TAX NEWS

Deadline for Marketplace Insurance Starting January 1 Is Today (December 15); 2016 Open Enrollment Ends January 31—December 15 is (was) the last day to sign up for January 1 health insurance coverage through the Marketplace. Individuals enrolled in a 2015 Marketplace plan who have taken no action will be automatically reenrolled in the same or similar coverage for 2016. The 2016 open enrollment period ends January 31, 2016.

IRS Explains How to Claim the Health Coverage Tax Credit for 2014—Last summer's trade bill retroactively reinstated the HCTC to 2014 and extended it through 2019. The credit may be claimed *only* on an amended return for tax year 2014. Individuals who also qualify for the premium tax credit may claim either, but not both credits. Taxpayers who wish to claim the HCTC must follow IRS guidelines to amend their 2014 returns and, if necessary, "correct" the APTC/PTC that was previously received.

QUESTION OF THE WEEK

This week's question: A client had no health insurance at the end of 2014 and used the short coverage gap exemption on his 2014 tax return. He enrolled in a Marketplace plan in 2015, but signed up too late for coverage starting January 1. Can he use the short coverage gap exemption again for the beginning of 2015?

Clarification on last week's question on the shared responsibility payment: In last week's QOTW we said that if a dependent child (such as a student with a job) has income and a filing requirement, then that child's income must figure into household income along with the taxpayer's.

The child's filing requirement threshold for this purpose is no different from the usual filing threshold for dependents and is based on how much income the child has and whether it is earned or unearned income. If you determine that the child *is* over the filing threshold for a dependent, then the child's MAGI (AGI plus tax-exempt interest and excluded foreign income) is added to the taxpayer's for purposes of calculating the penalty.

DEADLINE FOR MARKETPLACE INSURANCE STARTING JANUARY 1 IS TODAY (DECEMBER 15); 2016 OPEN ENROLLMENT ENDS JANUARY 31

December 15 is the last day to sign up for January 1 health insurance through the Marketplace. If individuals who are currently enrolled in a 2015 Marketplace plan do not re-enroll by December 15, the Marketplace will automatically re-enroll them in the same or similar coverage. If no tax return was filed for 2014, they may be automatically re-enrolled without an advance premium tax credit.

Coverage will start February 1 for individuals who enroll December 16 through January 15 and March 1 for individuals who enroll January 16 through the end of the month. Once the 2016 open enrollment period ends, individuals may sign up before the 2017 open enrollment only if a special enrollment period (SEP) applies. Individuals qualify for a SEP if they lose health coverage, get married, have a child, or experience another life change.

2016 Open Enrollment	
Date enrolled	**Coverage begins**
November 1, 2015-December 15, 2015 (includes automatic re-enrollment group)	January 1, 2016
December 16, 2015-January 15, 2016	February 1, 2016
January 16, 2015-January 31,2016	March 1, 2016
SEP only February 1, 2016 to start of 2017 open enrollment period	

IRS EXPLAINS HOW TO CLAIM HEALTH COVERAGE TAX CREDIT FOR 2014

Background. The health coverage tax credit (HCTC) is a refundable credit equal to 72.5% of the cost of qualified health insurance for eligible individuals and their families. Eligible individuals include:

- Taxpayers who receive certain Trade Adjustment Allowances (TAA)—generally, taxpayers who have lost their jobs from an international trade-affected company.
- Taxpayers who are at least age 55 and who receive pension benefits paid in part by the Pension Benefit Guarantee Company (PBGC).

See "*What is the health coverage tax credit?*" and related HCTC articles in the Tax Research Center for details on eligible individuals, and qualifying/disqualifying coverage.

Expiration and reinstatement. The HCTC expired December 31, 2013, and was *not* renewed by last year's extender legislation, the Tax Increase Prevention Act of 2014. However, the Trade Preferences Extension Act of 2015 (TPEA) enacted last June retroactively reinstated the credit to tax year 2014 and extended it through 2019. (See TAX in the News July 7, 2015.) TPEA also modified the HCTC:

- Eligible individuals elect the HCTC on a month-by-month basis. Once the HCTC is claimed for a month, the premium tax credit (PTC) may not be claimed for that month or any subsequent month in the year with respect to insurance that is eligible for the HCTC election.

(Continued on page 3)

(Continued from page 2)

- All qualified health plans offered through the Marketplace will qualify for the HCTC for 2014 and 2015. Marketplace plans will no longer qualify starting in 2016.
- There is no requirement to enroll in non-group (individual) coverage prior to becoming HCTC eligible.

See HCTC: Latest News and Background on IRS's site for more discussion of TPEA. Taxpayers may now amend 2014 tax returns to claim the HCTC.

The HCTC for 2014. Taxpayers *must* follow IRS special instructions to claim the HCTC for 2014. These instructions are set out in Amending Your Tax Year 2014 Return to Claim the Health Coverage Tax Credit. Basic instructions are summarized as follows:

> **Amended return only!** The HCTC for 2014 can be claimed *only* on an amended return, Form 1040X, with "HCTC" written in large bold letters on top of the form and "Form 8885" checked on line 15. Taxpayers who have not filed a tax return for 2014 must first file an original 1040 series return, even if there is no other reason to file, and then file an amended return to claim the HCTC.

- **Election statement.** The explanatory section of the amended return (Part III) should include a statement such as "I am claiming the HCTC. I elect the HCTC starting in January."
- **2013 Form 8885.** Taxpayers must use the 2013 version of Form 8885, *Health Coverage Tax Credit*, with "2013" crossed out and "2014" written in large bold numbers. There is no 2014 version of the form and the 2015 version should not be used for the 2014 credit.
- **Proper documentation**. Taxpayers should follow the form instructions to attach the appropriate proof of eligibility for each month the credit is claimed. Documentation includes an official letter from the Department of Labor, PBGC, or other agency; proof of insurance; and proof of payment.
- **Mailing**. The amended return, Form 8885, documentation, and Form 8962 if required should be mailed to the correct address shown in the links above.

The HCTC and PTC. As explained earlier, an eligible taxpayer may claim the HCTC or the PTC in a given month, but not both credits for the same coverage. Before completing Form 8885, taxpayers who received the APTC or PTC must first complete Form 8962, *Premium Tax Credit*, to "correct" the PTC. Also, check "Form 8962" on line 15 of the 1040X.

The cost of health insurance coverage for HCTC purposes includes both the amount the taxpayer paid directly to the insurance provider and the APTC paid for the months the HCTC is being claimed.

The amended return instructions also link to a Q&A that provides additional details on the HCTC for 2014 and how to amend returns. Although the procedure can be quite involved, taxpayers eligible for the HCTC, whether or not they previously received the PTC, should consider amending their returns to get the credit and refund.

Looking ahead to tax year 2016 (TS 2017), taxpayers will need to be enrolled in qualifying coverage as soon as possible. Marketplace coverage will not qualify for the HCTC beginning in 2016. The HCTC, like the PTC, may be paid in advance. However, the advance payment option will not be available until July of 2016. For this reason, individuals who qualify for APTC may wish to enroll in Marketplace coverage and claim a PTC for the first half of the year, and then switch coverage into an HCTC eligible plan after advance payments of HCTC begin. HCTC updates are available on IRS's site, www.irs.gov\hctc.

QUESTION OF THE WEEK

Q. A new client said he lost health insurance coverage in November of 2014 because he stopped paying premiums. He signed up during the 2015 Marketplace open enrollment period but too late for January 1, 2015 coverage. He claimed the short coverage gap exemption on his 2014 tax return that he prepared himself. Is the client able to use the three-month coverage gap exemption again for 2015?

A. Possibly. Here are the rules for the short coverage gap exemption:

1. The exemption applies to a gap of *no more than* two consecutive months, rather than three months.
   - If a coverage gap is three months or more, this exemption cannot be used.
   - If an individual has health insurance coverage for just one day during a month, that month counts as a coverage month rather than a gap month.
2. If an exemption *other than* the short coverage gap exemption applies in a particular month (for example, a hardship exemption), that month also counts as a coverage rather than a gap month for purposes of the short coverage gap exemption.
3. The exemption potentially applies only to the *first* coverage gap in a year, *regardless of its length*.
   - Once this exemption applies, it cannot be used again in the same calendar year, even if a later gap is shorter.
   - If the first gap is three or more months, and no other exemption applies, the short coverage gap is lost for the year. It cannot be applied to later gaps, even if they are only one or two months long.
4. If the coverage gap crosses a calendar year:
   - Months in the second calendar year do *not* count for the first year's exemption to determine the length of the gap, but
   - Months in the first calendar year do count as part of the gap for the second year's exemption.

Before applying the rules to this client's situation, you'll need to find out:

- If the client had health insurance coverage at least one day in November of 2014, and
- Whether the client's 2015 coverage began February 1 or March 1.

Here are the possibilities (assuming no other exemptions apply):

- **2014 exemption is for December only; 2015 coverage began February 1 (two-month gap)**. The cross-year gap is only two months (December and January). You can apply the short coverage gap to January of 2015. This short coverage gap exemption cannot be used again in 2015.
- **2014 exemption is for November *and* December; 2015 coverage began February 1 (three-month gap).** The cross-year gap is for three months (November, December, and January). You cannot apply the short coverage gap exemption to January of 2015. This exemption is also lost for the rest of 2015 even though it cannot be used for the first gap in the year.
- **2014 exemption is for December only; 2015 coverage began March 1 (three month gap).** Here once again, the cross-year gap is three months (December, January, and February). You cannot apply the short coverage gap to January and February of 2015. This exemption is also lost for the rest of 2015 even though it cannot be used for the first gap in the year.

(Continued on page 5)

(Continued from page 4)

- **2014 exemption is for November and December; 2015 coverage began March 1 (four month gap).** This time, the cross-year gap is for four months (November, December, January, and February). This exemption is also lost for the rest of 2015 even though it cannot be used for the first gap in the year.

If a different exemption can be applied to January of 2015, then the short coverage gap exemption is available to apply to a coverage gap later in the year. Similarly, if a different exemption is available for November/December 2014, the client might consider amending the return to claim a different exemption so those months are not counted as part of the short term gap beginning in 2015.

To summarize, any time a client has a coverage gap that goes from the last month in one year through the first month in the next year, the short coverage gap exemption may apply to one, both, or neither of the years. Application of the short coverage gap exemption across tax years will depend on the size of the end-of-year/beginning-of-year gap.

If the first gap in a year (which may include months from the end of the previous year) exceeds two months, and no other exemption applies to those months, the short coverage gap exemption is lost for the year. A month that has at least one day of coverage is not counted as a gap month. A month in which a different exemption applies is also not counted as a gap month.

See "How to claim an exemption for a short gap in coverage" on the www.healthcare.gov.

