Tax filing gets more complicated this year with Affordable Care Act

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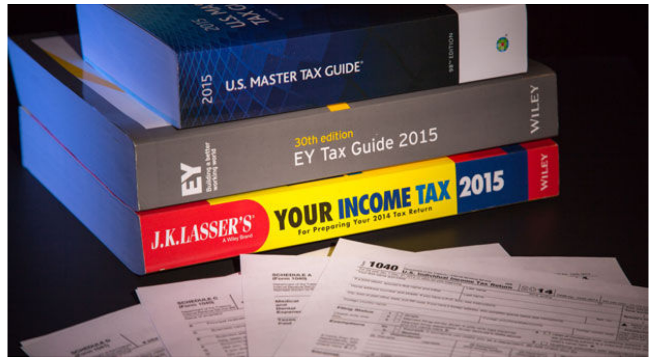

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Three of several commercially available tax guides to help prepare this year's tax return are photographed in Washington. There's a lot to look for. It is kind of complicated. This is not easy stuff, said Barbara Weltman, contributing editor to the tax guide "J.K. Lasser's Your Income Tax 2015." She said the good news is that most people use a paid preparer or software to do their taxes, and they'll be walked through the questions that have to be answered for the health insurance section of the tax return. (AP Photo/J. David Ake)

Filing your federal income taxes this year will be most interesting.

That's because this is the first time Americans will experience the complex connections between the Affordable Care Act and taxes.

"That is the hottest topic this year — it's a big deal," said Charles "Chuck" McCabe, president and CEO of Henrico County-based Peoples Income Tax Inc., which operates income-tax offices across central Virginia

"Every taxpayer is going to be affected," he said.

Thanks to the act, everyone is going to have to answer some questions about whether they do or do not have insurance, he added.

"The first year truly will be the hardest" in dealing with the ACA, said Dave Duval, vice president for consumer advocacy at TaxAudit.com.

Here's a rundown of how all this will work.

Those with health insurance

"For the vast majority of Americans, tax filing under the Affordable Care Act will be as simple as checking a box to show they had health coverage all year," said Treasury Secretary Jacob J. Lew.

On Line 61 of the 1040 tax form, you must indicate that you, your spouse (if you're filing a joint return) and your dependents had health insurance last year.

If you got insurance through an employer, from the private marketplace, or through a federal or state exchange without a subsidy, you simply check the box affirming that you had full coverage, said Jennifer F. Flinchum, the lead partner at Henrico-based accounting firm Keiter's tax services group.

Employers may send employees a Form 1095-C reporting information about their health coverage.

For 2014, Form 1095-C is not required, so employees should not worry if the form is not received, Flinchum said.

If you bought health insurance through the health insurance marketplace, you will receive IRS Form 1095-A, Health Insurance Marketplace Statement, from the exchange. It will list which members of the household were covered and for how long, as well as premium costs and any advance payment you received for premium tax credits.

There are new forms to deal with, from the exchanges confirming your coverage and from the IRS.

Form 8962 will help determine if you got the right advance payment of the premium tax credit, or if it was too large because you underestimated income or had a life change, such as a new job with a higher salary. In that case, you might have to pay back some or all of the advance payment. If you lost your job, you might be entitled to more in the form of an additional tax credit.

"This form is used to reconcile the difference between the advance credit payments made on your behalf and the actual amount of the credit that you may claim," Flinchum said.

"This year, many people did not go back to update their information," said Kathy Pickering, executive director of the Tax Institute at H&R Block.

"We are working to ensure that whatever their experience, consumers can easily access clear information, since this is the first year they will see certain changes to their tax returns" because of the health care law, Lew said.

Those claiming an exemption

from the penalty

"A fraction of taxpayers will take different steps, like claiming an exemption if they could not afford insurance," Lew said.

Form 8965 will help you figure out whether you qualify for an exemption to the mandatory health coverage and can avoid a penalty. Tax experts advise people who did not have coverage to look through the list of more than 30 coverage exemptions. Penalties and lower subsidies could lead to a larger tax bill — or a smaller refund.

"If a taxpayer does not qualify for an exemption from the penalty, the worksheet included with Form 8965 will assist in calculating the penalty. If a penalty is applicable, report on Form 1040, line 61," Flinchum said.

The list of exemptions is fairly long and includes such hardships as being evicted, or having experienced a natural disaster that damages your property, or having medical expenses in the past 24 months that could not be paid, said Cathy Mueller, director of operations for Peoples Income Tax.

Those who did not get coverage

"A smaller fraction of taxpayers will pay a fee if they made a choice to not obtain coverage they could afford," Lew said.

The penalty for 2014 is $95 per person (with a family maximum of $285) or 1 percent of your yearly income, whichever is higher.

Only the amount of income above the tax filing threshold, about $10,000 for an individual, is used to calculate the penalty. Your filing threshold is the minimum amount of gross income a person your age and filing status must make to be required to file a tax return.

"Many people still believe that the penalty is $95 per person," Pickering said. "If you've got a couple that's making $65,000 a year, and the spouse didn't get insurance, now they're thinking it's $95. But when they come in to do the calculation, they're going to learn that the penalty is actually $447, and that's a lot higher than the $95 they might have been expecting."

The penalty for not having health insurance increases every year. For 2015, it will be $325 per person with a maximum of $975 for a family, or 2 percent of your yearly income.

Those who received advance payments of tax credit

The premium tax credit is for certain consumers who bought health insurance through the health insurance marketplace, and it reduces the amount of tax owed.

The government makes advance payments of the credit to help consumers pay a share of their monthly health insurance premiums.

The advance payments are based on an estimate of the credit that you will claim on this year's tax return. That estimate is based on a formula that takes into account income, household size and health insurance costs in your community.

Those who got too much of a subsidy will see their tax refunds reduced by the IRS.

For example, you will get dinged if your income went up during the year and you did not report that to HealthCare.gov or to your health insurance exchange.

"We are holding our breath on how the new ACA reporting requirements on tax returns will impact taxpayers and any refunds they are expecting," explained Michael Joyce, president of JoycePayne Partners, a financial planning and investment management services firm in Richmond.

"This is very new, and it is likely that there will be disruption with many taxpayers having to repay a portion of last year's exchange subsidies — which will probably come as a surprise to those impacted," he said. "This reporting will also likely delay many refunds due to filing errors and omissions."

If you received less of a subsidy than you were entitled to, the IRS will owe you instead.

This part is going to trip up many taxpayers.

"When people went to the marketplace to sign up for insurance, at that point, they were estimating what they thought their 2014 income was going to be," Pickering said. "Now, they're filing their tax return with what it actually was and, in many cases, it's going to be different because life events change your household income. You may have gotten a better job, you have lost your job, gotten married, got divorced.

"All of those kinds of things impact the household income, then that impacts the amount of premium tax credit that you're eligible for."

Some will be taken aback if they have to repay the credit.

"When they were enrolling in the insurance, they thought of that as just a discount on their insurance premium," Pickering said. "They didn't think of it as this is something they might have to pay back if they got too much."