

ACA and Tax Time: What You Need to Know

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Cosponsored by GIH and the EITC Funders Network

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Center on Budget and Policy Priorities

Who We Are

EITC

Funders Network

Goals

The goals of the EITC Funders Network include:

- Increase communication among funders about EITC-related projects across the country;
- Explore issues confronting the field;
- Discuss ways to sustain and scale-up EITC work; and
- Leverage funding for EITC-related projects

Thematic Pillars

- Outreach and Tax Preparation
- Policy
- Benefits Access
- Financial Empowerment

Our Members

- More than 220 members
- Members in every state in the union

What We Do

- Meetings
- Webinars
- eNewsletter
- Website
- Consultation



ACA at Tax Time

What Funders Need to Know

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Insurance Protects Wealth & Health

- Expanding health insurance is closely related to the VITA mission
 - Keep the money you earn
 - Improve financial stability
 - Set and achieve financial goals
 - Manage and reduce debt
 - Build assets for the future
- Medical bills are the leading cause of bankruptcy
- Because of medical bills:



Overlapping Populations



- The VITA-eligible population (<\$50,000) is the core population helped by the ACA:
 - Approximately 17 million people are eligible for both premium tax credits and VITA
 - Additional 9-10 million are eligible for Medicaid
- Everyone must report on their taxes whether or not they had insurance.
 - ~23 million people will be eligible for an exemption from the penalty.
 - ~1 million people with income below 200% of the poverty line will pay penalty. (200% FPL = \$23,300 for a family of one or \$47,700 for a family of 4)



- October 1, 2013 – March 15, 2014
- **Challenges:**
 - Healthcare.gov was not fully functional
 - Negative publicity
 - Application did not support proper application of tax rules
 - Assistors unprepared to apply tax rules in assisting consumers with application process
- **Successes:**
 - 8 million people enrolled in Marketplace
 - 85% received financial assistance
 - Nearly half (46%) of individuals selecting plans with tax credits in the FFM were able to get covered for \$50 per month or less.
 - 4.8 million people enrolled in Medicaid



- January 30 - April 15, 2015
- **(Likely) Challenges**
 - Inexperience with the new tax forms for reporting coverage, applying and calculating individual responsibility payments, reporting exemptions and reconciling the premium tax credit
 - Potential for errors in the new forms, instructions or tax software
 - Need to seek corrections from the Marketplace for people receiving 1095-A, Health Insurance Marketplace Statement
 - Late processing of exemptions by Marketplace
 - Worry that VITA will be viewed as the "bad guy"
- **(Likely) Successes**
 - Millions of taxpayers will realize that the tax changes that directly affect them are minimal

Interconnected Roles at Every Step of the Process

Applying for Coverage

- Marketplace, Medicaid and CHIP now use IRS definitions of household and income.
- IRS data is used to verify income taxpayers attest to on Marketplace application.

Premium Tax Credit (PTC)

- Marketplace estimates the PTC a taxpayer will be eligible to receive.
- Based on the Marketplace determination, Treasury advances the PTC to a taxpayer's insurance company.
- Throughout the year, when a person's income or household changes, they must update the Marketplace.

Tax Filing

- Marketplace reports to the IRS who received a PTC and how much, and IRS determines final eligibility and amount of credit.
- Based on Marketplace and other information, IRS verifies coverage or collects penalty.
- Both the Marketplace and the IRS determine eligibility for exemptions from the penalty that will be reported on the tax return.

How Do Open Enrollment Challenges Affect Taxes?



Scenario 1: Poor understanding of tax rules causes incorrect PTC determination



Nina's Household

- Nina lives with her daughter, Tanya. They were uninsured.
- Nina is married but lives apart from her husband and files taxes separately.
- Nina applied for coverage during open enrollment.

Nina's Marketplace Determination

- Nina was denied PTC because she indicated that she was married but did not plan to file jointly with her husband.
- Nina and Tanya were uninsured in 2014 and will pay a penalty.

Error: Nina was not married filing separately. She was head of household and should have been eligible for the PTC.

How Do Open Enrollment Challenges Affect Taxes?

Scenario 2 - Poor understanding of tax rules causes incorrect PTC determination

Jay's Household

- Jay lives with his girlfriend, Kim.
- Jay's income is \$17,000. Kim earns \$22,000.
- Jay was enrolled in Marketplace coverage all year. Kim had insurance from her job.



Jay's Marketplace Determination

- The Marketplace calculated Jay's income as \$39,000 for a family of 2.
- At that income, Jay doesn't qualify for PTC because the cost of his plan is low compared to family income. He enrolls anyway and pays the full premium.
- However, Jay files his taxes as Single. When his PTC is calculated based on his \$17,000 income, he gets a refund of \$2,200 in PTC.

Error: Jay's household and income were determined incorrectly because he misunderstood who could be included on his application. Because he enrolled anyway, the error can be corrected by awarding the PTC at tax time.

November to April are Critical to the Success of the ACA

Open Enrollment 2

Nov. 15 – Feb. 15

- Renewal
- Issuance of 1095-A forms by Marketplaces showing coverage months, premiums and amount of APTC

Referrals from Tax

- Amending 1095-A
- Referral for 2014 exemption
- Referral for 2015 coverage
- Referral to change 2015 APTC

NOV

DEC

JAN

FEB

MAR

APR

Tax Season

Jan. 1 – Apr. 15

- Report on health coverage
- Claim exemptions
- Calculate shared responsibility payments
- Reconcile APTC

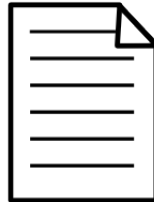
Referrals from Health

- Questions about 1095-A
- Requirement to file if APTC received

2015 Renewal Process in Federal Marketplace



Based on your 2014 premium credit you are eligible for...



No need to do anything but...



Provide updated information to Marketplace

Many Things Can Change From Year to Year



- Changes in family circumstances
 - Income
 - Household size
 - Household composition
 - Individuals still required to report changes
- Factors affecting price of coverage
 - Premium increases or decreases
 - Age rating
- Factors affecting calculation of premium credits
 - Changes in the benchmark plan
 - Use of 2014 poverty levels
 - Slight increase in percentage used to calculate expected contribution

Challenges with Renewal

George's Household

- George is single, 49-years-old, and earns \$27,000 as a construction worker.
- He was enrolled in Marketplace coverage in 2014.

George's Marketplace Determination

- George's APTC at \$191/mo covered more than half of his premium costs.

Plan Renewal

- George's coverage was automatically renewed at the same PTC level.
- When he files his 2014 taxes, George learns that he earned \$32,000.
- George received \$807 more APTC than he should have gotten. His repayment is capped at \$750.

Error: George's insurance was renewed based on his prior PTC so he needs to report a change to the Marketplace if he thinks his 2015 income will be the same as his 2014 income.



Quick fixes needed to get through 2014 filing season



- **Forms:** Ensure readiness of Marketplace to issue and correct 1095-A forms (which report APTC amount)
- **Training:**
 - Health care assisters:
 - What do the tax forms mean?
 - What should a taxpayer do if the form is not received or incorrect?
 - Tax assisters:
 - How do I process the tax forms on the tax return?
 - How do I explain the penalty for not having coverage?
 - How do I refer people for coverage?
 - How do I advise the taxpayer for next year based on 2014 return?
- **Relationships:** Build relationships for cross-referral between assister and tax preparation communities

Long-term Help is Needed



- **Assess experience** with APTC from application to reconciliation
- Create **infrastructure** for consumer support across health and tax
 - Continuum of application, APTC, change reporting, tax filing and renewal
- **Build relationships** for cross-referral between assister and tax preparation communities

For More Information:



- Beyond the Basics 4-part series starts Thursday, October 9 at 2 PM
- 3-part VITA training on ACA starts mid-October

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Recommendations for Funders

- Raise Awareness
 - Share information about the ACA and tax time intersect with grantees
- Create Connections
 - Talk to other program officers in your foundation about which of their grantees are working in these areas and strategize together about connections
 - Call a meeting of health and economic security grantees to talk about the ACA tax time intersect and what some options might be to mitigate problems and maximize opportunities

Recommendations for Funders

- Build a Bridge
 - Gather local economic security and health organizations to outline the kinds of services offered, share information, and craft a plan to help low-income families in as seamless a way as possible.
 - Support tax prep and health insurance facilitator organizations to create a locally-appropriate joint project that utilizes the tax-time moment to help low-income consumers get enrolled and adjust their financials.



Attend the GIH Fall Forum,
an annual gathering for funders interested in health policy.

Visit www.gih.org for details and to register.