

Maximizing Your Affordable Care Act Insurance Supplement

Article Highlight:

- Financial Assistance for Health Insurance
- Federal Poverty Level
- Modified Adjusted Gross Income
- Household Income
- Gambling Income
- Children's Income
- Hobby Income
- IRA Contributions

If you are getting your health insurance through a government Marketplace, you should be aware of several issues that can adversely affect the amount of financial assistance you receive to help pay for the insurance.

Background: Generally, individuals whose household income is between 100 and 400% of the federal poverty level will receive financial assistance to help them pay for the cost of their health insurance when purchased through the Marketplace. The assistance is based upon the family's household income, and the lower the household income, the greater the assistance. Household income includes the modified AGI of all family members who are required to file a return; the modified AGI (MAGI) is a taxpayer's regular AGI plus non-taxable Social Security and Railroad Retirement benefits, tax-exempt interest and excluded foreign earned income.

There are factors that can increase a taxpayer's MAGI, thus reducing or eliminating the financial assistance, without providing the family any actual increase in income.

Gambling Winnings – The tax code requires taxpayers to add gambling winnings to their gross income and deduct their losses as an itemized deduction on Schedule A to the extent of their winnings. So, even if the taxpayer has losses equal to the winnings and actually does not have any net winnings, the gambling winnings will still be included in the taxpayer's MAGI and thus will reduce the amount of financial assistance they receive to pay their health insurance premiums.

Children Working – You may have young adult dependents included in your tax family who may be working part time, such as at your local fast food restaurant. If they are required to file a tax return, then their income will be added to the family's household income. Generally, a child who is claimed as a dependent is required to file a tax return if their income exceeds the standard deduction for the year. For 2017, the standard deduction is \$6,350. Thus, if a dependent child has more than \$6,350 of income, that income is added to the family's household income and will reduce the financial assistance provided for purchasing health insurance.

Children Working & Receiving Social Security Benefits – If your child is receiving Social Security benefits, the benefits are generally non-taxable. However, if the child is required to file a tax return, as discussed in the prior paragraph, then

all of the non-taxable Social Security benefits would also have to be added to the household's income.

Hobby Income – When you have income from an activity that is not for profit, such as a hobby, the income from the hobby is added to your gross income, and the expenses associated with that income are deducted as an itemized deduction. So, even if the taxpayer has no profit because of the expenses, the hobby income, like gambling income, will still be included in the taxpayer's MAGI and thus will reduce the amount of financial assistance they receive related to purchasing their health insurance.

IRA Contributions – On the other hand, making an IRA or other deductible pension contribution will reduce the MAGI and can increase the amount of financial assistance received that goes to purchasing health insurance.

If you are obtaining your health insurance through a government Marketplace and are receiving financial assistance (also referred to as an "advance premium tax credit"), and if any of the situations mentioned above apply to you and you have questions, please give this office a call.