

ALERT

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The Affordable Care Act and Your 2016 Income Tax Return

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The Affordable Care Act requires all taxpayers to maintain “qualifying health coverage,” which generally includes employer sponsored coverage, individual health coverage, or coverage under government sponsored programs.

Alternatively, taxpayers can file Form 8965 to claim a coverage exemption for a variety of reasons, including, but not limited to, income below the income tax return filing requirement, no coverage for less than three consecutive months during the tax year, membership in a federally recognized Indian tribe, unaffordability, or incarceration.

Taxpayers that fail to maintain qualified health coverage for the entire year, or fail to qualify for a coverage exemption under Form 8965, must pay a tax penalty known as the “shared responsibility payment.”

For 2016, the shared responsibility payment amounts to the greater of 2.5% of income above the taxpayers’ return filing threshold or a flat dollar amount equaling \$695 per adult and \$347.50 per child, with a family maximum of \$2,085. The shared responsibility payment is calculated using Form 8965 and reported on Line 61 of U.S. Individual Federal Income Tax Return (Form 1040); similarly, this payment is reported on Line 38 of Form 1040A, or Line 11 of Form 1040EZ.

On January 20, 2017, President Trump’s Executive Order instructed the executive branch to “take all actions consistent with law to minimize the unwarranted economic and regulatory burdens of the Affordable Care Act, and prepare to afford the States more flexibility and control to create a more free and open healthcare market.” The Executive Order also orders the heads of executive departments and agencies with authorities and responsibilities under the Act to “exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay the implementation of any provision or requirement of the Affordable Care Act that would impose a fiscal burden on any State or a cost, fee, tax, penalty, or regulatory burden on individuals, families, [or] healthcare providers.”

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In response to that Executive Order, the IRS posted an announcement alerting taxpayers of its decision to modify the Affordable Care Act reporting requirement so that completing Line 61 (or Line 38 of Form 1040A, or Line 11 of Form 1040EZ) is optional for 2016 income tax returns, instead of mandatory.

While the IRS maintains that they will follow-up with those taxpayers leaving blank line 61 (or Line 38 of Form 1040A, or Line 11 of Form 1040EZ), the reporting burden has clearly shifted away from taxpayers, and as directed by President Trump’s Executive Order, the IRS has shifted focus towards a liberalized enforcement of the Affordable Care Act’s penalty process.

If you have any questions regarding the effect of this change, please do not hesitate to contact the Tax, Trusts and Estates attorneys at SPSK.

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