

ACA FAQs: Minimum Essential Coverage and Premium Tax Credit

This resource provides answers to frequently asked questions regarding minimum essential coverage (MEC) and the premium tax credit (PTC), as well as tips and website links to help you navigate ACA this filing season.

FAQs: Minimum Essential Coverage (MEC)	
Question	Answer and Guidance
What is MEC and what is not MEC?	Most clients will have coverage through their employer or their spouse's employer. But, for those clients who are self-employed or do not have coverage, there may be some misconceptions about what constitutes MEC. For definitions and a list of what is and is not MEC, see https://www.healthcare.gov/fees-exemptions/plans-that-count-as-coverage/ .
What is the Healthcare Marketplace and what does it do?	The "Marketplace" is the official name of what we commonly call an "exchange." The Marketplace is a government-supported online and call-in resource for individuals and small businesses to use in applying for health insurance. No one is required to use the Marketplace, but everyone is eligible to use it. After registering and providing basic information, a qualified applicant can request a premium quote for insurance and find out whether he or she qualifies for any advanced credit.
When can a taxpayer apply for insurance through the Marketplace?	Enrollments for 2015 began on Nov.15, 2014 and ends Feb.15, 2015.
Are there any provisions for late enrollment to the Marketplace?	Yes, an applicant can still apply through the Marketplace within 60 days after incurring changes in family status or the loss of his or her health care coverage.
Who can use the Marketplace?	U.S. citizens and lawfully present immigrants who live in the U.S. are eligible to use the Marketplace.
Who must be covered?	To avoid paying a penalty (officially called the individual shared responsibility payment), everyone must be covered by health insurance unless they qualify for an exemption. An adult or married couple claiming the dependency exemption is responsible for obtaining coverage for his or her child or other dependent. Children under age 26 can stay on a parent's health insurance plan even if they are not a dependent of the parent. However, different rules apply to U.S. citizens living abroad. See IRC section 5000A(f)(4).
How are temporary coverage gaps treated?	If the gap is less than three consecutive months, the individual may be exempt from the MEC requirement.
What are the exemption categories?	See www.irs.gov/uac/ACA-Individual-Shared-Responsibility-Provision-Exemptions . This website provides a table of exemptions and outlines the rules for claiming each category of exemption.
Does the taxpayer need to apply for recognition of his or her exemption? If so, when and how does the taxpayer apply?	In some cases, the Marketplace has to approve the exemption in advance. Exemptions are granted through the Marketplace or requested on the 2014 tax return, based on the type of exemption. See https://www.healthcare.gov/fees-exemptions/apply-for-exemption/ . This website has very useful information on the process of claiming an exemption.

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<p>Will the exemption need to be approved before the taxpayer files his or her 2014 tax return?</p>	<p>In some cases, the taxpayer will have to obtain a specially assigned exemption code from the Marketplace. One common type of exemption is a hardship exemption. See https://marketplace.cms.gov/applications-and-forms/hardship-exemption.pdf.</p> <p>Tip: Apply early for the appropriate code. The IRS has advised taxpayers who have not received the code to mark the box “pending,” file the return, and then file an amended return when the code is received. A rejection can be appealed but may take a long time to resolve.</p>
<p>How do divorced, separated, or never-married parents handle health care coverage for their children?</p>	<p>The taxpayer claiming the exemption is responsible for obtaining coverage. Even if the non-custodial parent has accepted the liability for providing health coverage for his or her child under a decree of divorce or separation, he or she cannot incur a penalty for failure to provide coverage under ACA unless he or she also claims the dependency exemption. See IRB 2013-39 for more information.</p> <p>Tip: If the parent who does not claim the exemption, pays for the health coverage for the child, the person who claims the child will need proof of coverage. It is recommended that the divorce decree or separation agreement specifically provide that this documentation will be provided on an annual basis to the person claiming the exemption.</p>
<p>How much will the shared responsibility payment cost?</p>	<p>The 2014 payment is the greater of:</p> <ul style="list-style-type: none"> • 1% of the taxpayer’s household income above his or her tax return filing threshold, rising to 2% for the 2015 tax year and 2.5% in later years, or • A flat dollar amount, which is \$95 per adult and \$47.50 per child for any month without coverage or exemption, limited to a monthly maximum of \$285. The payment will increase for the 2015 tax year to \$325 per adult and \$162.50 per child, with a maximum monthly payment of \$975, and for the 2016 tax year, \$695 per adult and \$347.50 per child, with a maximum monthly payment of \$2,085. <p>However, the maximum payment cannot exceed the cost of the national average premium for the Marketplace’s Bronze-level health plan in 2014. See https://www.healthcare.gov/choose-a-plan/plans-categories/ for more guidance.</p> <p>Tip: The IRS cannot levy or place a lien to collect payment of any penalty, but it can apply any overpayments to the penalty.</p>
<p>What additional information do you need from your clients to prepare their 2014 tax returns?</p>	<p>Forms 1095-A, B and C will provide information about the premiums that were paid each month and information regarding who was covered during the year. However, for 2014, only Form 1095-A is required to be provided. The IRS has given practitioner best practices memorandums for both the PTC and individual shared responsibility documentation. For coverage gaps, you will need to research possible penalty exemptions. Your client may need to apply to the Marketplace for a hardship exemption before filing his or her 2014 tax return.</p> <p>Tip: Not all insurance policies provide MEC. For example, certain Medicaid coverage and policies that do not provide maternity and pediatric coverage are not MEC. The actual policy may need to be reviewed for compliance with MEC.</p>

FAQs: Premium Tax Credit (PTC)

Question	Answer and Guidance
Who qualifies for a PTC?	<p>If qualified for coverage through an employer or the government, or if using married filing separately status, the taxpayer is not eligible for the credit. Taxpayers who qualify as dependents of another person are also ineligible. See https://www.healthcare.gov/lower-costs/qualifying-for-lower-costs/ for additional guidance on qualifications.</p> <p>Tip: See Notice 2014-23 for the eligibility of a PTC for married victims of domestic abuse who file separately.</p>
How do taxpayers apply for an advanced PTC?	<p>Advanced credits are only available for coverage obtained through the Marketplace. Advance credits are obtained at the time of application.</p>
Can I assist clients in applying for an advanced PTC?	<p>Caution: IRC section 7216 rules apply. The CPA must have written permission to use and/or disclose client information before providing more than general information about ACA or offering to assist in obtaining coverage or PTCs.</p>
What if the advance credit received is too high or too low?	<p>Excess credits must be repaid or additional credits can be claimed as a reduction of other taxes.</p> <p>Tip: Advise your clients who are receiving advance credits to report any changes in family status or income to the Marketplace <i>as soon as possible</i> in order to avoid paying back the excess credit at tax time. The IRS can collect any excess credit received, plus underpayment penalties and interest, just like any other tax owed to the government.</p>
What additional information do I need to compute the correct amount of the credit on Form 8962?	<p>You need:</p> <ul style="list-style-type: none"> • All Forms 1095-A, <i>Health Insurance Marketplace Statement</i> • Household income
What constitutes “household income” for purposes of the PTC?	<p>Household income is determined by taking the modified adjusted gross income (AGI) for the taxpayer and all of his or her dependents who are required to file 2014 tax returns.</p> <p>Tip: Always request copies of dependent tax returns that were not prepared by your firm.</p>
What are the modifications to AGI for computing the PTC?	<p>Excludable foreign earned income and tax exempt interest are added to AGI.</p>
What is a “shared policy allocation” for purposes of the PTC?	<p>Domestic partners may qualify to share a Marketplace policy. Since they are not filing a joint return, the premium and related credit needs to be shared between them. Newly married or divorcing couples may also need to allocate premiums and credits from shared policies.</p>
How do couples divorced in 2014 compute a PTC?	<p>Each return will stand alone in making the calculation. Shared policy premiums and credits will need to be calculated.</p> <p>Tip: Family size is determined by the number of exemptions claimed on each 2014 tax return. Planning should be done in the year of divorce to ensure proper credit allocation. Timing of the divorce will affect credit eligibility. Advise your client that he or she will need provisions in the divorce decree for allocation of the credit and sharing of PTC information.</p>

FAQs: Premium Tax Credit (PTC)

Question	Answer and Guidance
What happens if a taxpayer married during 2014?	There is a provision for an alternative calculation of the PTC. Form 8962 provides alternative calculations for the allocation. Publication 974 (not currently available) is referenced in the Form 8962 instructions as providing the alternative calculation for newly married taxpayers whose household income is more than 400% of the federal poverty level and who have a household member who received a premium credit prior to the marriage.

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