Filing Status and the Affordable Care Act: Case Examples

Vermont Tax Professionals Association, October 20, 2015

Christine Speidel, Vermont Legal Aid

I. Health insurance consequences of gaining or losing a dependency exemption

a. The consequences of releasing a dependency exemption can be investigated using the Health Insurance Marketplace Calculator developed by the Henry J. Kaiser Family Foundation. See http://kff.org/interactive/subsidy-calculator/.[1]

b. Premium Tax Credit (PTC) financial eligibility is based on the tax household's income compared to the federal poverty line (FPL) for that household size. The federal poverty line varies with the size of the household. A parent who releases or loses the dependency exemption will see an increase in her health insurance premiums if she has PTC-subsidized health insurance, because her household size will drop, causing her household income as a percent of the FPL to increase. Conversely, a parent who gains a dependency exemption will see a decrease in her health insurance premiums.

c. A taxpayer's relationship to the federal poverty line also affects her eligibility for cost-sharing subsidies.

d. Example: Julie, a 35-year-old single parent with one child, will earn $30,000 in 2015. Julie is not offered health insurance by her employer. (Figures are based on nationwide average QHP premiums for 2015; actual figures vary by zip code.)

The Dependency Exemption's Effect on a Single Parent's Health Care Costs		
	Julie claims her child	**Julie does not claim child**
Income as %FPL for PTC	191% FPL	257% FPL
Premium Tax Credit	$1,394	$675
Monthly silver premium	$148	$208
Annual out of pocket limit	$2,250	$6,600
Actuarial value of silver plan	87%	70%

II. Allocation of Premium Tax Credit amounts between married or divorced taxpayers

a. Taxpayers' marital status on the last day of the tax year dictates the rules used to allocate any advance payments of the Premium Tax Credit (APTC) that the spouses received as a married couple on the same health insurance plan. Other factors in the PTC calculation may also be allocated. Allocation is only necessary if the taxpayers do not file a joint return for the tax year.

b. Example: Amelia had a family plan for herself, her husband Frank, and her daughter from January through April 2015. The family's income will be $75,000 in 2015, of which $48,000 is Amelia's income and $27,000 is Frank's income. The family plan premium was $1225.72 per

[1] The Kaiser Family Foundation health reform website also contains Frequently Asked Questions, including a general description of how PTC is calculated. See, http://kff.org/health-reform/faq/health-reform-frequently-asked-questions/#question-how-do-the-premium-tax-credits-work.

month, reduced by $628 per month of APTC.[2] In March, Frank moved out and filed for divorce. As of May 1, Amelia and Frank each switched to a separate single plan, without APTC, and their daughter moved to CHIP.[3]

i. Amelia and Frank only need to worry about the allocation rules for January through April, when they had the same health insurance plan. In this situation, reconciliation occurs on a monthly basis. See, IRS Form 8962 and Instructions.
ii. A summary explanation and table is presented first for each marital status option. Detailed calculations follow the summaries. The second lowest cost silver plan can be found on VHC's website here.
iii. <u>If Amelia and Frank are still married on 12/31/15</u>, and do not file a joint 2015 return, the allocation rules in Treas. Reg. § 1.36B-4T(b)(4) will apply. The allocation percentage is 50% to each spouse; the spouses cannot choose a different percentage. This percentage applies to the APTC received and the premiums paid for the family plan. The benchmark is not allocated.

Taxpayers' Options, if Still Married on 12/31/15 Excess APTC or Additional PTC shown on Form 1040			
		Amelia	**Frank**
MFJ	Jan-Apr	No add'l or excess	No add'l or excess
	May-Dec	$2199.20 (joint)	$2199.20 (joint)
HOH / MFS	Jan-Apr	$581.88 additional	$1,256 excess
	May-Dec	$243.44	0

iv. <u>If Amelia and Frank are divorced on 12/31/15</u>, the allocation rules in Treas. Reg. § 1.36B-4T(b)(3) will apply. Amelia and Frank can agree on any allocation percentage between 1 and 100. If they cannot agree, the allocation will be 50%. One allocation percentage must be applied to the premiums paid, the APTC, and the benchmark premium used by the exchange to calculate the family's APTC for January through April.

Taxpayers' Options, if Divorced on 12/31/15 Excess APTC or Additional PTC shown on Form 1040			
		Amelia	**Frank**
Default allocation	Jan-Apr	$334.16 excess	$526.73 add'l
	May-Dec	$243.44	$1965.20
67-33% allocation	Jan-Apr	$72.28 add'l	$140.28 add'l
	May-Dec	$243.44	$1965.20

[2] I have simplified this example by having the family and Amelia enroll in their respective benchmark plans.
[3] CHIP is the Children's Health Insurance Program. The father's departure from the household caused his daughter to become eligible for CHIP. The change in their daughter's eligibility triggered a Special Enrollment Period for the parents to change their plans as well. Amelia does not know if Frank enrolled in health insurance after April.

v. Calculation details: <u>If Amelia and Frank are still married on 12/31/15</u>
    1. Taxpayers file separate tax returns
        a. Frank's filing status will be Married Filing Separately. He cannot claim a PTC for 2015. (This assumes he does not meet the domestic violence or abandoned spouse criteria.) Frank will have excess allocated APTC of $1,256. At $27,000 of income (231% FPL for a household of 1), Frank's excess APTC is capped at $1,500. Frank will have to repay his entire allocated APTC.
        b. Amelia is filing Head of Household, so she is still eligible for a 2015 PTC.
        c. Amelia is allocated $314 APTC and premiums of $612.86 for each month of the family plan. The 2015 benchmark premium for a parent and child in Vermont is $841.87 per month. Amelia's FPL is 305% ($48,000 with a household of 2). Her expected contribution is 9.56% of her income, or $382.40 per month. Her maximum PTC for those months is $841.87 -$382.40, or $459.47. (This is lower than her allocated premium of $612.86.) For January through April, Amelia will receive the difference between her allocated APTC and her maximum PTC ($145.47/month) on her tax return.
        d. Amelia is also eligible for a small PTC for May through December. For those months, Amelia's benchmark single plan cost $412.83 per month, while her expected contribution remains $382.40.
    2. Taxpayers file jointly
        a. Their APTC equals their PTC for January – May. Their expected contribution is $597.50/month (9.56 % of their income). Their benchmark for a family plan was $1225.72 – 597.50 = 628.22.
        b. If the taxpayers file jointly, they will receive significant additional PTC at tax filing. The benchmark for a couple plan is $872.40, and the expected contribution remains 597.50. Their max PTC for May – Dec is $274.90/month.

vi. Calculation details: <u>If Amelia and Frank are divorced on 12/31/15</u>
    1. Default allocation percentage
        a. Both taxpayers are allocated $314 APTC, gross premiums of $612.86, and benchmark premiums of $612.86 for each month of January through April.
        b. With $48,000 of income and a household of 2, Amelia's FPL is 305%. Her expected contribution is 9.56% of her income, or $382.40 per month. Her maximum PTC for each month is her allocated benchmark minus her expected contribution. $612.86 – $382.40 = $230.46. This is less than her allocated APTC ($314), so Amelia has excess APTC of $83.54 per month for those four months. Her total excess is $334.16.
        c. Amelia is still eligible for a small PTC for May through December. The calculations are the same as above, since allocation does not

apply to those months. For those months, Amelia's benchmark single plan cost $412.83 per month, while her expected contribution remains $382.40. Amelia's PTC is $30.43 for 8 months, or $243.44. This will reduce her excess APTC from the first four months of the year, resulting in total excess APTC of $90.72. This amount will be added to her income tax on Form 1040, line 46.

   d. With $27,000 of income and a household of 1, Frank's FPL is 231%. Frank's expected contribution is $167.18 per month (7.43% of his income). His maximum PTC for each month is his allocated benchmark minus his expected contribution. $612.86 – $167.18 = $445.68. This is more than his allocated APTC ($314), so Frank will receive an additional PTC $131.68 per month, for those four months. His additional PTC is $526.73.
   e. Frank is eligible for PTC for May-Dec. The benchmark single plan cost $412.83 per month, while Frank's expected contribution remains $167.18.

2. 67/33% allocation
   a. If the parties agree to allocate Amelia 67% and Frank 33% (perhaps on the basis that Amelia has 2 in her household and Frank 1), the results are different. For each month of January through April, Amelia is allocated $420.76 APTC, premiums of $821.23, and benchmark premiums of $821.23. Frank is allocated $202.24 APTC, premiums of $404.49, and benchmark premiums of $404.49.
   b. With $48,000 of income and a household of 2, Amelia's FPL is 305%. Her expected contribution is 9.56% of her income, or $382.40 per month. Her maximum PTC for each month is her allocated benchmark minus her expected contribution. $821.23 – $382.40 = $438.83. This is more than her allocated APTC ($420.76), so Amelia will receive a small additional PTC of $18.07 per month for those four months. Her total additional PTC is $72.28.
   c. With $27,000 of income and a household of 1, Frank's FPL is 231%. Frank's expected contribution is $167.18 per month (7.43% of his income). His maximum PTC for each month is his allocated benchmark minus his expected contribution. $404.49 – $167.18 = $237.31. This is more than his allocated APTC ($202.24), and more than his allocated premiums ($404.49), so Frank will receive an additional PTC of $35.07 per month for those four months. His total additional PTC is $140.28.
   d. The PTC calculations for May through December remain the same.
   e. Note that in this scenario, unlike under the default percentage, both parents receive additional PTC. The difference occurs because each taxpayer's expected contribution is calculated separately; it is not allocated between spouses or former spouses.

III. Effect of filing status on liability for excess advance premium tax credit payments

a. The limitation on excess APTC is half as much for "single" filers as for taxpayers with other filing statuses, including head of household. I.R.C. § 36Bf)(2)(B).

b. For a single taxpayer with $51,391 AGI (with no modifications) and 1 qualifying child, the effect of filing status on the 2014 Form 1040 calculations are shown in the following table.

Effect of Filing Status on Income Tax Liability with Excess APTC		
	Head of Household	**Single**
AGI, line 38	$51,391	$51,391
Standard deduction, line 40	$9,100	$6,200
Line 41	$42,291	$45,191
Exemptions, line 42	$7,900	$7,900
Taxable income, line 43	$34,391	$37,291
Income tax (table), line 44	$4,509	$5,175
Excess APTC, line 46	$2,500	$1,250
Total income tax, line 47	$7,009	$6,425