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Think Filing Taxes Was Tough Before Obamacare? Just Wait

The Affordable Care Act, aka Obamacare, is part health law, part tax law. Some feel benefited by the law, some burdened by it. And one's perceptions about that can change over time. Either way, you may be annoyed by the extra forms and extra tax compliance, even if your tax bill doesn't go up. The IRS has a far more important role in the law than you might think.

This year for the first time, the [Affordable Care Act has created a trickier tax season](#). It is more expensive too, as virtually all Americans filing tax returns will have to consider the law's impact on them and their taxes. There is likely to be considerable confusion this first year, and probably many mistakes. Yet many expect the IRS to be lax for a time. The agency is already stretched thin, and tax season looms large, especially this year.

A major feature of the law is a mandate requiring that most Americans must carry health insurance. In its simplest, that means you must state on your tax forms whether you have coverage. You also must say whether you got tax credits to help pay for it. If you did not have coverage in 2014 as required—and you are honest and say you didn't—there's a fine. Yet if you fail to pay it, many in the tax filing business think you may slide by without incident.

Fine Time

Consumers who didn't have health insurance in 2014 will face penalties when filing tax returns in the coming months. Penalty amount for select types of filers younger than 65:

FILING STATUS	Single	Head of household	Married, filing jointly
HOUSEHOLD SIZE	One adult	One adult, two children	Two adults, two children
INCOME	\$60,000	\$150,000	\$250,000
PENALTY	\$498.50	\$1,369.50	\$2,297

Note: Penalty based on 1% of gross income after subtracting the minimum income threshold required for filing a federal income-tax return. Filers may qualify for an exemption; for example, if insurance would cost more than 8% of their household income.

Sources: Internal Revenue Service;
Healthcare.gov; Kaiser Family Foundation

The Wall Street Journal

On the other hand, if you are entitled to subsidies, your tax refund is likely to go down. In fact, your refund may go down so much that you may even owe the IRS money. The subsidy process is confused and many people who received subsidies are likely to owe the IRS. Why? Because there is estimating involved, the tax credits they received to offset their insurance premiums may have been too large.

In fact, H&R Block estimates that up to one half of the approximately 6.8 million taxpayers who got subsidies in 2014 may have to send money back to the government. Tax preparation firms are trying to gear up to provide the kind of hybrid health insurance tax law advice that consumers are needing this year. But like any new system, there are likely to be some hiccups. It will also be one more reason taxpayers may need tax professionals, even if their situations seem simple.

In that sense, this could be a pivotal tax filing season. Obamacare was enacted in 2010, eventually rolled out, and repeatedly delayed. As enacted, employers were supposed to send in to the IRS lists of employees with health coverage through their employment. After delays, though, it's now clear that there will be more self-reporting than originally envisioned.

Given that the IRS is administering the massive health care/tax law, you might assume that there would be something like a Form W-2 or Form 1099 that would reveal key data. For now, though, the IRS says it has to trust tax filers to answer truthfully whether they had health insurance or need to pay a penalty. In some sense, it might be similar to answering the question whether you have a foreign bank account. That too is a yes or no question.

Some taxpayers are likely to just skip the question about health insurance, just as some skip the foreign bank account question. If you don't say yes or no, the reasoning goes, how can they penalize you? Tax return preparation software may or may not default to yes or no for health insurance. Remember, though, that you must sign your tax return under penalties of perjury.

If you must pay a fine, you pay it as part of your tax bill. That will make some people unhappy. Still, the flak from people who got subsidies and then are getting smaller refunds than they thought—or even owing money—may be greater.

Finally, a major impact on many higher income taxpayers is likely to be the 3.8% net investment income tax. It was enacted in 2010 expressly to fund the health law. It first took effect in 2013, and 2014 is likely to be a big year. If you need guidance, the IRS has released these [questions and answers on the net investment income tax](#).

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