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Leslie A. Cesario, Ltd. Monthly Newsletter

Time for Baby Boomers to Pay Up

Article Highlights:

- Required Minimum Distribution (RMD)
- Distribution Period
- Penalty for Not Taking an RMD
- Multiple Accounts
- Non-Taxable Amounts
- Roth Conversions
- Effect on Other Income & Deductions Once RMDs Start
- Additional Withholding or Estimated Tax
- Charitable Option

All you baby boomers who have been stashing away tax-deferred retirement savings, take note: it is getting close to the time to start withdrawing funds from those accounts and, of course, paying taxes on those withdrawals. This includes distributions from traditional IRAs and 401(k)s.

The same Internal Revenue Code that allowed you to save tax dollars when you contributed to those tax-deferred retirement plans also generally requires you to begin withdrawals on the year you reach age 70½. These distributions are called required minimum distributions (RMDs) and are based on annuity tables. Generally, most individuals will utilize the single life table, but the joint life annuity tables are used if the individual's spouse is more than 10 years younger.

Keep in mind that you can always take as much as you wish from your tax-deferred retirement accounts, but you **must** take the RMD amount each year, beginning with the year you turn age 70½, or you will be subject to a very severe penalty, which we will discuss later. One exception is that you can delay the payout for the year you become 70½ until no later than April 1 of the following year. However, since you will also need to make an RMD for that following year, you will end up with two years' worth of distributions being taxed in one year if you use the delayed distribution option.

The following is an abbreviated single life table. The actual table goes to age 111.

Age	70	71	72	73	74	75
Distribution Period (Years)	27.4	26.5	25.6	24.7	23.8	22.9

Required Minimum Distribution – To determine an RMD, first determine the distribution period (life expectancy) based on your current age. So, for the year you turn 70½, the distribution period would be 27.4 years. Next, determine the retirement account's balance on December 31 of the prior year. The account balance divided by the distribution period equals the RMD. For example, say you will turn age 70½ in 2016 and your tax-deferred retirement account had a balance of $500,000 on December 31, 2015. Your 2016 RMD would be $18,248 ($500,000/27.4).

Failure to Take an RMD Penalty – When the full amount of an RMD is not taken, the penalty is 50% of the amount you didn't withdraw. Luckily, the IRS is very lenient on this penalty and will generally waive it when an under-distribution is inadvertent or due to ignorance of the law, provided that the RMD amounts are made up as soon as possible once the error is discovered. Avoid RMD problems by having your account custodian or trustee determine the RMD annually and then transfer the distribution directly to your checking, savings or non-retirement plan brokerage account.

Multiple Retirement Accounts – When you have multiple accounts, the question often is, “Which account should I take the RMD from?” All traditional IRAs are treated as one for distribution purposes. So, you can take the RMD for the IRA accounts from any combination of the accounts that you choose. However, that may cause a problem with a trustee of the IRA account(s) from which you didn’t take a distribution, who may think you didn’t take your RMD for the year. So, it is less problematic to take a distribution from each account.

You may wish to simplify the RMD distributions by transferring all of your traditional IRAs into one account, if you have several traditional IRAs. This is best done by having the trustees make direct transfers to the target IRA, rather than you receiving the distributions and then rolling over the funds, since you are only allowed one IRA rollover each twelve months (trustee-to-trustee transfers don’t count as rollovers). Note that spouses must maintain their accounts separately and cannot combine their accounts with yours when figuring RMDs.

If you have a 401(k) account, the RMD for it must be figured separately from any IRA accounts you also have. And, if you have multiple 401(k)s, each 401(k) account’s RMD is figured separately from those of your other 401(k) plans.

Non-Taxable Amounts – If your tax deduction for the contribution was limited when you made your traditional IRA contribution because you were a high-income taxpayer, you would have created a non-taxable basis in your IRA. If this is true, then that non-taxable basis is recovered tax-free in proportion to your distribution.

Roth Conversions – The ability of individuals to convert amounts of their traditional IRAs to Roth IRAs gives rise to some possible tax-saving moves in the years leading up to the RMD age. Things to consider are:

- Is you tax bracket lower now than it will be after retirement? If so, you might consider converting some portion of your traditional IRA to a Roth IRA now. You will pay tax on the traditional IRA distribution in the year of the conversion, but when you withdraw it from the Roth IRA, it will be tax-free.
- If you have a low-income year for some reason, and if you are age 59½ or older, it might be appropriate to take a distribution in that year and pay little or no tax. You won’t get a credit against a future RMD by doing so but you will be lowering the balance in the account for the eventual calculation of RMDs.

These types of strategies require careful planning, and you should consult this office first.

Effect on Taxable Income Once RMDs Start – Your taxable income may be increased by more than just the amount of the RMD. Adding your RMD to your income that is already taxed will increase your adjusted gross income (AGI); as a result, the amount of your Social Security benefits that is taxed may also increase. In addition, since the AGI is the amount on which the phaseout or reduction of many tax deductions is based, you may also find that you are getting less tax benefit from such items as medical expenses, charitable contributions, and investment-related expenses – all of which means your tax bill will go up by more than it otherwise would by just adding the RMD to your income.

Plan for Additional Withholding or Estimated Tax – Once you start taking distributions from your IRA or 401(k), and to avoid a potential underpayment of tax penalty, you will likely need to increase your tax prepayments, either by having federal (and possibly state) income taxes withheld from the distributions or by making quarterly estimated tax payments. If you already make estimated tax payments, you may need to increase the installment amounts.

If You Don’t Need the RMD – If you simply don’t need the retirement distribution, after reaching age 70½, you can donate up to $100,000 of IRA funds per year to a qualified charity without having to include the distribution in your income, and it will still count towards your RMD. If you are married and your spouse has an IRA and is also 70½ or older, he or she may also make a charitable IRA distribution of up to $100,000. So, if you are someone who gives substantial amounts to charity each year, this is a distribution strategy you may want to consider after reaching RMD age. **CAUTION**: To qualify under this provision, the funds must be directly transferred from the IRA account to the charity.

RMD issues can be quite complicated, and it is highly suggested that you consult with this office for pre-RMD planning, determining the correct RMD amounts, and analyzing your withholding and/or estimated tax obligations.

Ingenious Scam Targets Taxpayers

Article Highlights:

- Scammers Change Tactics
- Fake IRS Mail Notices
- Have Your Tax Preparer Review Notice

Crooks have tried all sorts of e-mails scams, but almost everyone has figured out that the IRS does not send out notices by e-mail. So crooks have changed their tactics. Now, there are reports of taxpayers receiving by mail (and email) fake notices requiring immediate payment to a P.O. Box. The P.O. Boxes are located in cities where the IRS has service centers, but of course are not IRS P.O. Box addresses.

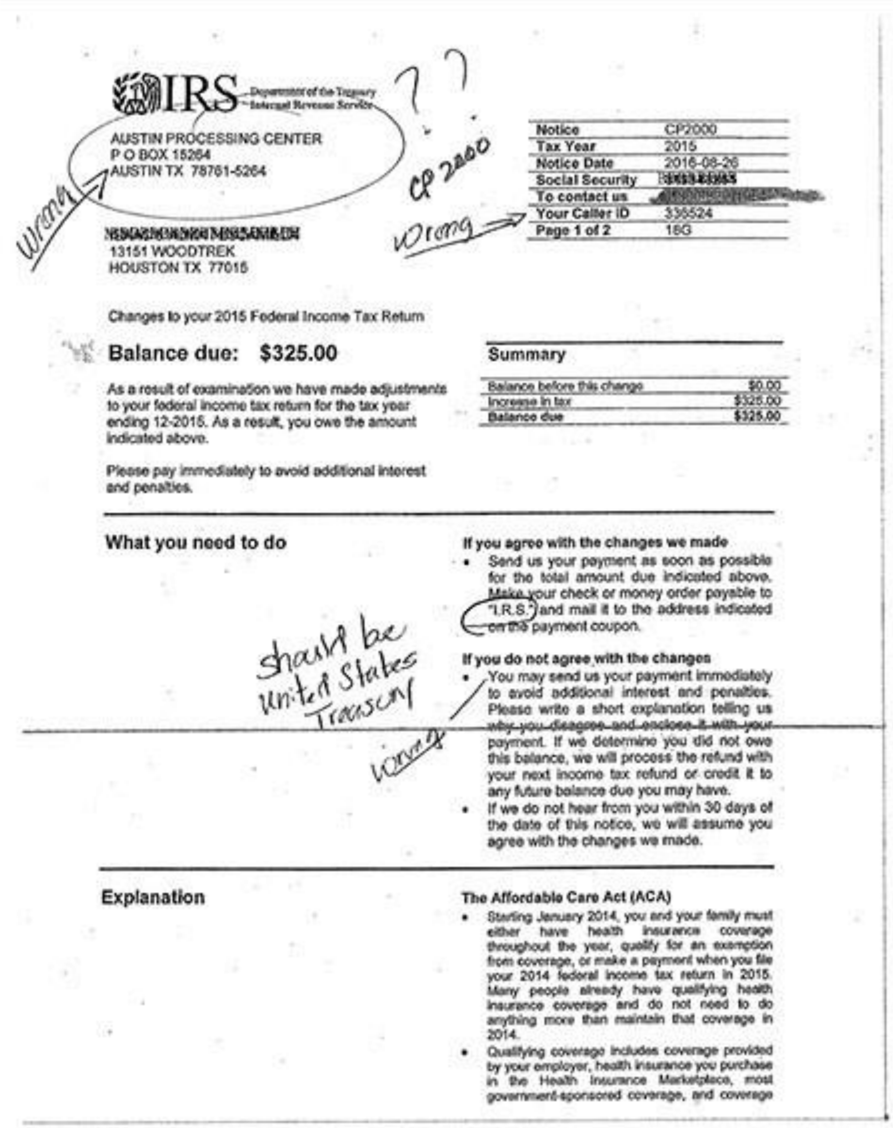
These scammers have duplicated the look of official IRS mail notices, which to the untrained eye would lead one to believe a notice was really from the IRS.

So be extremely cautious of any notice you may have received from the IRS. If a notice is demanding immediate payment and there has not been any prior contact by the IRS over the issue, then the notice is probably from a scammer. Reports indicate the initial letters were numbered CP-2000.

Here is a sample fake IRS CP-2000 supplied by Iowa State University.

https://www.calt.iastate.edu/sites/default/files/files-page/SCAMletter.pdf

Don’t be a victim, have any notice you receive from the IRS, or any tax authority for that matter, reviewed by this office before taking action.



IRS Department of the Treasury Internal Revenue Service

AUSTIN PROCESSING CENTER
P O BOX 15264
AUSTIN TX 78761-5264

Wrong

[redacted]
13151 WOODTREK
HOUSTON TX 77015

? ?

CP 2000

Wrong

Notice	CP2000
Tax Year	2015
Notice Date	2016-08-26
Social Security	[redacted]
To contact us	[redacted]
Your Caller ID	336524
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Changes to your 2015 Federal Income Tax Return

Balance due: $325.00

As a result of examination we have made adjustments to your federal income tax return for the tax year ending 12-2015. As a result, you owe the amount indicated above.

Please pay immediately to avoid additional interest and penalties.

Summary

Balance before this change	$0.00
Increase in tax	$325.00
Balance due	$325.00

What you need to do

should be United States Treasury

Wrong

If you agree with the changes we made

- Send us your payment as soon as possible for the total amount due indicated above. Make your check or money order payable to "I.R.S." and mail it to the address indicated on the payment coupon.

If you do not agree with the changes

- You may send us your payment immediately to avoid additional interest and penalties. Please write a short explanation telling us ~~why you disagree and enclose it with your~~ payment. If we determine you did not owe this balance, we will process the refund with your next income tax refund or credit it to any future balance due you may have.
- If we do not hear from you within 30 days of the date of this notice, we will assume you agree with the changes we made.

Explanation

The Affordable Care Act (ACA)

- Starting January 2014, you and your family must either have health insurance coverage throughout the year, qualify for an exemption from coverage, or make a payment when you file your 2014 federal income tax return in 2015. Many people already have qualifying health insurance coverage and do not need to do anything more than maintain that coverage in 2014.
- Qualifying coverage includes coverage provided by your employer, health insurance you purchase in the Health Insurance Marketplace, most government-sponsored coverage, and coverage

New Business? First-Year Deduction Strategies

Article Highlights:

- Equipment Depreciation & Expensing Opportunities
- Vehicle Luxury Auto Rules
- Leasehold Improvement Expense Options
- Start-Up Cost Elections
- Organizational Expense Alternatives

If you are planning a new business start-up and are incurring some expenses, you probably anticipate deducting those expenses in the first year of the business's operation. Unfortunately, it is a little more complicated than that. Expenses a business incurs in the beginning can include equipment purchases, vehicle purchases and use, leasehold improvements, organizational costs and start-up expenses, and each receives a different tax treatment.

- **Equipment** – The equipment you buy can't be deducted until it is placed in service. For that reason, you can't make any equipment deductions until the business is actually functioning. However, deductions for most equipment purchases are very liberal. For most small businesses, this means the entire cost of equipment and office furnishings can generally be written off in the year of purchase, if that is also the year when the equipment is put into service, using the Sec 179 expensing election. However, the deductible amount is limited to taxable income from all the taxpayer's active trades or businesses (including a spouse's active trades or businesses if married and filing jointly). Income from trades also includes W-2 income.

Sometimes it may not be appropriate to write off the entire cost in the first year, in which case the equipment can be depreciated over its useful life (according to recovery periods established by the IRS). Most office furniture, fixtures and equipment are assigned a 7 year recovery period, but the depreciable period for computers is 5 years. The recovery period of equipment may vary depending on the type of business activity. There is also a 50% bonus depreciation election for the first year the equipment is placed in service.

- **Vehicles** – Automobiles and small trucks that are purchased for use by the business are treated like equipment, as above, except their recovery period is 5 years and they are subject to the so-called luxury auto rules. These rules limit the depreciation to a maximum of $3,160 ($3,560 for light trucks and vans) for the first year. If bonus depreciation is elected, add $8,000 to the first-year maximum.
- **Leasehold Improvements** – Generally, leasehold improvements are depreciated over 15 years. But through 2019, bonus depreciation may be elected, allowing between 30% and 50% of the cost of interior qualified improvements to non-residential property after the building is placed in service to be deducted in the first year. In addition, the Sec 179 expense deduction is allowed for qualified leasehold property, qualified restaurant property and qualified retail improvements.
- **Start-Up Costs** – Taxpayers can elect to deduct up to $5,000 of start-up costs in the first year of a business. However, the $5,000 amount is reduced by the amount of the start-up costs in excess of $50,000. If the election is made, the start-up costs over and above the first-year deductible amount are amortized over 15 years. If the election is not made, the start-up costs must be capitalized, meaning the expenses can only be recovered upon the termination or disposition of the business. Start-up costs include:
    - Surveys/analyses of potential markets, labor supply, products, transportation, facilities, etc.;
    - Wages paid to employees, and their instructors, while they are being trained;
    - Advertisements related to opening the business;
    - Fees and salaries paid to consultants or others for professional services; and
    - Travel and related costs to secure prospective customers, distributors and suppliers.
- **Organizational Expenses** – If the new business involves a partnership or corporation, the business can elect to deduct up to $5,000 of organization expenses in the first year of a business. This is in addition to the election for start-up expenses. Like start-up expenses, the $5,000 amount is reduced by the amount of the start-up costs in excess of $50,000. If the election is made, the start-up costs over and above the first-year deductible amount are amortized over 15 years. If the election is not made, the start-up costs must be capitalized. Organizational expenses include outlays for legal services, incorporation fees, temporary directors' fees and organizational meeting costs, etc.

The foregoing is an overview of some of the expense issues in a business's first year. As you can see, major decisions and elections need to be made that can have a lasting impact on the new business. You are encouraged to consult with this office for additional details and assistance in preparing a tax plan for your planned new business.

9 Finance Tips All Business Owners Should Follow

Business owners are experts at their industry. You know your products and services well – better than the competition. You know how to reach those customers, too. But, managing what's behind the scene isn't always as easy. With the right tools and resources, including a professional by your side, you can enhance the way you do business, reduce your spend, and increase your profit margins. To get started, you need some basic information on finance.

#1: Recognize the Importance of Your Books
Invoices, bank statements, and even some accounting work is commonly done through software programs today. However, it's more than just accounting for your revenue and losses that's important. In other words, you need to turn this data into usable information. Your figures can help you know how to grow profits even further if you know how to read them properly.

#2: Stop Putting It Off
It is much harder to manage that stack of papers at the end of the month than it is to spend a few minutes each day entering details. Having a pro to do this for you makes it even easier. If you are procrastinating, though, you're hurting your short-term and long-term financial goals.

#3: Know Your Risks
A Headway Capital study found that 57% of business owners planned to grow this year. Most companies set out to grow for the year, but they often lack attention spent on minimizing risks. What's the worst-case scenario? What's your break-even point? Addressing risks as a part of your financial strategy really can streamline your finances should the year not go as you planned.

#4: You Really Didn't Budget, Did You?
Some small to medium businesses lack the time it takes to budget. It's understandable, but that doesn't make it okay. Budgeting helps address those risks, but it also helps you to make better buying decisions. And, when you have tools in place to help you monitor inventory, expenses, and other unforeseen costs, you can create better budgets that allow you to do more with your profits.

#5: Tax Mistakes Are Common
Small to medium businesses suffer from some of the most complicated taxes. Without having a professional to monitor and guide your taxes throughout the year, your business could suffer significantly. The IRS says that, in 2014, $1.2 billion in civil penalties were placed against small business income tax filers. Most small businesses need reliable support to ensure tax filing and reporting isn't a secondary importance.

#6: Build from Your Strengths
You don't have to build your business on new products or start from scratch each time. It's best to simply build onto what you have. For example, you'll want to pinpoint where your biggest profit margins come from. Once you understand who your moneymakers are, target them within your business. By identifying and focusing on these areas, you can build your revenue and profits faster, therefore giving you the room to expand in other areas later.

#7: Building a Business Is More Than Hours Worked
It's very common for business owners to spend a lot of time and hard work building their business on their own. Are you putting in 80 hours a week? If so, you may be limiting your growth potential. Instead, empower professionals and employees to help you with delegated tasks. This can give you more time to spend on what's really making you money and help you to sleep at night.

#8: Focus on Lean Practices
Less really is more. As a business owner, you'll want to incorporate the lean philosophy of keeping less on hand so you reduce your overhead. You create more value for your customers with less.

#9: Access Capital When You Can, Not When You Need To
Having a steady stream of income on hand is important. Instead of waiting until you are desperate for funding, and having to show your investors that you are in that place, focus on planning ahead and minimizing the risk of a negative situation.

As a business owner, making wise financial decisions for your company is an ongoing process. But, you don't have to do it alone. Allow professionals to help you along the way to better manage your money and you could see it grow faster than you thought possible.

Hobbies and Income Tax

Article Highlights:

- Hobby, Trade, or Business
- Profit Motive
- Factors Determining Profit Motive
- Presumption of Profit Motive
- Tax Treatment of Hobbies

Millions of U.S. taxpayers engage in hobbies such as collecting stamps or coins, refurbishing old cars, making crafts, painting or breeding horses, and the list goes on.

Some hobbies will actually generate income, and some will even evolve into businesses. The tax treatment of hobbies with income is quite different than that of a trade or business, and making the distinction can be rather complicated. The main issue here is that the IRS does not want taxpayers to write off hobby expenses under the guise of trade or businesses expenses.

So, the first question is whether the activity is a hobby, trade or business. The tax law doesn't really provide a bright-line definition of the term "trade or business," probably because no single definition will apply in all cases. But certainly, to be considered a trade or business, an activity must be motivated by the taxpayer's profit motive, even if that motivation is unrealistic. Along with a profit motive, the taxpayer must carry on some kind of economic activity.

Factors to determine profit motive – The IRS uses a series of factors to determine whether an activity is for profit. No one factor is decisive, but all of them must be considered together in making the determination.

(1) Is the activity carried out in a businesslike manner?
(2) How much time and effort does the taxpayer spend on the activity?
(3) Does the taxpayer depend on the activity as a source of income?
(4) Are losses from the activity the result of sources beyond the taxpayer's control?
(5) Has the taxpayer changed business methods in attempts to improve profitability?
(6) What is the taxpayer's expertise in the field?
(7) What success has the taxpayer had in similar operations?
(8) What is the possibility of profit?
(9) Will there be a possibility of profit from asset appreciation?

Presumption of profit motive – There is a presumption that a taxpayer has a profit motive if an activity shows a profit for any three or more years during a period of five consecutive years. However, if the activity involves breeding, training, showing or racing horses, the period is two out of seven consecutive years. An activity that is reported on a tax return as a business but has had year after year of losses and no gains is likely to eventually come under scrutiny by the IRS.

Tax Treatment of Hobbies - While trades or businesses can have losses without restriction, if the activity is deemed to be a hobby, then special rules – frequently referred to as "hobby loss" rules – apply. Under these rules, any income from the hobby is reported on the face of the tax return, and the expenses are only deductible if a taxpayer itemizes their deductions on Schedule A. In addition, hobby expenses are limited by category as follows:

Category 1: This category includes deductions for home mortgage interest, taxes, and casualty losses. They are reported on the appropriate lines of Schedule A as they would be if no hobby activity existed.

Category 2: Deductions that don't result in an adjustment to the basis of property are allowed next, but only to the extent that gross income from the activity is greater than the deductions under Category 1. Most expenses that a business would incur, such as those for advertising, insurance premiums, interest, utilities, wages, etc., belong in this category.

Category 3: Business deductions that decrease the basis of property are allowed last, but only to the extent that the gross income from the activity is more than the deductions under the first two categories. The deductions for depreciation and amortization belong in this category.

Additional limit **–** Individuals must claim the amounts in categories (2) and (3) as miscellaneous deductions on Schedule A, which are subject to the 2% AGI reduction; as a result, they are not deductible for alternative minimum tax purposes.

Hobby loss rules can be complicated. If you need assistance determining whether your activity qualifies as trade or business, or whether it is subject to the hobby loss rules, please give this office a call.

Grandchild IRA Gift Idea

Article Highlights:

- IRA Gift Idea
- Maximum Amount
- Traditional IRA
- ROTH IRA
- Gift Tax Implications

If you have a young grandchild, we have a gift suggestion for you that can provide a lasting legacy between you and your grandchild.

Many teens and young adults work during the summer months, and the wages they earn qualify them to make a contribution to either a traditional or Roth IRA. However, most young people are reluctant to fund an IRA account with their hard-earned summer income, and few are concerned with retirement, which is probably the last thing on their minds at their age.

This is incentive for a grandparent, or anyone for that matter, to gift the child money to fund an IRA. The maximum that can be contributed to an IRA is the lesser of the child's earned income or $5,500 (the 2016 limit for an individual under age 50). Although that is the maximum amount, a lesser amount can be contributed.

If you take our suggestion, you will also need to decide whether the IRA should be a traditional or Roth IRA. Traditional IRA contributions are tax deductible, but the withdrawals at retirement are taxable. Most youngsters working during the summer months or part time year-round may not earn enough to even have any taxable income, and even if they do, the income is likely to be in the lowest tax brackets, so an IRA deduction would provide little if any tax benefit.

On the other hand, a ROTH contribution is not tax deductible and the distributions, including earnings, are tax-free at retirement, making it the best option in most cases.

Accomplishing this gifting will require cooperation from the child, as he or she will need to actually set up the IRA account so you can fund it. This may entail getting the child's parents involved as well. What you don't want to do is just make a check out to the child, who could then cash the check without actually putting the money into the IRA.

Your contribution to the IRA would be treated as a gift for gift tax purposes, but since the contribution amount would be below the annual $14,000 (2016) gifting exemption, it would not be subject to any gift tax reporting unless additional reportable gifts were given to the child during the year.

Unfortunately, you won't get any benefit on your own income tax return for your generosity, but knowing you've made a long-term investment in your grandchild's future will probably be benefit enough. If you need assistance determining the contribution amount or the type of IRA, please give this office a call.

Don't Be Left Holding the Tax Bag

Article Highlights:

- Paying Independent Contractors
- 1099-MISC Reporting Threshold
- Form W-9 Benefits
- Penalties
- Due Date

If you use independent contractors in your business and pay them $600 or more during the calendar year, you are required to issue them a 1099-MISC after the close of the year. If you fail to do so, and your (if you operate as a Schedule C sole proprietor) or your business's income tax return is subsequently audited, you could lose the deduction for those payments and end up paying taxes on that income yourself, not to mention potential penalties.

A big tax trap for businesses is the $600 reporting threshold. Say your business uses the services of an independent contractor early in the year at a cost below the $600 threshold, and you don't bother to obtain the necessary reporting information from the contractor. If you use the contractor's services again later in the year and the combined total you've paid him or her exceeds the reporting threshold, you won't have the required reporting information.

Sorry to say, you may find it difficult to obtain that information after the fact, as not all self-employed individuals report all their income, and contractors may not be willing to give you their tax ID information once they've completed the work and gotten your payment for their services. So, it is good practice to collect that information upfront before engaging the contractor regardless of the amount.

The IRS provides Form W-9 – Request for Taxpayer Identification Number and Certification – as a means for you to obtain the data required from your vendors in order to file the required 1099-MISC forms after the close of the year. A completed W-9 also provides you with verification that you complied with the law should the vendor provide you with incorrect information.

In addition, there are substantial penalties if you fail to file a correct 1099-MISC by the due date and you cannot show reasonable cause for not filing. Generally, for 1099 forms due in 2017, the penalty is $50 per 1099-MISC for not filing by the due date. The penalty increases to $100 if the form is not filed within 30 days of the due date and $260 after August 1, 2017. The maximum penalty for small businesses is $532,000, so you can see this is not a reporting requirement to be taken lightly.

Oh, and by the way, the due date for filing 2016 Forms 1099-MISC with the IRS is January 31, 2017, when you are reporting nonemployee compensation (box 7 of the form), which includes the income paid to independent contractors. This due date is a month (two months if you've been filing your 1099s electronically) earlier than it has been in the past. So now both the government's copy and the one you provide the contractor are due by the same date.

If you have questions related to your 1099-MISC reporting requirements or need assistance filing the required forms after the end of the year, please give this office a call.

Tax Effects of Divorce or Separation

If you are divorcing or recently divorced, taxes may be the last thing on your mind. However, these events can have a big impact on your wallet. Alimony and a name or address change are just a few items you may need to consider. Here are some key tax tips to keep in mind:

- **Child Support.** Child support payments are not deductible and if you received child support, it is not taxable.
- **Alimony Paid.** You can deduct alimony paid to or for a spouse or former spouse under a divorce or separation decree, regardless of whether you itemize deductions. Voluntary payments made outside a divorce or separation decree are not deductible. You must enter your spouse's Social Security Number or Individual Taxpayer Identification Number on your Form 1040 when you file.
- **Alimony Received.** If you get alimony from your spouse or former spouse, it is taxable in the year you get it. Alimony is not subject to tax withholding so you may need to increase the tax you pay during the year to avoid a penalty. To do this, you can make estimated tax payments or increase the amount of tax withheld from your wages.
- **Spousal IRA.** If you get a final decree of divorce or separate maintenance by the end of your tax year, you can't deduct contributions you make to your former spouse's traditional IRA. You may be able to deduct contributions you make to your own traditional IRA.
- **Name Changes.** If you change your name after your divorce, be sure to notify the Social Security Administration. File Form SS-5, Application for a Social Security Card. You can get the form on SSA.gov or call 800-772-1213 to order it. The name on your tax return must match SSA records. A name mismatch can cause problems in the processing of your return and may delay your refund.

Health Care Law Considerations

- **Special Marketplace Enrollment Period.** If you lose health insurance coverage due to divorce, you are still required to have coverage for every month of the year for yourself and the dependents you can claim on your tax return. You may enroll in health coverage through the Health Insurance Marketplace during a Special Enrollment Period, if you lose coverage due to a divorce.
- **Changes in Circumstances.** If you purchase health insurance coverage through the Health Insurance Marketplace, you may get advance payments of the premium tax credit. If you do, you should report changes in circumstances to your Marketplace throughout the year. These changes include a change in marital status, a name change, a change of address, and a change in your income or family size. Reporting these changes will help make sure that you get the proper type and amount of financial assistance. This will also help you avoid getting too much or too little credit in advance.

Shared Policy Allocation. If you divorced or are legally separated during the tax year and are enrolled in the same qualified health plan, you and your former spouse must allocate policy amounts on your separate tax returns to figure your premium tax credit and reconcile any advance payments made on your behalf.