

Affordable Care Act - Individual Shared Responsibility Provision – § 5000A

Return Preparer Best Practices

Note: There are no special or specific due diligence requirements related to Affordable Care Act (ACA) issues. This document represents best practices for practitioners to gather necessary information to use in preparing 2014 tax returns for their clients, including information that may be helpful to demonstrate compliance with the ACA's new health coverage requirements. General requirements on filing a complete and accurate tax return continue to apply. Preparers are expected to resolve conflicting or contradictory statements from their clients during the return preparation process, as they do today.

Under the individual shared responsibility provision of the ACA, all individuals are required to have qualifying health care coverage (called minimum essential coverage), qualify for an exemption, or make an individual shared responsibility payment, or SRP, with their Federal income tax returns.

Section 1: Did your client have qualifying health care coverage for all members of their tax household (which includes the client) for the full year? If your client and all members of their tax household did not have qualifying coverage for the entire year, did they have coverage for part of the year?

1. If yes, review your client's documentation to determine what portion of the tax year they had qualifying health care coverage for all members of their tax household. Documentation may include:
 - Any Form 1095 and/or
 - Form W-2 and/or
 - Other documentation that may substantiate coverage, such as:
 - Medical bills showing that during the tax year an amount due was paid by a health insurance company (indicates coverage)
 - Documentation/statement from an employer indicating health insurance coverage
 - Medicare card
 - Record of advance payments of the premium tax credit
2. If no, go to section 2.

Section 2: For any month that your client or a member of their tax household did not have qualifying coverage, did they apply for a health coverage exemption from the Marketplace (also known as an Exchange)?

1. If yes, was an Exemption Certificate Number (ECN) received from the Marketplace for each individual in the tax household?
 - If yes, report the ECN in Part I of Form 8965.
 - If no, see the Instructions to Form 8965 to find out how to report pending exemption applications.
2. If no, go to section 3. Note that certain health coverage exemptions are available only from the Marketplace.

Section 3: Does your client or member of their tax household qualify for an exemption that may be claimed on their tax return filed with the IRS?

There are several exemptions that eligible individuals may claim on their tax returns without visiting the Marketplace. These exemptions include:

- Member of an Indian Tribe – this category includes members of Federally-recognized Indian tribes and other individuals who are eligible for services from an Indian health care provider including the Indian Health Service. Supporting proof may include statement from a Federally-recognized Indian tribe or other indication of membership (e.g., an ID card), or documentation showing services received from an Indian health care facility.
 - Member of a Health Care Sharing Ministry (HCSM) – In general, a HCSM is a tax-exempt organization whose members share a common set of ethical or religious beliefs and share medical expenses in accordance with those beliefs, even after a member develops a medical condition. Supporting proof may include a statement from the HCSM providing the name and location of the HCSM and indicating your client’s membership.
 - Incarcerated Individuals – this category includes individuals who were incarcerated in a jail, prison, or similar penal institution after the disposition of charges. Supporting proof may include a statement indicating the individual’s prisoner ID number and the name and location of the jail or prison, or court records detailing the individual’s incarceration.
 - Short Coverage Gap – this exemption may apply if the individual lacked qualifying coverage only for less than 3 consecutive calendar months. If the gap in coverage was more than 3 months, the individual does not qualify for this exemption. Only one short coverage gap exemption may be claimed in a year.
 - Not Lawfully Present – this category includes individuals who are not lawfully present in the U.S. and individuals who are not present in the U.S. long enough to be treated as resident aliens for tax purposes.
 - Below the Filing Threshold – this exemption applies if the individual cannot be claimed as a dependent by someone else and the individual’s gross income is low enough that they are not required to file a tax return. Eligible individuals are not required to file a return solely to claim this exemption.
 - Certain Hardship Exemptions – there are several hardship exemptions that may be claimed with a tax return without first applying for the exemption from the Marketplace. See Notice 2014-76 for a complete list of these hardship exemptions.
 - Citizens Living Abroad or in a United States Territory – all bona fide residents of a foreign country or a United States territory are treated as having minimum essential coverage and, thus, are effectively exempt from the individual shared responsibility provision.
1. If yes, complete Part II or III of Form 8965 and attach it to the applicable Form 1040 series return.
 2. If no, unless some form of 2014 transition relief applies, your client must calculate and pay the SRP. Use worksheets provided in the instructions to Form 8965 to calculate the amount of the SRP due. With appropriate taxpayer consent, obtain copies of the tax return(s) for all members of the tax household who have a filing requirement. Information on those returns is needed to calculate the amount of the SRP due. The SRP is based, in part, on household income (HHI). HHI is the sum of the modified adjusted gross income (MAGI) of the primary taxpayer and the MAGI of all other members of the tax household with a filing requirement. MAGI for purposes of the SRP is adjusted gross income plus tax-exempt interest and excludable foreign earned income. See the instructions to Form 8965 for more information.