Tax Implications of the Affordable Care Act (ACA)

Open Enrollment for **2015** coverage began November 15, 2014 & **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.

Beginning January 1, 2014, every individual (with certain exceptions) must maintain minimum essential health coverage or pay a penalty via a "shared responsibility payment" for each month in which coverage is not maintained. This aspect of the Obamacare is also known as the "Individual Mandate." A taxpayer is liable for the penalty if any nonexempt individual who may be claimed as a dependent does not have minimum essential coverage for a month.

Tax Penalty for Uninsured

For 2014, the penalty amount is the greater of:

1. 1% of household income above the filing threshold (see Table to the right), OR
2. A flat dollar amount of $95 for an adult or $47.50 per child, up to a maximum of $285.00.

Household income is the adjusted gross income (AGI) from your tax return, plus the AGI of all dependents who are required to file tax returns.

Penalty Cap—capped at the cost of the national average premium for a bronze level plan available through the Marketplace. For 2014 it is $2,448 per individual for a family of 4 or less and $12,240 for a family with 5 or more members.

Penalty will not be assessed if coverage is unaffordable, if you had less than 3 consecutive months without coverage, or if you qualify for an exemption.

Example:

Jim, an unmarried individual with no dependents, does not have minimum essential coverage for any month during 2014 and does not qualify for an exemption. For 2014, Jim's household income is $40,000 and his filing threshold is $10,150 (see Table).

Determine Payment—Subtract $10,150 (filing threshold) from $40,000 (household income) = $29,850. 1% of this $29,850 = $298.50—Jim's "flat dollar amount" is $95.

Jim's national average premium for bronze level is $2,448 (see above penalty cap). Because $298.50 (1% of household income above filing threshold) is greater than $95 (flat dollar amount) and is less than $2,448 (national average premium), Jim's penalty for 2014 is $298.50.

The maximum tax penalty is gradually phased in and increases between 2014 and 2016.

- For 2015, which will be due April 2016, rises to 2% of annual income or $325 per person, whichever is higher.
- For 2016, which will be due April 2017, rises to 2.5% of annual income or $695 per person, whichever is higher.

The maximum penalty per family is three times the per-person penalty for each year.

Federal Tax Filing Thresholds

	Under 65 (Both)	Over 65 (1)	Over 65 (Both)
Single	$10,150	$,11,700	
Head of Household	$13,050	$14,600	
Married Filing Joint	$20,300	$21,500	$22,700
Married Filing Separate	$3,950	$3,950	
Qualifying Widow (er) with Dependent Children	$16,350	$17,550	

Minimum Essential Coverage

- Minimum essential coverage includes government sponsored programs (Medicare, Medicaid), eligible employer-sponsored plans, plans in the individual market or plans through the Marketplace (aka health insurance exchanges).
- Exemptions to minimum essential health coverage:
  - ⇒ Hardships such as cancellation of previous coverage, bankruptcy and homelessness
  - ⇒ Those who can't afford coverage because the required contribution exceeds 8% of household income.
  - ⇒ Taxpayers with income below tax filing threshold (see chart above).
  - ⇒ Those exempted for religious reasons.
  - ⇒ Individual residing outside the U.S.
  - ⇒ Individual incarcerated or not legally present in U.S.
  - ⇒ All members of Indian tribes.

Taxpayers will use new Form 8965 to report a coverage exemptions granted by the Marketplace ("Exchange") or to claim a coverage exemption on a tax return . Some exemptions are available only from the Marketplace, others are available only by claiming them on a tax return, and others are available from either.

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 the request, whether the application is complete and whether all required supporting documents are submitted.

Find out if you qualify for an exemption and print ECN applications at **www.healthcare.gov/exemptions**.

Marketplace Coverage

If you purchased Marketplace coverage in 2014, you will receive a new form, IRS **Form 1095-A—Health Insurance Marketplace Statement**, from your Marketplace sometime in January 2015. You will need this form in order to file your tax return and it will contain information required for the premium tax credit.

Premium Tax Credit (Refundable)

To qualify for the credit, you must meet **ALL** these conditions:

- You purchased coverage through a Marketplace.
- You cannot be claimed as a dependent on someone else's tax return.
- Your filing status generally cannot be married filing separately.
- 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. For 2014, that means for a family of four, income from $23,550 to $94,200 and for and individual income from $11,490 to $45,960.

If it is determined at the time of enrollment in Marketplace coverage that you qualify for a premium tax credit, you can choose to have some or all of the estimated credit paid in advance directly to the insurance company to lower out-of-pocket costs for your monthly premiums. Taxpayers who choose to receive advance payment, will calculate the final credit amount on their 2014 returns.

If, because of changes in income or family size, the final credit is less than the advance payments received, the taxpayer will repay an excess advance payment with the return. If the final credit is more than the advance payments received, the excess will be offset against any tax due or refunded to the taxpayer.

Don't forget — Refer a friend and you both get a $10.00 credit!

2013 Changes to Remember

Higher Income Tax—Single taxpayers making more than $400,000 a year (or more than $450,000 as joint filers) saw marginal income tax rates increase substantially—from 24% to 39.6%.

Additional Medicare Tax for High Income Workers

In addition to regular Medicare tax of 1.45%, you must now pay 0.9% Additional Medicare Tax imposed on wages of individuals (including self-employed) in excess of:

- ⇒ $250,000—married filing joint or surviving spouse,
- ⇒ $125,000—married filing separate, and
- ⇒ $200,000—all others.

This additional tax will begin in the pay period in which wages paid exceed the threshold and continue until the end of the calendar year. Additional Medicare Tax is only imposed on the employee, not the employer.

Tax on Net Investment Income

- Imposed on individuals, estates and trusts.
- Investment income includes interest, dividends, capital gains, taxable annuities, royalties & passive rental income.
- For an individual, the tax is 3.8% of the lesser of either:
  - Net investment income, OR
  - The excess of modified adjusted gross income (MAGI) over the threshold amount:
    - ⇒ $250,000—married filing joint or surviving spouse,
    - ⇒ $125,000—married filing separate, and
    - ⇒ $200,000—all others.
- Tax rate on dividends and capital gains above $400,000 ($450,000 for families) increased from 15% to 20%.

Medical Expense Deduction Floor Increased to 10%

- The AGI threshold for deducting medical expenses increased from 7.5% to 10% for singles under age 65.
- For taxpayers who reached age 65 by the end of the year, the effective date of this provision is delayed until January 1, 2017, therefore they continue to use the 7.5% of AGI.

Phase Outs—The personal exemption and itemized deductions are phased out at certain levels of income.

Limitation on Health FSA Reimbursements

Maximum amount available for reimbursement as a pre-tax benefit under a qualified cafeteria plan (health FSA-Flexible Spending Arrangement) is limited of $2,500. Previously there were no limits other than those set by the plan.

Visit the Website
www.QASspace.com

!!! FACEBOOK !!!
Please visit and like the new page!
www.facebook.com/quickaccountingservices