



Health Reform: **Beyond the Basics**

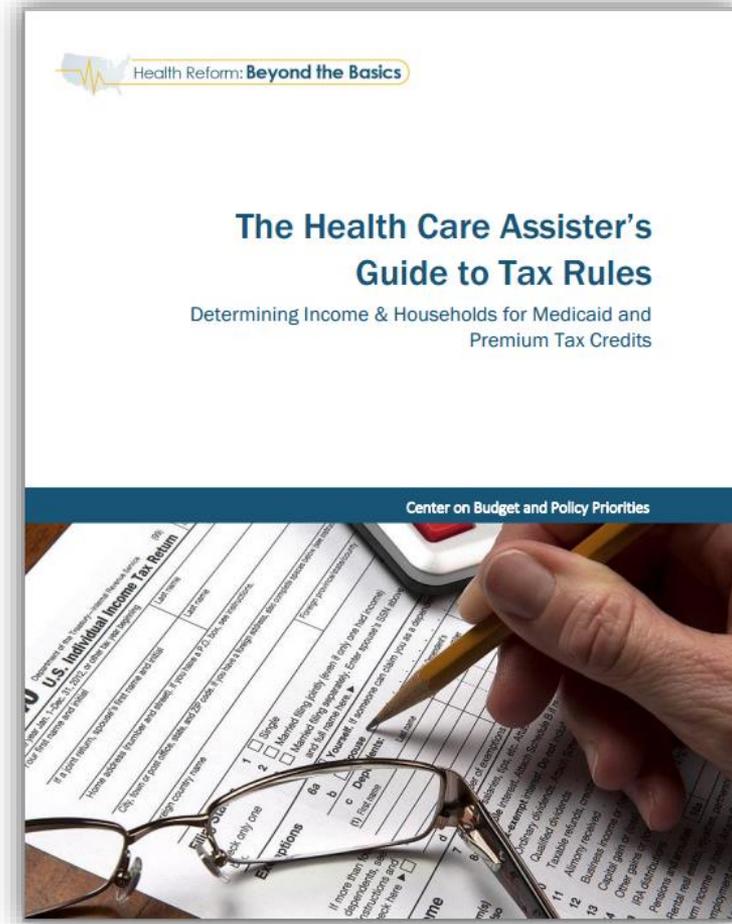
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The Health Care Assister's Guide to Tax Rules

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October 24, 2014

- Tax rules for filing status, dependents, and income are embedded in the application.
- Many questions arise based on the need to apply these concepts to *projections* for the coming year.



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Marriage

- In general, a person who is married must file jointly with his or her spouse in order to claim PTC.
- Three exceptions to the joint filing requirement
 - Head of household
 - Domestic abuse
 - Abandoned spouse
- If a person will file taxes as married filing separately and doesn't qualify for one of these exceptions, he or she is still eligible for Medicaid and to purchase health insurance in the Marketplace.

Exceptions to the Joint Filing Requirement

Who qualifies for PTC even if filing separately from a spouse?

Head of household

Some people who are married but do not file taxes with their spouse are nonetheless eligible for PTC if they qualify and file as head of household.



ASSISTERS TIP

When Can a Married Person File as Head of Household?

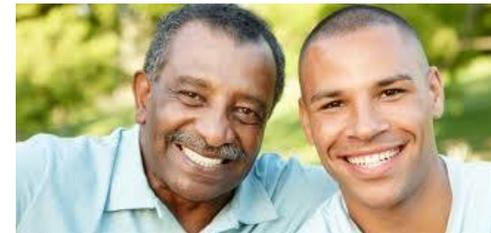
A married person is considered unmarried and is eligible to file as Head of Household if he or she can answer YES to each of the following questions:

- | | | |
|--|------------------------------|-----------------------------|
| Will you file taxes separately from your spouse in the year in which the premium tax credit is received? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Will you live separately from your spouse from July 1 to December 31 in that year? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Will you pay more than half of the cost of keeping up your home in that year? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Do you have a child, stepchild, or foster child (of any age) who lives with you for more than half the year? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |
| Will either you or the child's other parent claim the child as a dependent? | <input type="checkbox"/> Yes | <input type="checkbox"/> No |

If all answers are yes, the applicant is Head of Household and is considered unmarried. If the answer to any of these questions is No, the applicant cannot file as Head of Household.

Example: Head of Household

Chuck is separated from his wife but not divorced. They will not file taxes together in 2015. Chuck has an adult son, Michael, who is unemployed, has no income and is living with Chuck. They both need health insurance.



ASSISTERS TIP

When Can a Married Person File as Head of Household?

A married person is considered unmarried and is eligible to file as Head of Household if he or she can answer YES to each of the following questions:

- Will you file taxes separately from your spouse in the year in which the premium tax credit is received? Yes No
- Will you live separately from your spouse from July 1 to December 31 in that year? Yes No
- Will you pay more than half of the cost of keeping up your home in that year? Yes No
- Do you have a child, stepchild, or foster child (of any age) who lives with you for more than half the year? Yes No
- Will either you or the child's other parent claim the child as a dependent? Yes No

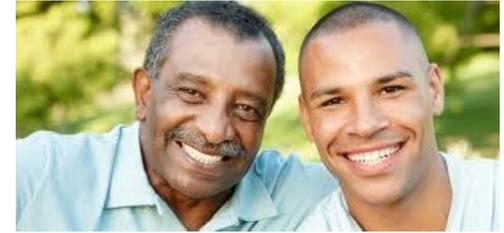
If all answers are yes, the applicant is Head of Household and is considered unmarried. If the answer to any of these questions is No, the applicant cannot file as Head of Household.

Chuck appears to qualify to file as head of household because he would be “considered unmarried” by the IRS.

When asked on the application: Are you married? Chuck should answer No.

Example: Head of Household

New facts: Chuck's marital situation is the same and his adult son, Michael, still lives with him. However, Michael is employed and not his dependent.



ASSISTERS TIP

When Can a Married Person File as Head of Household?

A married person is considered unmarried and is eligible to file as Head of Household if he or she can answer YES to each of the following questions:

- | | | |
|--|---|--|
| Will you file taxes separately from your spouse in the year in which the premium tax credit is received? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
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| Will either you or the child's other parent claim the child as a dependent? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

If all answers are yes, the applicant is Head of Household and is considered unmarried. If the answer to any of these questions is No, the applicant cannot file as Head of Household.

Chuck does not appear to qualify to file as head of household because he is not supporting a child who is his dependent.

When asked on the application: Are you married? Chuck should answer Yes.

Exceptions to the Joint Filing Requirement

Other circumstance when a married person can say he or she is not married

Domestic abuse*

- A taxpayer who is married filing separately can meet the joint filing requirement if she:
 - Lives apart from her spouse
 - Is unable to file a joint return because the taxpayer is a victim of domestic abuse

Abandoned spouse*

- A taxpayer who is married filing separately can meet the joint filing requirement if she:
 - Lives apart from her spouse
 - Is unable to locate spouse after using due diligence

** Can be used for a maximum of three consecutive years*

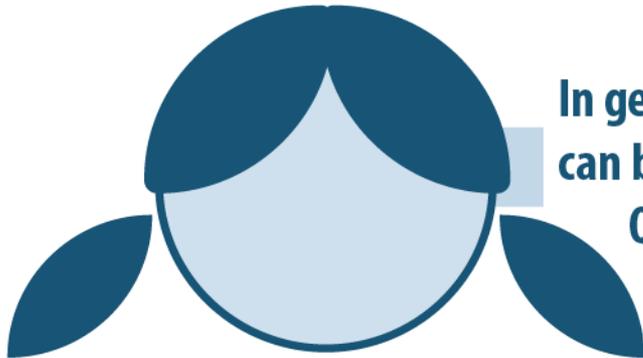
Dependents

Determining Tax Dependents

Who Can Be Claimed as a Qualifying Child?

Children

A child can include the tax filer's child, step child, adopted child, foster child, brother, sister, niece, nephew or grandchild



In general a child can be claimed as a Qualifying Child if she...

Notes:

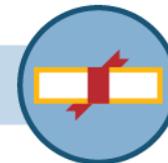
- You cannot claim a dependent if you or your spouse are or could be a dependent
- There are special rules for a married person who may be claimed as a dependent and for adopted children



Is a U.S. citizen, national or resident, or a resident of Canada or Mexico



Lives with the tax filer for more than half the year



Is under 19 at the end of the year (or 24 if a full-time student or any age if disabled)



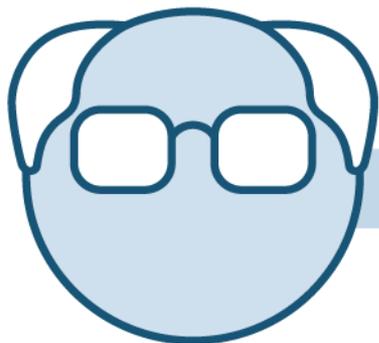
Doesn't provide more than half of her own support

Determining Tax Dependents

Who Can Be Claimed as a Qualifying Relative?

Other individuals

Other individuals can include a relative or a full-time member of the tax filer's household who is not a relative



In general a person can be claimed as a Qualifying Relative if he...

Notes:

- You cannot claim a dependent if you or your spouse are or could be a dependent
- There are special rules for a married person who may be claimed as a dependent and for adopted children



Cannot be claimed as a Qualifying Child by anyone



Is a U.S. citizen, national or resident, or a resident of Canada or Mexico



Receives more than 50% of his support from the tax filer



Is related to the tax filer or lives in the tax filer's home all year



Gross income less than \$3,950 (in 2014)
Generally doesn't include Social Security

Example: Tax Dependents

Can Leena Be Claimed as a Tax Dependent?



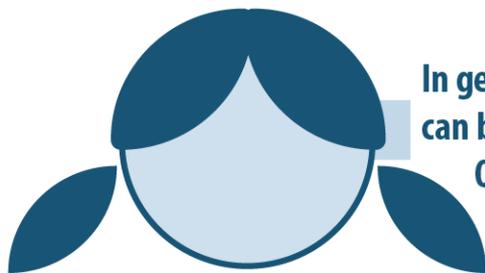
Leena

- 5 years old
- Under guardianship of her aunt
- Can Leena's aunt claim her as a dependent?

Leena can be claimed as a tax dependent

Children

A child can include the tax filer's child, step child, adopted child, foster child, brother, sister, niece, nephew or grandchild



In general a child can be claimed as a **Qualifying Child** if she...



Is a U.S. citizen, national or resident, or a resident of Canada or Mexico



Lives with the tax filer for more than half the year



Is under 19 at the end of the year (or 24 if a full-time student or any age if disabled)



Doesn't provide more than half of her own support



Example: Tax Dependents

Can Jay Be Claimed as a Tax Dependent?



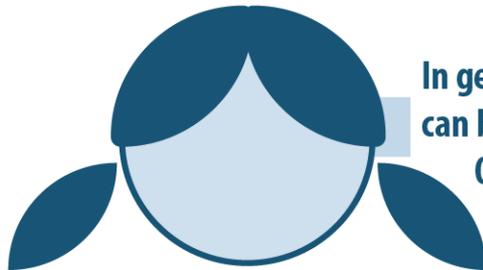
Jay and Kim

- Live together
- Kim earns \$24,000 a year
- Jay is a musician and earns \$3,500 a year
- Can Kim claim Jay as a dependent?

Children



A child can include the tax filer's child, step child, adopted child, foster child, brother, sister, niece, nephew or grandchild



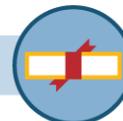
In general a child can be claimed as a **Qualifying Child** if she...



Is a U.S. citizen, national or resident, or a resident of Canada or Mexico



Lives with the tax filer for more than half the year



Is under 19 at the end of the year (or 24 if a full-time student or any age if disabled)



Doesn't provide more than half of her own support

Example: Tax Dependents

Can Jay Be Claimed as a Tax Dependent?



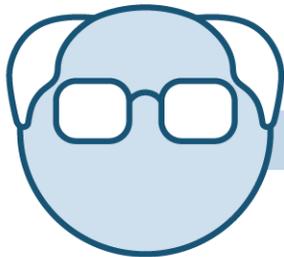
Jay and Kim

- Live together
- Kim earns \$24,000 a year
- Jay is a musician and earns \$3,500 a year
- Can Kim claim Jay as a dependent?

Jay can be claimed as a tax dependent

Other individuals

Other individuals can include a relative or a full-time member of the tax filer's household who is not a relative



In general a person can be claimed as a Qualifying Relative if he...



Cannot be claimed as a Qualifying Child by anyone



Is a U.S. citizen, national or resident, or a resident of Canada or Mexico



Receives more than 50% of his support from the tax filer



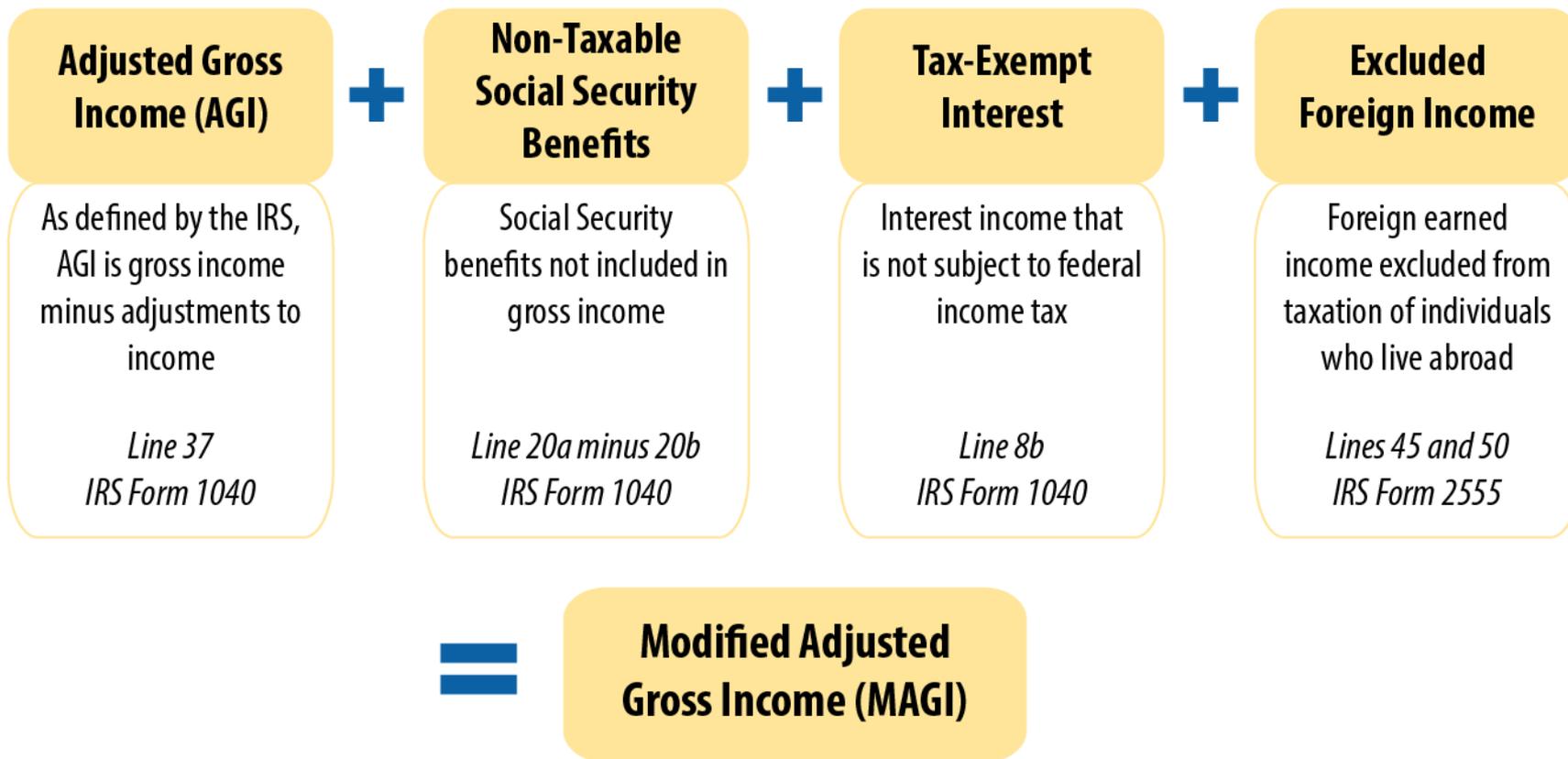
Is related to the tax filer or lives in the tax filer's home all year



Gross income less than \$3,950 (in 2014)
Generally doesn't include Social Security



Income



- Income can come in the form of money, goods, or services
- Cash income is taxable and included in MAGI even if:
 - “I haven’t declared it in the past”
 - It’s “on the side”
 - It’s not my main job
 - I only perform the service seasonally or occasionally



- All income is taxable unless specifically excluded from taxation
- Pre-tax deductions are not included in MAGI
- Social security (including survivors benefits and disability insurance) are generally not taxable but are included in the MAGI of a person with a tax filing requirement.

Examples of Taxable Income	Examples of Non-Taxable Income
Wages, salaries, bonuses	AFDC payments
Alimony received	Child support payments
Self-employment income	Sickness and injury payments
Tips and gratuities	Supplemental Security Income (SSI)
Farm income	Veteran's benefits
Rent income	Worker's compensation

See IRS Publications 17 and 525 for more details on what income is taxable and not taxable



ASSISTERS TIP

When in doubt, leave it out!

Some adjustments, like alimony paid or contributions to a traditional IRA, may be safe adjustments if those items were properly claimed in the past. Others, such as work-related moving expenses, are not as easy to predict. Unless a taxpayer is very confident he or she will have such a deduction, consider not projecting adjustments. By not factoring in adjustments, the taxpayer will slightly over-estimate income; while this results in a lower advance credit, it also provides a margin for error in the income projection.



- Household income = MAGI of tax filer and all tax dependents who are *required* to file a tax return
- In general, a single dependent under age 65 has a filing requirement if (2014 figures):
 - Unearned income of >\$1,000, OR
 - Earned income of >\$6,200, OR
 - Taxable gross income was more than the larger of: \$1,000 or earned income (up to \$5,850) plus \$350.
- In making this determination, Supplemental Security Income (SSI) and non-taxable Social Security benefits are not counted.
- After determining that the dependent has a tax filing requirement, both taxable and non-taxable Social Security count towards a household income.

Example: Single Adult with Dependent

- Jill lives with Ryan, her 17-year-old grandson, and claims him as a tax dependent.
 - \$18,000 – Jill’s income
 - \$7,000 – Ryan’s income from Social Security survivors’ benefits



- Ryan does not have a tax filing requirement so his income is not counted.
- Even if Ryan’s Social Security benefits are paid to Jill on his behalf, the benefits are Ryan’s income.

Jill and Ryan’s household income for calculating the premium tax credit is \$18,000

Example: Single Adult with Dependent

- Jill lives with Ryan, her 17-year-old grandson, and claims him as a tax dependent.
 - \$18,000 – Jill's income
 - \$7,000 – Ryan's income from a summer job



- Ryan's income is above the tax filing threshold for a dependent, so his income is counted towards the household income.

Jill and Ryan's household income for calculating the premium tax credit is \$25,000

- Jill lives with Ryan, her 17-year-old grandson, and claims him as a tax dependent.

- \$18,000 – Jill's income
- \$7,000 – Ryan's income from a summer job
- \$7,000 – Ryan's income from Social Security survivors' benefits



- Ryan's income from work gives him a tax filing requirement. Because he has a filing requirement, his non-taxable Social Security survivors' benefits are also counted towards the household income.

Jill and Ryan's household income for calculating the premium tax credit is \$32,000

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For more information and resources, please visit:

www.healthreformbeyondthebasics.org

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