

The Affordable Care Act Can Bring Surprises at Tax Time

Article Highlights:

- New Tax Return Complications
- Shared Responsibility Payment
- Premium Tax Credit

The Affordable Care Act, the federal health care law, will bring some surprises at tax time for many. This year there are two new issues that can complicate the preparation of almost anyone's tax return. First, there is the shared responsibility payment, a nice name the government gave to the penalty for not being insured. So everyone who is uninsured is subject to a monthly penalty, assessed on the individual 1040 tax return, unless they meet one or more of the many exceptions to the penalty. Many of the exceptions are complicated and difficult to understand by a layman.

Second, there is a premium tax credit that helps low- to middle-income families pay for their health insurance if it is acquired through a government marketplace. Although it would seem quite simple to just give a family a credit on their 1040 tax return, the credit is generally paid in advance based on the family's projected income. If the advance credit that was used to pay part of the monthly health plan premiums is more than the family's actual income warrants, then some portion of the advance credit must be repaid on the 1040 of the responsible individual (or couple if married filing a joint return). On the other hand, if the advance credit is less than the actual credit, the difference is refundable on the individual's income tax return. But as with all things tax, determining the income upon which the credit is based is complicated, frequently requires adjustments and can even include the income of dependents.

But that is just the tip of the iceberg. If you purchased your health insurance through the marketplace and your family circumstances changed during the year, such as through divorce, marriage, or separation, or you included someone on your marketplace policy who is not part of your tax family (filer, spouse and dependents), very complicated allocations can be required between the various individuals' tax returns.

Please contact this office if you have questions related to the Affordable Care Act tax compliance rules or have family or friends who need assistance dealing with this tax complication.