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How the Patient Protection and Affordable Care Act Will Affect Your Taxes

Americans receiving their health insurance through the Health Insurance Marketplace (also known as an exchange) will be expected to report their coverage status on their 2014 tax returns. For most it will be as simple as checking a box. For those without coverage it can include a penalty if they do not meet one of the exceptions for an exemption to the individual mandate.

What are these exceptions? If you are unable to find coverage that is 8 percent of your household's modified adjusted gross income or less, you can apply for an exemption. If you had a gap in coverage less than three months, have religious beliefs objecting to health insurance, or are a member of a Native American tribe, you may also submit to be exempt.

An event, such as bankruptcy or medical expenses resulting in significant debt may also be a reason to exempt a taxpayer. This is not a complete list and other various exceptions can apply.

Exemptions are granted by either the exchange or on your tax return. Application specifics can be found on the IRS website and should be consulted for the particular situation if exemptions are sought. If an exemption is granted, a Form 1095-A will be received. This Health Insurance Marketplace Statement will confirm the exemption based on your exception.

If subsidies were received that were in excess based on factors such as increased income or other changes in circumstances, that money will need to be paid back. This is based off of the 400 percent of the poverty line figure. If you do owe a penalty or money back for an over paid subsidy then the usual tactics employed by the IRS are not permitted for collections. No levies, liens, or wage garnishment. Nor can the IRS criminally prosecute for nonpayment of the penalty. However the amount can be taken from any refunds and the penalty amount rolls over for ten years while accruing interest.

In September 2014, the IRS made several changes to the Internal Revenue Manual that provide insight on the notices and enforcement methods that will be used this tax season to ensure taxpayers comply with the Patient Protection and Affordable Care Act ("PPACA"). Most of the compliance efforts focus on the premium tax credit and the individual shared-responsibility payment. The IRS is anticipating three early PPACA-related issues.

Under PPACA, taxpayers who are enrolled in a plan through the exchange may be entitled to receive a premium tax credit depending on family size and income. Taxpayers who received advance credits must reconcile them with their premium tax credit for the year on their return and claim any additional credit they are entitled to or repay any excess advance credit they received. Premium tax credit calculation errors is one area the IRS is anticipating PPACA related issues.

The IRS calculates advance premium tax credit amounts based on taxpayers' estimates of income and family size for the year provided at the time they enroll in an exchange plan. After the end of the year, when the taxpayer files a return, the total amount of premium tax credit that the taxpayer was actually eligible for is calculated based on the taxpayer's actual circumstances for the year. These circumstances include marital status, dependents, and income, which can often change. Consequently, many taxpayers with advance credits could end up with a computational difference at the end of the year. Advance premium tax credit reconciliation will affect millions of taxpayers, starting in the 2015 filing season. Advance premium tax credit reconciliation discrepancies is another area the IRS is anticipating PPACA related issues.

Individual mandate penalty assessments and collection is the final area the IRS is anticipating PPACA related issues. These penalty assessment and collection issues were briefly described earlier. In the future, as the IRS gains more experience and data related to health care coverage, it will expand its capabilities to enforce PPACA compliance.

These basics should get you started, but please contact us with specific questions so we can help you with these changes.

Sources: Health insurance changes will affect many tax returns, New York Times
IRS Signals PPACA Compliance Issues, The Tax Advisor

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