you? Do NOT indicate which one.**

- Became homeless
- Evicted in the past six months, or facing eviction or foreclosure
- Received a shut-off notice from a utility company
- Recently experienced domestic violence
- Recently experienced a fire, flood, or other natural or human-caused disaster that resulted in substantial damage to your property
- Filed for bankruptcy in the last six months
- Incurred unreimbursed medical expenses in the last 24 months that resulted in substantial debt
- Experienced unexpected increases in essential expenses due to caring for an ill, disabled, or aging family member

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

