



# Determining Eligibility for Premium Tax Credits

November 20, 2013

Center on Budget and Policy Priorities



## Topics

- Understand the tax definitions of filing status and dependency and how they apply to common Marketplace scenarios
- Learn how to calculate MAGI and whose income counts
- Take a deeper look at the process of determining premium tax credits, including verification and inconsistency periods
- Review the reconciliation provision



# **Common Errors in Determining Household for Premium Tax Credits**



## Why does household matter?

- The size of the household determines a family's position on FPL scale. At the same income:
  - One more person lowers the family's FPL %
  - One less person raises the family's FPL %
- Household shows whose income counts in MAGI determination
- Household can help figure out tax filing status
  - A person who is married but plans to file separately from his spouse cannot claim premium tax credits, with exceptions.



# Filing Status

- Marital status as of the *last day* of the tax year establishes a taxpayer's filing status.
- 5 options:





# What's My Filing Status?



## Single

- As of December 31 (2014), are you never-married, legally separated or divorced?
- If you are *married*, you are not single.

## Married Filing Jointly



- Legally married, whether you live together or not
- For same sex couples, federal law recognizes marriage; some states do not.

## Qualifying Widow(er)



- Must have a dependent child
- Spouse must have died within the last two years



# What's My Filing Status?

## Married Filing Separately



- Legally married, whether you live together or not
- *Ineligible* for premium tax credits (and many other tax benefits)

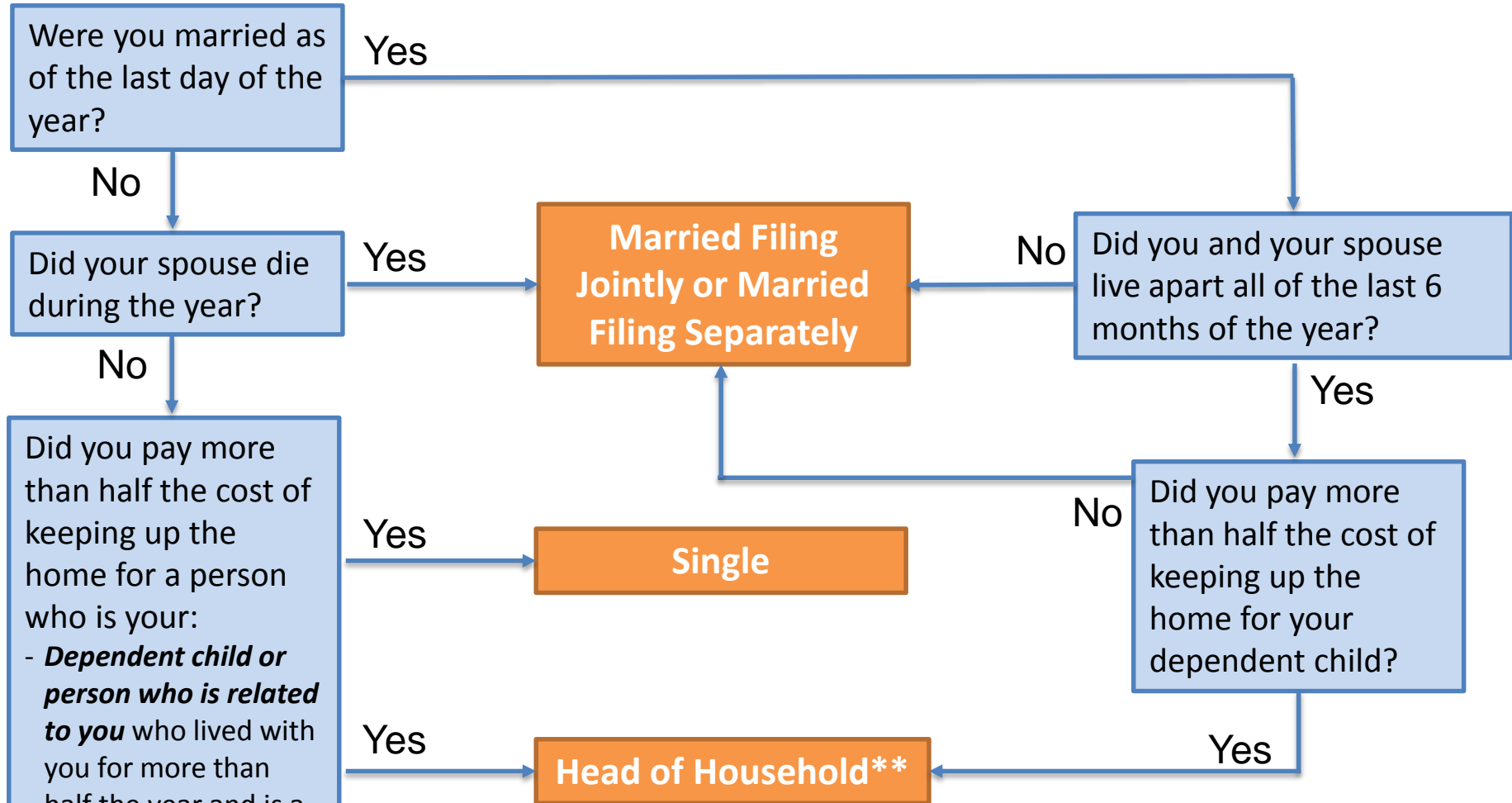
## Head of Household



- Unmarried OR *considered* unmarried (lived apart from spouse for the last 6 months of the tax year)
- Must pay more than half the cost of keeping up the home for a “qualifying person”
  - For a person who is married but wants to be considered unmarried by the IRS, a qualifying person is a dependent who is your child, step-child or foster child (of any age).
  - For a single person, there is a longer list of relatives that can be a qualifying person



# Filing Status Flow Chart (simplified)\*



\*Excludes Qualifying Widow(er) with a Dependent Child

\*\*The qualifying person rules are simplified. Check [irs.gov](https://www.irs.gov) for full rules. A child who lived with you for more than half the year but is claimed by another parent is your qualifying person for head of household.





# Filing Status and Premium Tax Credits

Tom and Suzanne are married. Tom's job offers health insurance but Suzanne's doesn't. It's expensive for Suzanne to get coverage through Tom's employer. Their combined income is **\$36,000**.

## Tom

Salary: **\$24,000**

Health insurance:       \$100/mo for employee-only (3.3% of income)  
                                      \$300/mo for family coverage

## Suzanne

Salary: **\$12,000**

Health insurance: none



You explain that Suzanne is not eligible for premium tax credits because of Tom's offer of family coverage through his employer. **Can Suzanne file separately from her husband and qualify for premium tax credits?**

**Answer:** NO. Taxpayers are ineligible for PTC if they are married filing separately and Suzanne wouldn't qualify for any other tax filing status.



# Households for Premium Tax Credits



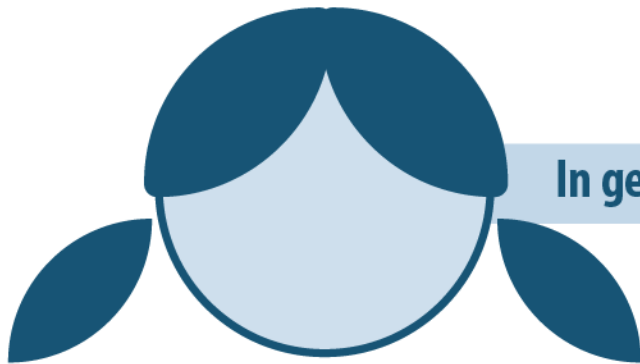
- A **household** is all individuals for whom a taxpayer will claim a deduction.
- This includes:
  - *Self (and spouse)*
  - *Dependents*
    - Children and other relatives who meet certain requirements
    - Note: A person may be a dependent even if he files a tax return, as long as he does not claim his own personal exemption.
      - Ex: A teenager has a low-wage summer job with tax withholding. He may still be a dependent but should file a return to have his withholding refunded.



# Who Qualifies as a Tax Dependent?

## Children

A child can include your child, step child, adopted child, foster child, brother, sister, niece, nephew or grandchild



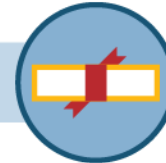
In general qualify if...



Are a U.S. citizen or resident of the U.S., Canada or Mexico



Live with you for more than half the year



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



Child doesn't provide more than half of his own support



# Dependents of Divorced or Separated Parents

- A child can be the dependent of a noncustodial parent if the custodial parent signs a tax form granting him the child's exemption
  - The noncustodial parent claiming the child's exemption can enroll in premium tax credits for the child (if eligible)
  - The noncustodial parent claiming the child's exemption is also liable for the penalty if the child is uninsured

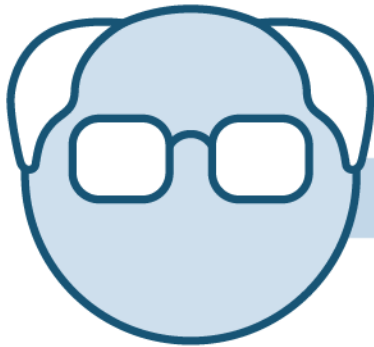




# Who Qualifies as a Tax Dependent?

## Other individuals

Other individuals can include a relative, in-law or a full-time member of your household



In general qualify if...



Are a U.S. citizen or resident of the U.S., Canada or Mexico



Provide more than 50% of the dependent's support



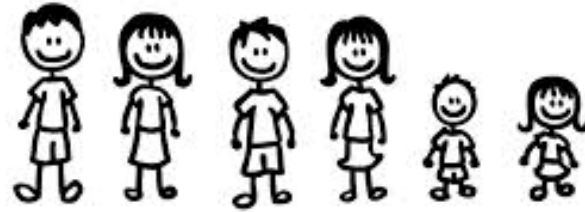
Be related to you or live in your home all year



Make less than \$3,950 (in 2014). Generally doesn't include social security



# Who is a Dependent?



Mike and Carol are married. Together, they earn \$40,000 and have no offer of coverage. They have four children (all uninsured).

- **Bobby and Cindy:** 12-year-old and 14-year-old, both living at home
- **Greg:** 25-year-old who is employed and pays rent to live with his parents.
- **Marsha:** 23-year-old who graduated from college in May. She is currently living at home but looking for work.

## Who is in their household for their PTC eligibility determination?

Mike, Carol, Bobby and Cindy ... plus Marsha (5 people)

### Greg

Is he a qualifying child *in 2014*?

No (age, support)

Is he a qualifying relative *in 2014*?

No (income, support)

### Marsha

Is she a qualifying child *in 2014*?

No (age)

Is she a qualifying relative *in 2014*?

Income?

Support?



# The Problem with Projections



Chuck is separated from his wife but not divorced. They will not file taxes together in 2014. Chuck has an adult son who is unemployed, has no income and is living with Chuck.

***Is Chuck eligible for premium tax credits?***

If he files as **Married Filing Separately**, he is not eligible for premium tax credits.

***Does Chuck have another filing status option?***

He can be **Head of Household** if he's paying more than half the cost of keeping up the home and has a qualifying person.

***Is Chuck's son a qualifying person?***

Yes – he is living in the home for more than half the year, his father will claim his exemption, and he is related.



# Common Errors in Determining Income for Premium Tax Credits





# Modified Adjusted Gross Income (MAGI)

**Adjusted Gross Income (1040, line 37)**  
**+ Foreign income**  
**+ Tax exempt interest**  
**+ Non-taxable Social Security benefits**  
**MAGI**

- For many people, Social Security benefits are not taxable, unless the family has additional income.
- To calculate MAGI, include all Social Security benefits received by the taxpayer – both taxed and untaxed.

20a	Social security benefits	20a			b	Taxable amount	. . .	20b	
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# Determining MAGI

Included in MAGI	NOT Included in MAGI
<ul style="list-style-type: none"><li>▪ Wages and tips</li><li>▪ Cash income</li><li>▪ Unemployment</li><li>▪ IRA distributions</li><li>▪ Pensions and annuities (e.g., 401(k), 403(b) distributions)</li><li>▪ Income from a business or personal services</li><li>▪ Dividends and taxable interest</li><li>▪ Alimony <u>received</u></li><li>▪ Rents <u>received</u></li><li>▪ Nontaxable interest*</li><li>▪ Social security and SSDI*</li><li>▪ Foreign income*</li><li>▪ Any other income that is not specifically excluded from taxation!</li></ul>	<ul style="list-style-type: none"><li>▪ TANF</li><li>▪ SSI</li><li>▪ Child support</li><li>▪ Gifts</li><li>▪ Qualified scholarships (for tuition only)</li><li>▪ Certain salary deferrals (e.g., cafeteria/flexible spending plans, contributions to 401(k) plans)</li></ul> <div><b>Adjustments (subtractions from income)</b></div> <ul style="list-style-type: none"><li>▪ Contributions to a health savings account</li><li>▪ Job-related moving expenses</li><li>▪ Student loan interest</li><li>▪ IRA contributions</li><li>▪ Alimony paid</li></ul>

\*Nontaxable or partially taxable but included in MAGI



# Cash Income

- Cash income is taxable
- It should be included in MAGI (and on income taxes) 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
  - It’s a service I perform for my friends
  - I have a lot of expenses (Note: some expenses can be deducted)





## Example: George the Carpenter



George is a carpenter who wants to know if he qualifies for premium tax credits. He is self-employed and hasn't filed taxes in awhile because it seems complicated and he can't afford an accountant.

### Estimate George's income for 2014:

Advice: start with calculating 2013 income.

Estimate by job or by month (using receipts, invoices, bank records, etc)

### Estimate George's expenses for 2014:

Use receipts, credit card/debit card records, known costs of supplies.



## Whose Income Counts in MAGI?

- MAGI includes the income of anyone in the household with a tax filing requirement.
  - In general, a single dependent under age 65 has a filing requirement if (2013 figures):
    - Unearned income of >\$1,000, OR
    - Earned income of >\$6,100, OR
    - Gross income was greater than either: \$1,000 or earned income (up to \$5,750) plus \$350.

Example: Jane lives with 17-year-old son. Her son developed an app and sold it, earning an impressive \$10,000! Mom directs that the money go into a college fund, but as a reward for his work, her son can spend \$1,000 on anything he wants. The son has a filing requirement but is still her dependent.



# Determining Eligibility for Premium Tax Credits: The Process



# Federal Rules Govern the Eligibility Process

Title 45: Public Welfare

PART 155—EXCHANGE ESTABLISHMENT STANDARDS AND OTHER RELATED STANDARDS  
UNDER THE AFFORDABLE CARE ACT

Subpart D—Exchange Functions in the Individual Market: Eligibility Determinations for  
Exchange Participation and Insurance Affordability Programs

- § 155.300 Definitions and general standards for eligibility determinations.
- § 155.302 Options for conducting eligibility determinations.
- § 155.305 Eligibility standards.
- § 155.310 Eligibility process.
- § 155.315 Verification process related to eligibility for enrollment in a QHP through the Exchange.
- § 155.320 Verification of eligibility for minimum essential coverage other than through an eligible employer-sponsored plan.
- § 155.330 Eligibility redetermination during a benefit year.
- § 155.335 Annual eligibility redetermination.
- § 155.340 Administration of advance payments of the premium tax credit and cost-sharing reductions.
- § 155.345 Coordination with Medicaid, CHIP, the Basic Health Program, and the Pre-existing Condition Insurance Plan.
- § 155.350 Special eligibility standards and process for Indians.
- § 155.355 Right to appeal.



# The Eligibility Process Starts with the Application

- Eligibility factors that are generally determined based on attestation
  - Residency in the service area of the Marketplace
  - Not incarcerated post-disposition of charges
- Eligibility factors that are generally verified through electronic data and other data sources
  - Citizenship and lawful resident status
  - Availability of other minimum essential coverage
  - Household income

Use blue or black ink to complete this application. Initial here: \_\_\_\_\_ Page 1 of 7

### STEP 1 Tell us about yourself.

(We need one adult in the family to be the contact person for your application.)

1. First name \_\_\_\_\_ Middle name \_\_\_\_\_ Last name \_\_\_\_\_ Suffix \_\_\_\_\_

2. Home address (Leave blank if you don't have one.) \_\_\_\_\_ 3. Apartment or suite number \_\_\_\_\_

4. City \_\_\_\_\_ 5. State \_\_\_\_\_ 6. ZIP code \_\_\_\_\_ 7. County \_\_\_\_\_

8. Mailing address (if different from home address) \_\_\_\_\_ 9. Apartment or suite number \_\_\_\_\_

10. City \_\_\_\_\_ 11. State \_\_\_\_\_ 12. ZIP code \_\_\_\_\_ 13. County \_\_\_\_\_

14. Phone number (\_\_\_\_) \_\_\_\_-\_\_\_\_ 15. Other phone number (\_\_\_\_) \_\_\_\_-\_\_\_\_

16. Do you want to get information about this application by email? ☐ Yes ☐ No

Email address: \_\_\_\_\_

17. What is your preferred spoken or written language (if not English)? \_\_\_\_\_

### STEP 2 Tell us about your family.

**Who do you need to include on this application?**  
Tell us about all the family members who live with you. If you file taxes, we need to know about everyone on your tax return. (You don't need to file taxes to get health coverage.)

**DO Include:**

- Yourself
- Your spouse
- Your children under 21 who live with you
- Your unmarried partner who needs health coverage
- Anyone you include on your tax return, even if they don't live with you
- Anyone else under 21 who you take care of and lives with you

**You DON'T have to include:**

- Your unmarried partner who doesn't need health coverage
- Your unmarried partner's children
- Your parents who live with you, but file their own tax return (if you're over 21)
- Other adult relatives who file their own tax return

The amount of assistance or type of program you qualify for depends on the number of people in your family and their incomes. This information helps us make sure everyone gets the best coverage they can.

**Complete Step 2 for each person in your family.** Start with yourself, then add other adults and children. If you have more than 2 people in your family, you'll need to make a copy of the pages and attach them. You don't need to provide immigration status or a Social Security Number (SSN) for family members who don't need health coverage. We'll keep all the information you provide private and secure as required by law. We'll use personal information only to check if you're eligible for health coverage.

**NEED HELP WITH YOUR APPLICATION?** Visit [healthcare.gov](https://www.healthcare.gov) or call us at 1-800-318-2596. Para obtener una copia de este formulario en Español, llame 1-800-318-2596. If you need help in a language other than English, call 1-800-318-2596 and tell the customer service representative the language you need. We'll get you help at no cost to you. TTY users should call 1-855-889-4325.





# Data Available Through the Federal Data Hub

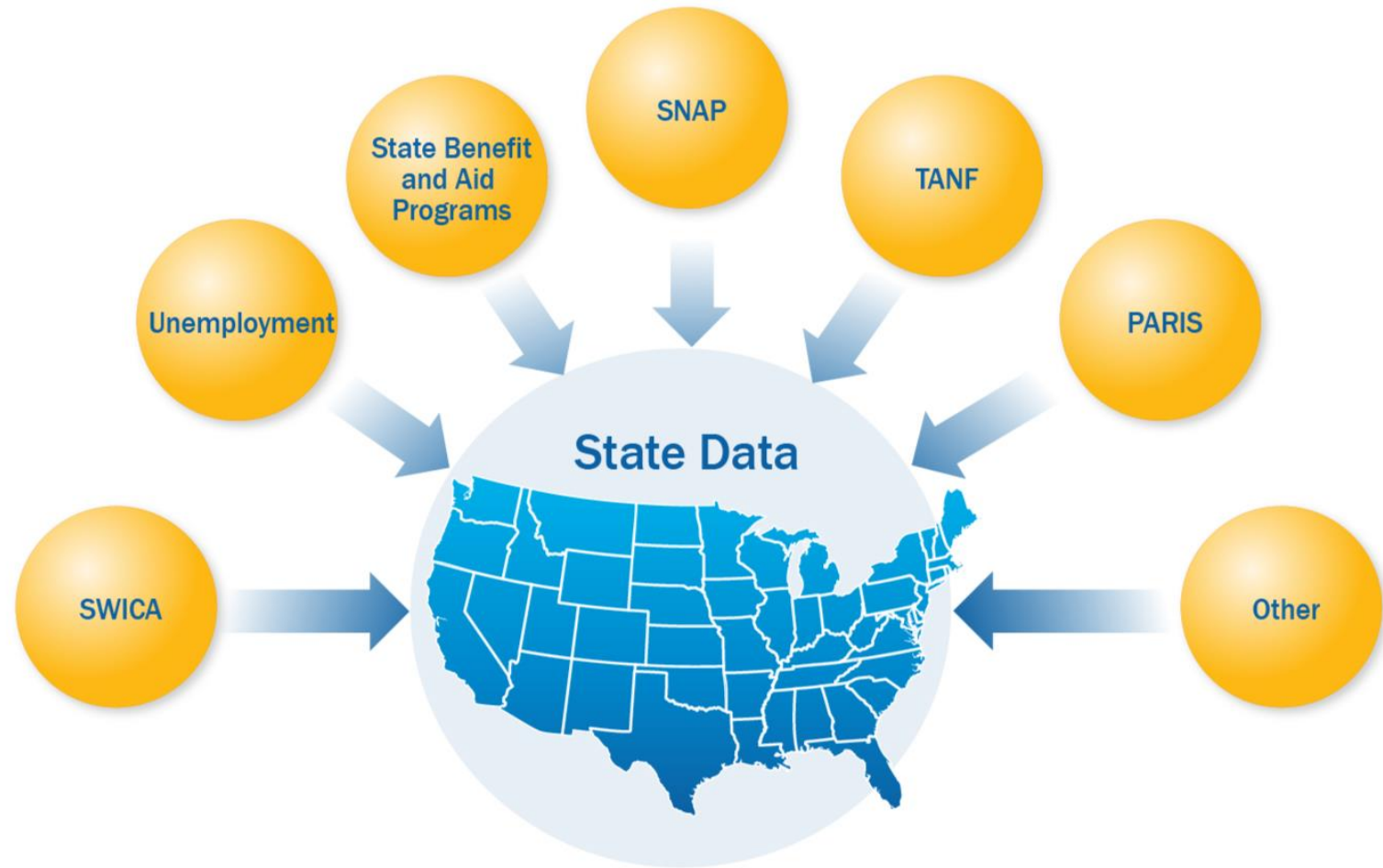


Federal Hub





# States May Use Additional Data Sources To Verify Eligibility





# People Eligible for Medicaid and CHIP Are Generally Ineligible for Premium Credits\*

- CHIP coverage and most forms of Medicaid coverage are minimum essential coverage
  - Exceptions: Medicaid coverage limited to family planning services, tuberculosis-related services, pregnancy-related services, and coverage of treatment of emergency medical conditions.
  - Future guidance expected on medically needy coverage
- Single, streamlined application for all programs
- Marketplaces assess or determine eligibility for Medicaid and CHIP before determining eligibility for premium tax credits

\*For more on how an offer of employer-sponsored coverage affects eligibility, see [Employer Coverage webinar](#) on *Beyond the Basics* web site.



# Assessment v. Determination of Medicaid and CHIP Eligibility

- States choose whether to allow Marketplaces to determine or assess eligibility for Medicaid and CHIP
- In assessment states, people determined eligible for premium tax credits can request review of their Medicaid eligibility by the Medicaid agency
- If review isn't requested within 10 days, Medicaid application is deemed to have been withdrawn



# Marketplace Verification Rules are Complex

- When Marketplace cannot verify information needed to determine eligibility using the hub, it may trigger a process for dealing with “inconsistencies”
- Inconsistency process is triggered when:
  - Electronic data are required but no data available or not reasonably expected to be available within 1 day of request
  - Marketplace unable to verify Social Security number of an applicant or an applicant’s citizenship or lawful presence
  - Marketplace unable to verify income because of incompatibility between attestation of income and electronic data or when no electronic data are available



## How Inconsistencies are Generally Addressed

- Marketplace makes a reasonable effort to identify and address the cause of the inconsistency
- If can't resolve, provide notice to the applicant regarding the inconsistency and provide 90 days to either present “satisfactory documentary evidence” or “otherwise resolve”
- While inconsistencies are addressed, proceed with the eligibility determination, and provide APTC if otherwise eligible and applicant attests he or she understands amounts received are subject to reconciliation



# Notice of an Inconsistency Period\*

## What are the results of my application?

Review the table below for your eligibility results.

Family Member(s)	Results	Next Steps
Sarah Young John Young	<ul style="list-style-type: none"><li>• Eligible to purchase health coverage through the Marketplace</li><li>• Eligible for a tax credit (\$485.92 each month, which is \$5,831 for the year), but more information is needed</li><li>• Can choose a health plan with lower copays, coinsurance, and deductibles, but more information is needed</li></ul>	<ul style="list-style-type: none"><li>• Send the Marketplace more information</li><li>• Choose a health plan and make first month's payment</li></ul> <p>For instructions, continue to "What should I do next?"</p>
Jacob Young	<ul style="list-style-type: none"><li>• May be eligible for [state Medicaid program name], but more information is needed</li></ul>	<ul style="list-style-type: none"><li>• Send the Marketplace more information</li></ul> <p>For instructions, continue to "What should I do next?"</p>

\*From model notices at <http://marketplace.cms.gov/getofficialresources/training-materials/individual-market-eligibility-notices.zip>





# The Reyes Family's Income Goes Down

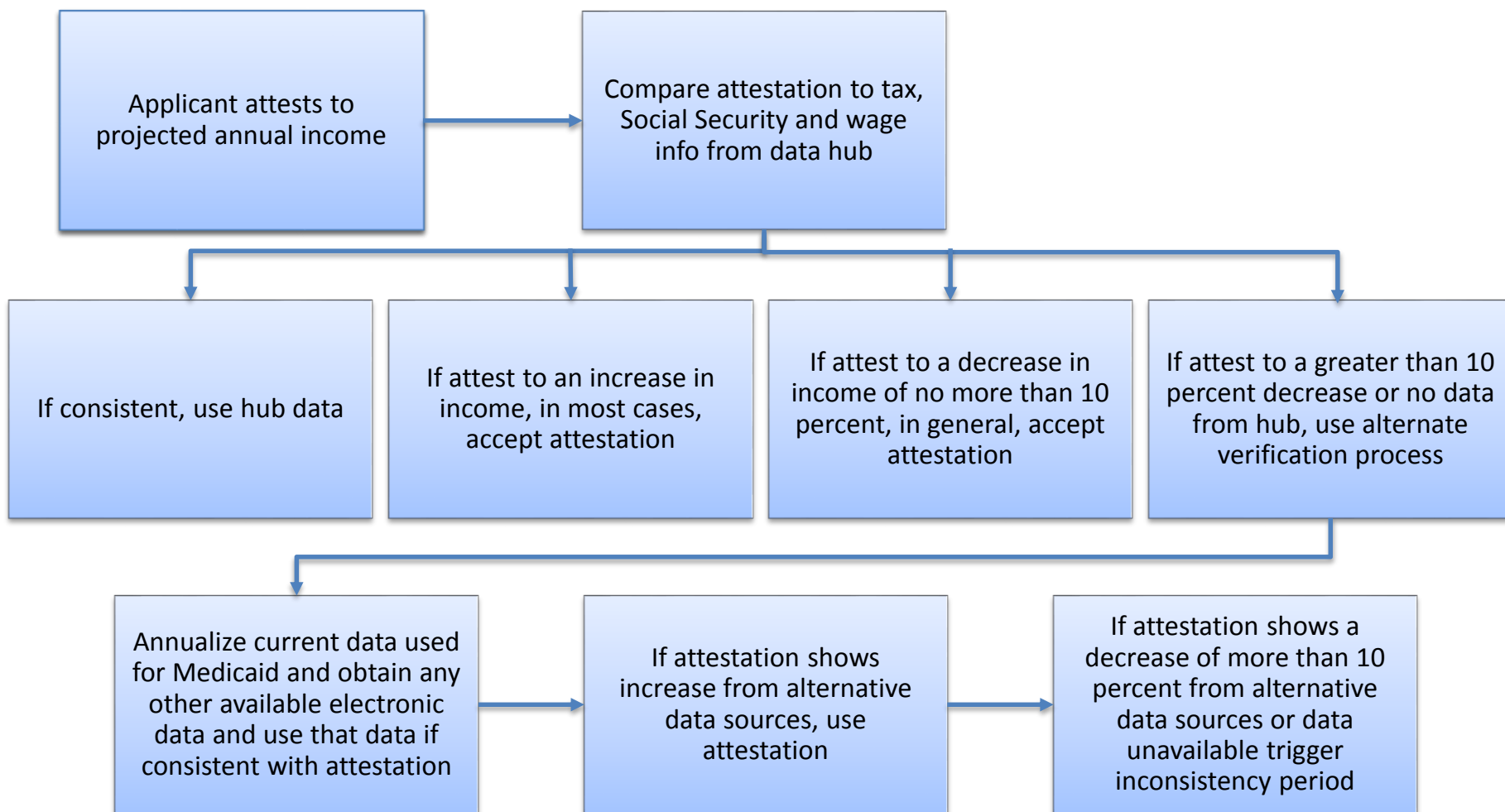
- Mr. Reyes is self-employed. On the family's 2012 tax return, he reported self-employment income at \$50,000 and Mrs. Reyes earned \$25,000 at her part-time job.
- Mr. Reyes lost his best customer in late 2013 and he expects his income will be only \$25,000 in 2014.
- The Reyes attest to projected annual income of \$52,000 for 2014.
- Next step: The Marketplace verifies income





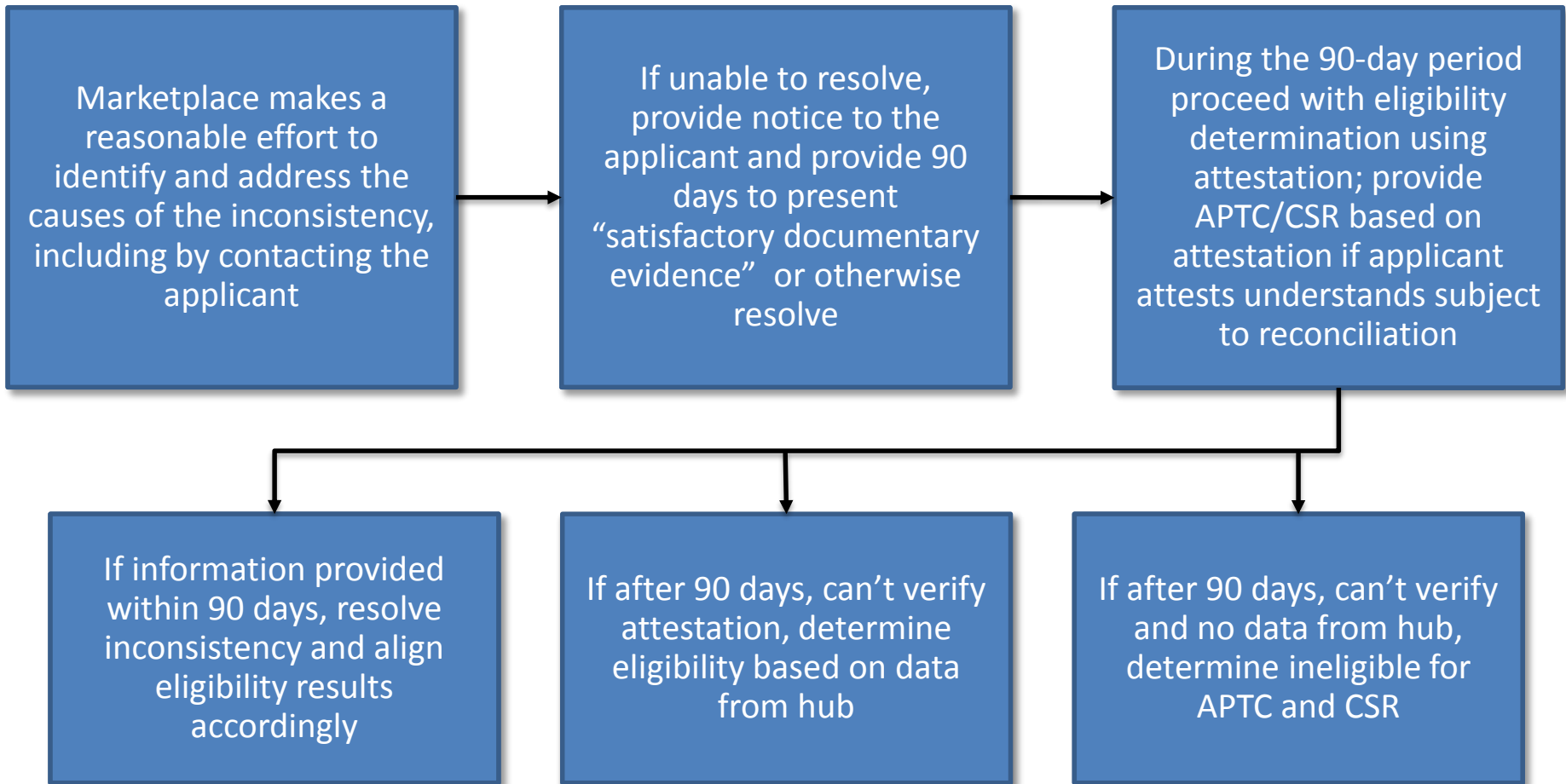


# “Simplified” Version of Rules on Verification of Income by the Marketplace





# Process for Resolving Inconsistencies Regarding Income





# The Reyes Family's Income Goes Down

- Mr. Reyes is self-employed. On the family's 2012 tax return, he reported self-employment income at \$50,000 and Mrs. Reyes earned \$25,000 at her part-time job.
- Mr. Reyes lost his best customer in late 2013 and he expects his income will be only \$25,000 in 2014.
- The Reyes attest to projected annual income of \$52,000 for 2014.
- The Marketplace provides premium tax credits based on the attestation, and gives the Reyes family 90 days to submit documentation of their income.
- If they fail to submit documentation, the Marketplace will use their 2012 return as the basis for determining their premium tax credits.





# What is Satisfactory Documentary Evidence?\*

## What should I do next?

- Sarah Young and John Young - You need to send the Marketplace proof of your yearly income for 2014. Examples of documents you can send include:
  - Wages and tax statement (W-2)
  - Pay stub
  - Letter from employer
  - Cost of living adjustment letter and other benefit verification notices
  - Lease agreement
  - Copy of a check paid to the household member
  - Bank or investment fund statement
  - Document or letter from Social Security Administration (SSA)
  - Form SSA 1099 Social Security benefits statement
  - Self-employed ledger
  - Letter from government agency for unemployment benefits

If you do not provide documentation by the following date, your tax credit amount and lower copayments, coinsurance, and deductibles may end: December 31, 2014.

*\*From model notices at <http://marketplace.cms.gov/getofficialresources/training-materials/individual-market-eligibility-notices.zip>*



# John Graduates from College and Applies for Health Coverage



- John has never filed taxes and has a new job starting in February
- He attests to annual projected income of \$22,000 for 2014
- Because no electronic data are available, John has to submit “satisfactory documentary evidence” of his 2014 income within 90 days.
- During the 90-day periods, John will receive APTC based on his attestation of income.



## George's Income Is Unsteady



- George is a single, self-employed carpenter who hasn't filed taxes for the last few years.
- He goes over his records and estimates his income (after expenses) for 2014 will be \$30,000 for the year.
- George gets a preliminary determination of APTC based on his attestation and needs to provide evidence within 90 days.
- If George receives APTC in 2014, he has to file a tax return or he will be ineligible for premium tax credits in future years.



# **A Brief Look at Reconciliation of Advance Payments and Final Premium Credit Amount**



# What Happens When Estimated Income for the Year is Different from Actual Income?

- Final amount of credit based on ***actual*** income
- At tax filing time, advance payments received are reconciled with actual credit amount
  - If income increases, may have to repay
  - If income decreases, may get more credit at tax time
- To avoid repayment, can reduce the amount of advance payment received during the year





# Cap on Amount of Advance Credits that Must Be Paid Back

Income as percentage of poverty line	Annual income for an individual (2013 \$)	Single taxpayers	Annual income for a family of four (2013 \$)	Married taxpayers filing jointly
Under 200%	Under \$22,980	\$300	Under \$47,100	\$600
At least 200% but less than 300%	\$22,980 - \$34,470	\$750	\$47,100 - \$70,650	\$1,500
At least 300% but less than 400%	\$34,470 - \$45,960	\$1,250	\$70,650 - \$94,200	\$2,500
400% and above	\$45,960 and higher	Full reconciliation	\$94,200 and higher	Full reconciliation



## Special Rule for People Whose Income Goes Below the Poverty Line for the Year

- People who project income above the poverty line could end up with income below the poverty line for the year
- Special rule at 26 CFR § 1.36B-2(b)(6) and (b)(7) means they are still considered as eligible for premium tax credits if marketplace estimated their income would be over the poverty line when they enrolled and they were otherwise eligible
- Reconciliation is based on their actual income for the year



# John Loses His Job in August



- John gets laid off from his new job in August and enrolls in Medicaid in September.
- When he files his 2014 taxes, his income is only \$11,000, which is less than 100 percent of the poverty line.
- John is eligible for the APTC he received and reconciliation is based on his actual income of \$11,000.



## References

### E-CFR Income Verification:

<http://www.ecfr.gov/cgi-bin/text-idx?SID=67fc156fb2495ed1aa4a69ce48ed8ceb&node=45:1.0.1.2.70.4&rgn=div6>

### E-CFR Special Reconciliation Rule:

<http://www.ecfr.gov/cgi-bin/text-idx?SID=67fc156fb2495ed1aa4a69ce48ed8ceb&node=26:1.0.1.1.1.0.5.53&rgn=div8>

### Marketplace Model Notices:

<http://marketplace.cms.gov/getofficialresources/training-materials/individual-market-eligibility-notices.zip>



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[www.cbpp.org](http://www.cbpp.org)