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VITA/TCE **Training Guide**

Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)

Volume 12 of 16

2023 RETURNS

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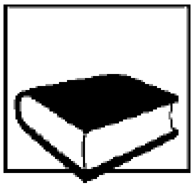
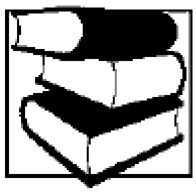
Child Tax Credit & Credit for Other Dependents

Introduction

The child tax credit is unique because if a taxpayer cannot benefit from the nonrefundable credit, the taxpayer may qualify for the refundable additional child tax credit on Schedule 8812, Credits for Qualifying Children and Other Dependents. In this chapter, we will learn about both credits and their relationship to each other. Some taxpayers may not be aware of these credits. Your time, effort, and understanding of this credit may result in a lower tax for the taxpayer.

The child tax credit, credit for other dependents, and the additional child tax credit are entered on Form 1040. The intake and interview sheet, along with the Volunteer Resource Guide, Tab G, Nonrefundable Credits are critical tools needed to determine eligibility for the credit.

Don't confuse these credits with the child and dependent care credit!

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Determine the taxpayer's eligibility for the credit(s)
- Determine which taxpayer can claim the credits

What do I need?

- Form 13614-C
- Publication 4012
- Publication 17

- Schedule 8812

Optional:

- Form 1040 Instructions
- Schedule 8812 Instructions

What is the child tax credit?

The child tax credit (CTC) is a nonrefundable credit that allows taxpayers to claim a tax credit of up to $2,000 per qualifying child, which reduces their tax liability.

What is the additional child tax credit?

Taxpayers who are not able to claim the full amount of the child tax credit may be able to take the refundable additional child tax credit (ACTC). Completing Schedule 8812 may result in a refund even if the taxpayer doesn’t owe any tax.

Who can claim the child tax credit?

To be eligible to claim the child tax credit, the taxpayer must have at least one qualifying child. If taxpayers claim the child tax credit or additional child tax credit but are not eligible for the credit, they can be banned from claiming the credit for either two or ten years. Refer to Disallowance of Certain Credits in the Volunteer Resource Guide, Tab I, Earned Income Credit, to determine if Form 8862, Information to Claim Certain Credits After Disallowance, must be filed.

Does the child have to be the taxpayer's dependent?

To be a qualifying child for the child tax credit, the child must be the taxpayer's dependent.

Are there special rules for children of divorced or separated parents or parents who live apart?

There are special rules for children of divorced or separated parents, as well as for children of parents who live apart. The custodial parent is the parent with whom the child lived for the greater number of nights during the year. The other parent is the noncustodial parent. In most cases, the qualifying child is considered the dependent of the custodial parent. However, the noncustodial parent may be entitled to claim the child tax credit and additional child tax credit for the qualifying child if the custodial parent provides them with Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or a similar statement. All noncustodial parents must attach Form 8332 or a similar statement to their return each year the custodial parent provides the release. Review the Child Tax

Credit charts in the Volunteer Resource Guide, Tab G, Nonrefundable Credits for additional information.

Taxpayers with divorce decrees or divorce agreements executed after 2008 must use Form 8332 or a similar statement whose only purpose is to release the custodial parent's claim to the child tax credit. They cannot simply substitute pages from the divorce decree.

Mary and Ralph got a divorce in 2015. They have one child together, Amy, who lives with Mary. All are U.S. citizens and have SSNs. Mary and Ralph provide more than half of Amy's support. Mary's AGI is $31,000, and Ralph's AGI is $39,000. Amy is 12. The divorce decree does not state who can claim the child.

Ralph, the noncustodial parent, can claim the child tax credit only if Mary signs Form 8332. Mary can still claim the earned income credit, *Head of Household, and child and dependent care credit for Amy assuming she qualifies for them.*

Remember, a custodial parent's release of the dependent child will also release the child tax credit and the additional child tax credit, if either applies, to the noncustodial parent.

How do I determine eligibility for the child tax credit?

To determine whether a child meets the criteria of a qualifying child for the child tax credit or additional child tax credit, use the interview techniques and tools discussed in earlier lessons. Begin by reviewing and completing the Marital Status and Household Information section of the taxpayer's intake and interview sheet. Verify that the child:

- Is under age 17 on December 31 of the tax year

- Lived with the taxpayer for more than six months of the year (remember the special rules for divorced or separated parents or parents who live apart)
- Did not provide over half of his or her own support
- Meets the relationship criteria
- Is a U.S. citizen, U.S. national, or resident of the United States
- Has a valid Social Security number

If the Marital Status and Household Information section is incomplete or the taxpayer is unsure of how to respond, you may want to use Table 1: Does Your Qualifying Child Qualify You for the Child Tax Credit or Credit for Other Dependents? in the Volunteer Resource Guide, Tab G, Nonrefundable Credits. It provides helpful probing questions to ask the taxpayer.

The entries for each qualifying child in the Basic Information section will help the software determine if the child is eligible for the child tax credit.

Taxpayers claiming the child tax credit must have a valid identification number (SSN or ITIN) by the due date of the tax return, including extensions. In addition, the dependent claimed must have a valid SSN by the due date of the return, including extensions. Taxpayers cannot subsequently file amended returns to claim the credit for a year that they did not originally have a valid identification number by the return due date.

Ed's son, Jeff, turned 17 on December 30, and has a valid Social Security number (SSN). He is a citizen of the United States. According to the child tax credit rules, he is not a qualifying child for *the child tax credit because he was not under the age of 17 at the end of the tax year.*

EXERCISES

Question 1: Jose and Yolanda Alameda are Married Filing Jointly and have five dependent children under the age of 17. Jose and Yolanda both have valid SSNs. Their children have Individual Taxpayer Identification Numbers (ITINs). Are their children qualifying children for the purpose of the child tax credit?

a. Yes

b. No

What is the amount of the credit?

The maximum amount taxpayers can claim for the child tax credit is $2,000 for each qualifying child. The amount claimed on Form

1040 depends on the taxpayer's filing status, modified adjusted gross income (MAGI) and tax liability. The amount of the credit may be reduced if the taxpayer's:

- MAGI is above the limit for the taxpayer's filing status; see the Volunteer Resource Guide, Tab G, Nonrefundable Credits, or
- Tax liability reduced by the majority of the nonrefundable credits is less than the maximum child tax credit The credit is figured on Schedule 8812. The tax software makes all these calculations based on your entries.

Stan files as Head of Household and has three children who qualify for purposes of the child tax credit. Stan's MAGI is $54,000 and his tax liability is $4,680. Stan is eligible to take a child tax credit of up to $4,680 to offset his tax liability. Stan cannot claim the full $6,000 child tax credit because it is limited to his tax *liability of $4,680. Stan may also be eligible for the additional child tax credit.*

May and Bob file as Married Filing Jointly and have two children who qualify for the child tax credit. Their MAGI is $56,000 and their tax liability is $954. They can only claim $954, reducing their tax to zero. As they could not claim the maximum child tax credit, May and Bob may also be eligible for the additional child tax credit.

What is MAGI?

Typically, the taxpayers' MAGI is the same as their AGI from Form 1040. For more information on MAGI as it applies to the child tax credit, refer to the Instructions for Schedule 8812.

If the taxpayers' tax liability is zero, they cannot take the credit because there is no tax to reduce. However, *the taxpayers may be able to take the additional child tax credit, discussed later in this lesson.*

EXERCISES

Use Table 1: Child Tax Credit from the Volunteer Resource Guide, Tab G, Nonrefundable Credits, and Publication 17 to complete the exercises. Answers are at the end of the lesson summary.

Question 2: Laura’s adopted son Jack is 12. He is a citizen of the United States and lived with Laura for the entire tax year, during which time Laura provided full financial support. Is Jack a qualifying child for the child tax credit?

a. Yes

b. No

Question 3: Which one of the following individuals (all of whom have two qualifying children for the purposes of the child tax credit) are eligible to claim the maximum $2,000 per child for the child tax credit on their tax return?

a. Fiona, who is Married Filing Separately with a MAGI of $202,000

b. Ken, a Qualifying Surviving Spouse with a MAGI of $30,000 and tax liability of $490

c. Nick, who is Single with a MAGI of $70,000 and a tax liability of $5,000

d. Julie, who is Married Filing Jointly with a MAGI of $422,000

What is the additional child tax credit?

This credit is for certain individuals who get less than the full amount of the child tax credit. The additional child tax credit may give taxpayers a refund even if they do not owe any tax.

Taxpayers who do not get the full $2,000 of the child tax credit may qualify for the additional child tax credit. The criteria for a child to be a qualifying child for the additional child tax credit are the same as the criteria for the child tax credit listed above.

What is the amount of the credit?

The additional child tax credit allows eligible taxpayers to claim up to $1,600 for each qualifying child. The refundable portion is indexed for inflation. For taxpayers with earned income over $2,500, the credit is based on the lesser of:

- 15% of the taxpayer’s taxable earned income that is over $2,500 or
- The amount of unused child tax credit (caused when tax liability is less than allowed credit)

The refund for taxpayers claiming the child tax credit will not be issued prior to February 15.

Remember May and Bob who have two qualifying children, a MAGI of $56,000, and a tax liability of $954? Because their tax liability is less than the full amount of the credit (in their case $4,000), they may be able to take the additional child tax credit.

There is another method to compute the additional child tax credit for taxpayers with three or more qualifying children. These taxpayers may benefit if they:

- Had Social Security or Medicare taxes withheld from their pay
- Were self-employed and paid self-employment tax
- Paid tax on tips not reported to their employer

- Did not receive the maximum available child tax credit

The amount of the taxpayer’s earned income is a factor in this calculation on Schedule 8812.

The additional child tax credit is not refundable for taxpayers electing to exclude foreign earned income from tax.

How do I calculate the additional child tax credit?

Schedule 8812 is used to calculate the credit, which is entered on the additional child tax credit line of Form 1040.

The tax software will automatically calculate the credit and place that entry on the appropriate line of the refundable credits.

If you have a question about the amount that appears as the child tax credit, the taxpayer’s completed Child Tax Credit Worksheet may help you understand the determination.

What is the credit for other dependents?

There is a $500 nonrefundable credit for dependents who do not qualify for the $2,000 child tax credit. The dependent must be a U.S citizen, U.S. national, or resident of the U.S. The dependent must have a valid identification number (ATIN, ITIN, or SSN).

Taxpayers cannot claim the credit for themselves (or a spouse if Married Filing Jointly). Taxpayers that exceed the MAGI limits for the credit for other dependents will not get the full amount of the credit. The tax software automatically applies the MAGI limits and phaseouts based on the filing status of the taxpayer.

Individuals who qualify as dependents because they are residents of Canada or Mexico do not qualify for either the child tax credit or the credit for other dependents.

Robert and Susan file a joint return and they both have SSNs. Their tax liability is $2,000. They have three qualifying dependents. Tom is their 18-year-old son, has an SSN, and meets the qualifying child dependent test. Jill is their 16-year-old adopted child, has an ATIN, and meets the qualifying child dependent test. Robert's mother, Esther, is 65 years old, has an ITIN, and meets the qualifying relative test. They are all U.S. residents. Tom, Jill, and Esther are all qualifying dependents for the credit for other dependents.

How do I avoid common errors?

When considering the child tax credit or credit for other dependents, it is critical to interview the taxpayer thoroughly and complete the dependent section of the intake and interview sheet to correctly identify eligible children or other dependents.

What if credits were disallowed in a prior year?

The intake and interview sheet asks if the taxpayer was previously disallowed child tax credit or credit for other dependents in a prior year. If the taxpayer answers “yes” to this question, refer to the Volunteer Resource Guide, Tab I, Earned Income Credit, Disallowance of Certain Credits.

Summary

The child tax credit is a nonrefundable credit that allows qualifying taxpayers to reduce their tax liability by the lesser of the amount of the credit or their adjusted tax liability.

If a taxpayer is not able to benefit from the maximum $2,000 credit per qualifying child, the taxpayer may be eligible for the additional child tax credit, which is a refundable tax credit up to $1,600 (subject to indexing).

When dependents are not eligible for the child tax credit, they may be eligible for the nonrefundable $500 credit for other dependents.

Taxpayers claiming the child tax credit or the credit for other dependents must have a valid identification number (SSN or ITIN) by the due date of the return, including extensions. For the child tax credit and the additional child tax credit, the qualifying child must have a valid SSN by the due date of the return including extensions. To claim the credit for other dependents, the dependent must have a valid identification number (ATIN, ITIN, or SSN) by the due date of the return including extensions. For all three credits, the dependent must be a U.S. citizen, U.S. resident or U.S. national.

If taxpayers claim the child tax credit or additional child tax credit but are not eligible for the credit, they can be banned from claiming the credit for either two or ten years.

To gain a better understanding of the tax law, complete the practice return(s), or supplements for your course of study using the Practice Lab on L&LT.

EXERCISE Answers

Answer 1: b, No. The children do not qualify for the child tax credit because they do not have valid SSNs.

Answer 2: a, Yes. Jack is a qualifying child for the child tax credit because he was under the age of 17 at the end of the current tax year; he meets the relationship requirement, lived with Laura for at least six months of the year; and he did not provide more than half of his support.

Answer 3: c. Nick may be able to take the full $2,000 credit for each of his qualifying children because his MAGI is not affected by the threshold limit for his single filing status. In addition, his tax liability of $5,000 is more than the amount of $2,000 per child for the credit.

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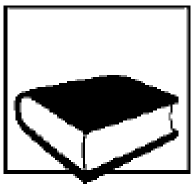
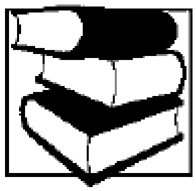
Miscellaneous Credits

Introduction

The child and dependent care credit, lifetime learning credit, child tax credit and foreign tax credit were covered in earlier lessons. This lesson provides the information you need to be able to prepare a return with certain other nonrefundable credits.

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Determine if a taxpayer qualifies for the retirement savings contributions credit and accurately complete Form 8880, Credit for Qualified Retirement Savings Contributions

- Recognize if a taxpayer qualifies for the energy efficient home improvement credit
- Calculate the credit for the elderly or the disabled by completing Form 1040, Schedule R, Credit for the Elderly or the Disabled

Use the information from the intake and interview sheet, along with the documents provided by the taxpayer to determine eligibility for these credits.

What do I need?

- Form 13614-C
- Publication 4012
- Publication 17
- Form 1040
- Schedule R
- Form 8880

Optional*:*

- Form 1040 Instructions
- Form W-2 Instructions

What is a nonrefundable credit?

In an earlier lesson, you learned the difference between a nonrefundable credit and a refundable credit. A nonrefundable credit can only reduce the tax liability to zero. All the credits discussed in this lesson are nonrefundable credits.

Generally, nonrefundable credits are applied against federal tax in the order they are listed on Form 1040, Schedule 3, Nonrefundable Credits.

The software will calculate these credits, but the correct information must be entered. The volunteer tax preparer must make the correct determinations by using the intake and interview sheet and resource materials.

What is the retirement savings contributions credit?

The retirement savings contributions credit is a nonrefundable credit eligible taxpayers may claim if they made a qualifying contribution to a retirement plan.

If the contribution is tax deductible (such as a traditional IRA), the taxpayer receives the benefit of the tax deduction and a tax credit. This is considered a *double benefit* and is rarely allowed. Contributions to nondeductible accounts (such as Roth IRAs) can qualify the taxpayer for the credit as well. The credit is calculated on Form 8880, Credit for Qualified Retirement Savings Contributions.

Who is eligible for the retirement savings contributions credit?

Generally, an individual who made a voluntary contribution to a retirement account, is at least 18 years of age, not a dependent, and not a full-time student may be eligible to claim this credit if their income is not too high. Go to the Volunteer Resource Guide, Tab G, Nonrefundable Credits, and review the Retirement Savings Contribution Credit – Screening Sheet for the qualifications.

What are eligible contributions for the purpose of the retirement savings contributions credit?

To be eligible for the credit, taxpayers' contributions must be elective or voluntary. For purposes of this credit, an employee contribution will be voluntary as long as it is not required as a condition of employment, participation in the employer's retirement plan, or in order to get benefits under the plan. Eligible contributions include:

- Traditional or Roth IRA contributions (other than rollover contributions)

- Elective deferrals to a 401(k) or 403(b) plan (including designated Roth contributions), a governmental 457 plan, SEP, or SIMPLE plan
- Voluntary employee contributions to a qualified retirement plan as defined in section 4974(c) (including the federal Thrift Savings Plan), or
- Contributions to a 501(c)(18)(D) plan

Contributions designated under Internal Revenue Code Section 414(h)(2) (government pick-up plans) are treated as employer contributions, not voluntary contributions made by the employee. They do not qualify for the credit and should not be included on Form 8880, line 2. This information is stated in the Form 8880 Instructions.

How do I know if the taxpayer made an eligible contribution?

In most cases, eligible contributions will be listed on the taxpayer's Form W-2, Box 12 and includes one of the following codes: D, E, F, G, H, S, AA, or BB. These are the codes most frequently seen. For a complete list of Box 12 codes, refer to the Form W-2 Instructions.

Contributions to traditional or Roth IRAs may appear on Form 5498, IRA Contribution Information. However, most taxpayers will not receive this form before they file their tax return. When reviewing the Expenses section on page 2 of the intake and interview sheet, be sure to ask if the taxpayer made a contribution to an IRA or other retirement account or if they intend to make an IRA contribution before the April due date of the return.

Contributions to Roth IRAs are limited based on the filing status and modified AGI of the taxpayer and spouse if filing jointly. Only allowable contributions are eligible for the credit. Refer to the limitations in the Important Changes lesson.

A designated beneficiary of an Achieving a Better Life Experience (ABLE) account may claim the saver's credit for contributions he or she makes to his or her ABLE account for tax years 2018-2025.

If Form W-2 is entered into the software correctly and completely, the program will carry the appropriate information to Form 8880. Review the Volunteer Resource Guide, Tab D, Income, Form W-2 Instructions, for the software entries.

If the taxpayer contributed to a Roth IRA, enter the amounts on the Retirement Savings Contributions Credits screen. The software will carry the appropriate contributions to Form 8880. Review the Volunteer Resource Guide, Tab G, Nonrefundable Credits, for the software entries.

What may reduce an eligible contribution for purposes of the credit?

Eligible contributions are reduced by the following distributions received during the testing period:

- Traditional or Roth IRAs, or ABLE accounts
- 401(k), 403(b), governmental 457, 501(c)(18)(D), SEP, or SIMPLE plans
- Qualified retirement plans as defined in section 4974(c) (including the federal Thrift Savings Plan) if the taxpayer could make voluntary contributions to the plan

The testing period includes:

- The tax year
- The two preceding tax years, and
- The period between the end of the tax year and the due date of the return, including extensions

Ask the taxpayer if they received any distributions in the testing period. Do not reduce eligible contributions by distributions received from military retirement plans. Also, do not include distributions that were not taxable because they were rolled over or transferred to another qualified plan. See Publication 4012, Tab G, Nonrefundable Credits, for additional exceptions that do not need to be included in total distributions.

The software automatically reduces contributions by any taxable distributions from current tax year Forms 1099-R. Other distributions that reduce the amount of *contributions must be manually input on the appropriate line of the Retirement Savings Contributions Credits screen, such as distributions during the two-year lookback period. Check the box on the Form 1099-R input screen if the distribution should not carry to Form 8880.*

The portion of a Coronavirus-related distribution that was taxable in 2021 or 2022 on Form 8915-F is not a distribution during the look-back period for purposes of the credit. The whole amount of the 2020 Coronavirus-related distribution, reduced for any repayments, is beyond the two year lookback period.

What is the maximum contribution amount for married taxpayers for the credit?

For married taxpayers filing a joint return, both spouses may be eligible for a credit on a maximum annual contribution of $2,000 each.

If either spouse has received a distribution during the testing period, *both* spouses must reduce their eligible contribution by that amount.

Jose and Lucy are married and will file a joint return. Their adjusted gross income was below the retirement savings contributions limit. They each contributed $3,000 to a 401(k) plan. They did not receive any distributions during the three-year period and cannot claim any other credits. Jose and Lucy are eligible for a credit based on the maximum eligible annual contribution amount of $2,000 each.

Joe and Mary have been married for five years and always file a joint return. In the previous tax year, Mary changed jobs and cashed in a small 401(k) from her former employer. In the current tax year, both Joe and Mary made *eligible contributions to their IRAs and otherwise qualify for the retirement savings credit. They both must reduce the amount of their eligible contributions by the amount of the distribution that Mary received last year. This calculation is completed on Form 8880.*

How do I determine the amount of the credit?

Form 8880 is used to figure the credit. The credit can be as low as 10% or as high as 50% of a maximum annual contribution of $2,000 per person depending on filing status and adjusted gross income.

Review the Volunteer Resource Guide, Tab G, Nonrefundable Credits, Retirement Savings Contributions Credit, for the software entries and a table with the AGI brackets and related credit percentages.

EXERCISES

Question 1: All of these taxpayers contributed to their employers' 401(k) plan. Who qualifies for the retirement savings credit based on adjusted gross income? (Use the credit table found in the Volunteer Resource Guide, Tab G, Retirement Savings Contributions Credit)

a. Ed, who is single and has an AGI of $49,000

b. Sybil, who is married, files jointly, and has an AGI of $52,500

c. Megan, who is head of household and has an AGI of $65,400

d. Carl, who is a qualifying surviving spouse with a dependent child, and has a modified AGI of $59,250

Taxpayer Interview and Tax Law Application

Our volunteer is working with Ryan. She has already determined that Ryan's filing status is Single, no one can claim him as a dependent, his AGI is $25,000, and he is 28 years old. Using the Volunteer Resource Guide, Retirement Savings Contributions Credit – Screening Sheet, follow along with our volunteer as she determines Ryan's eligibility for the credit.

Sample Interview

Volunteer Says…	Ryan Responds…
Ryan, I see from your Form W-2 that you contributed $1,500 to your employer's 401(k) plan. Did you make contributions to	No, I put all my savings into the 401(k) because my employer matches it.

any other qualified plans, such as an IRA?	
That’s a great benefit. Were you a full-time student during the tax year?	No, I’ve been out of school for several years.
Well, it looks like you qualify for the credit. I will complete Form 8880 to see how much the credit will be.	Great!
Did you receive any distributions from your retirement plan at any time this tax year or the last two years, or do you plan to take any distributions before the tax filing deadline?	Well, last year I took out a loan against my 401(k) to use as a down payment on a car. I’ve already paid it back through payroll deductions. Does that count?

No, your loan isn't considered a distribution, so you'll get to use the full $1,500 contribution in the calculation of your credit. The credit will be a percentage of your contribution. It will reduce your amount of total tax, so you'll end up with a bigger refund.	I'll take every penny!

What are residential energy credits?

Individuals who purchase qualified energy efficient improvements for their main home may be allowed nonrefundable tax credits. There are two types of residential energy credits:

- Residential clean energy credit (previously named the residential energy efficient property credit) (Form 5695, Residential Energy Credits, Part I, which is out of scope for the VITA/TCE programs)
- Energy efficient home improvement credit (previously named the nonbusiness energy property credit) (Form 5695, Part II)

What is the residential clean energy credit?

This residential clean energy credit is claimed on Form 5695, Part I, and is out of scope for the VITA/TCE programs. For awareness only, taxpayers may be eligible to claim an energy credit for solar panels, solar water heaters, fuel cell property expenditures, wind turbines, geothermal heat pump property expenditures, and battery storage technology expenditures. Check for qualifying energy property purchases to determine if the taxpayer should see a professional tax preparer to claim the credit.

What is the energy efficient home improvement credit?

Through December 31, 2022, the energy efficient home improvement credit was a $500 lifetime credit. As amended by the Inflation Reduction Act of 2022, the energy efficient home improvement credit is increased for years after 2022, with an annual credit of generally up to $1,200. Beginning January 1, 2023, the amount of the credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures, including (1) qualified energy efficiency improvements installed during the year, (2) residential energy property expenditures during the year, and (3) home energy audits during the year. Additionally, there is a maximum credit of $2,000 for 30% of the sum of amounts paid by the taxpayer for heat pumps, heat pump water heaters, biomass stoves, and biomass boilers. There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures (explained below). The credit is allowed for qualifying property placed in service on or after January 1, 2023, and before January 1, 2033.

There is no lifetime limit for the credit; the limit is determined on a yearly basis. For example, beginning in 2023, a taxpayer can claim the maximum credit allowed every year that eligible improvements are made.

What home improvements are eligible for the energy efficient home improvement credit, and how much is the credit?

The following energy efficient home improvements are eligible for the Energy Efficient Home Improvement Credit:

- Building envelope components satisfying the energy efficiency requirements (see below):
  - exterior doors (the tentative credit is 30% of costs up to a maximum credit of $250 per door, up to a total of $500);
  - exterior windows and skylights (the tentative credit is 30% of costs up to a maximum credit of $600); and
  - insulation materials or systems and air sealing materials or systems (the tentative credit is 30% of costs).

- Home energy audits (the tentative credit is 30% of costs up to a maximum credit of $150).
- Residential energy property (the tentative credit is 30% of costs, including labor, up to a maximum credit of $600 for each of these four line items) satisfying the energy efficiency requirements (see below):
    - central air conditioners;
    - natural gas, propane, or oil water heaters;
    - natural gas, propane, or oil furnaces and hot water boilers; and
    - improvements to or replacements of panelboards, sub-panelboards, branch circuits, or feeders that are installed along with building envelope components or other energy property listed in this lesson and enable its installation and use.

- Heat pumps and biomass stoves and biomass boilers (30% of costs, including labor up to a maximum credit of $2,000) satisfying the energy efficiency requirements (see below):
    - electric or natural gas heat pump water heaters;
    - electric or natural gas heat pumps; and
    - biomass stoves and biomass boilers.

Labor costs for on-site preparation and installation depend on the type of qualified property. Review the Form 5695 Instructions or the FAQs on IRS.gov for more information.

The energy efficient improvement property must be new (not used).

Is there a limit on the amount of the energy efficient home improvement credit that I can claim?

Yes. There is a $1,200 aggregate yearly tax credit maximum for all building envelope components, home energy audits, and energy property. Electric or natural gas heat pump water heaters, electric or natural gas heat pumps, and biomass stoves and biomass boilers have a separate aggregate yearly credit limit of $2,000. Thus, the maximum total yearly energy efficient home improvement credit amount may be up to $3,200.

In the current tax year, Jason purchased and installed two exterior doors for $1,000 each, windows and skylights at a total cost of $2,200, and one central air conditioner at a cost of $5,000. All property installed meets the applicable *energy efficiency and other requirements for qualifying for the credit.*

First, 30% of each door's cost is $300, but the per door limit of $250 applies. Thus, Jason's expenditures for exterior doors tentatively qualify him to claim up to a $500 credit.

Next, 30% of the $2,200 of expenditures for windows and skylights is $660, but the $600 limit for all windows and skylights applies. Thus, Jason's expenditures for windows and skylights tentatively qualify him to claim up to $600.

Finally, 30% of the $5,000 cost paid for the central air conditioner is $1,500, but the $600 per item limit for energy property applies to limit Jason's credit for such expenditures to $600.

Adding these credit amounts yields a sum of $1,700 ($500 + $600 + $600), but the aggregate limit of $1,200 applies to limit the

Jason's total energy efficient home improvement credit to $1,200.

If a government or a public utility provides a subsidy to a taxpayer to purchase or install qualifying property, see the Form 5329 Instructions or the FAQs on IRS.gov to determine the tax effect.

A taxpayer may not claim the credits until the year the property is installed.

What energy efficiency requirements must be met to qualify for the energy efficient home improvement credit?

Certain energy efficiency standards must be met to qualify for the credit. Standards vary based on the type of improvement made. See the FAQs on IRS.gov or the Instructions for Form 5695 for details.

Taxpayers should retain appropriate documentation of improvements claimed for the energy efficient home improvement credit. If the taxpayer is unsure if their improvement qualifies, they should review their documentation in light of the IRS instructions. Refer taxpayers who are still not sure the improvement qualifies and who wish to claim the credit to a professional tax preparer.

What type of residence qualifies for the credit?

- For exterior doors, windows and skylights, insulation materials or systems, and air sealing materials or systems: the home must be located in the United States and must be owned and used by the taxpayer as the taxpayer's principal residence;
- For central air conditioners, natural gas, propane, or oil water heaters; natural gas, propane or oil furnaces or hot water boilers; electric or natural gas heat pumps; electric or natural gas heat pump water heaters; biomass stoves or biomass

boilers; and improvements to panelboards, sub-panelboards, branch circuits, or feeders: the home must be located in the United States and used as a residence by the taxpayer (includes renters); and

- For home energy audits the home must be located in the United States and owned or used by the taxpayer as the taxpayer’s principal residence (includes renters).

A taxpayer can claim the energy efficient home improvement credit only for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, and not for a newly constructed home.

The adjusted basis of the home is reduced by the residential credit received.

How do I handle the credit for the elderly or the disabled?

The credit for the elderly or the disabled is calculated on Schedule R.

Who qualifies for the credit for the elderly or the disabled?

Individuals who qualify for the elderly or the disabled credit are:

- Age 65 or older or
- Under age 65, retired on permanent and total disability, receiving taxable disability income, and under the mandatory retirement age their company has set

A taxpayer with a permanent and total disability is unable to engage in "substantial, gainful activity," or in other words, paid employment. Taxpayers who can do such work are not considered disabled. Working in a sheltered workshop *setting, however, is not considered substantial, gainful activity.*

Mandatory retirement age is the age set by a taxpayer's employer at which the taxpayer would have been required to retire, had the taxpayer not become disabled.

Generally, disability income comes from an employer's disability insurance, health plan, or pension plan. The payments replace wages for the time the taxpayer missed work because of the disability. The plan must provide for disability retirement for the payments to be considered disability income.

In addition to being a qualified individual, the taxpayer's total income must be within certain limits. The income limits can be found in the Volunteer Resource Guide, Tab G, Nonrefundable Credits.

Few taxpayers qualify for this credit because the credit calculation includes the taxpayers' nontaxable Social Security, veterans' benefits, or other excludable pension, annuity, or disability benefits. Most taxpayers' Social Security benefits alone exceed the limit.

John is unmarried and filing a single return. He is 67 years old and received $12,000 in nontaxable Social Security benefits in the tax year. His AGI is $9,000. Even though John is a qualified individual, he is not eligible to claim the credit since his nontaxable Social Security benefits exceed $5,000.

How do I determine the amount of the credit?

Schedule R is used to calculate the credit, and has three parts:

- Part I, Filing Status and Age
- Part II, Statement of Permanent and Total Disability which ensures that taxpayers who are under 65 have obtained a

completed physician's statement that proves they are permanently and totally disabled

- Part III, Figure Your Credit

If the taxpayer is 65 or over, or under 65 and retired on permanent and total disability, complete Schedule R to determine the amount of the credit, if any.

All Social Security and Tier 1 railroad retirement benefits must be entered on the Social Security benefits screen, even if none of the Social Security is taxable, so the tax software can correctly calculate this credit.

Tax Software Hint: *Go to the Volunteer Resource Guide, Tab G, Nonrefundable Credits, for details about qualifying income limits for this credit. If a taxpayer appears to qualify, follow the directions in the Volunteer Resource Guide to complete a Schedule R.*

The taxpayer will not get the benefit of the credit unless the Schedule R is completed.

Question 2: Taxpayers may be able to take the credit for the elderly or disabled if they are:

- Under age 65 at the end of the tax year
- Retired on permanent and total disability
- Under the mandatory retirement age on January 1, of the tax year, and
- Receiving taxable disability income

  a. True

  b. False

Taxpayer Interview and Tax Law Application

Determining Albert's Eligibility

Albert arrives at the tax center with his tax return nearly complete, but he wants to know if he can claim the credit for the elderly or the disabled. Follow along in the conversation.

Sample Interview

Volunteer Says...	Albert Responds...
Are you either a U.S. citizen or a resident alien?	Yes, I'm a U.S. citizen.
Are you over 65?	No, I'm only 54, not even old enough for retirement. But I had to stop working last year because of my disability.
Are you retired on permanent and total disability?	Yes. In fact, I started receiving disability retirement benefits last August.

I see you received $4,430 in Social Security benefits and your adjusted gross income is $15,430. Did you receive any other pension benefits that might not be taxable?	No, I just get my Social Security and disability checks from the place I retired.
And your filing status is Single, so it looks like you might be able to claim the credit. I'll complete Schedule R in the software to see if you qualify.	

What is the mortgage interest credit?

This topic is out of scope for the VITA/TCE programs and is included for informational purposes only. Taxpayers who hold mortgage credit certificates (MCCs) under a qualified state or local government program may claim a nonrefundable credit for mortgage interest paid. The taxpayer must have a document titled, “Mortgage Credit Certificate (MCC).” The amount of the credit is listed on the certificate. Refer taxpayers who choose to claim this credit to a professional tax preparer.

How are the total nonrefundable credits reported?

Nonrefundable credits are listed on Form 1040, Schedule 3 and the total is entered on the applicable line of Form 1040.

Based on your entries for all the credits, the software calculates the total of the taxpayer's credits and enters the amount on Form 1040. Remember, the nonrefundable credits cannot exceed the taxpayer's federal income tax.

Summary

Retirement Savings Contributions Credit

Taxpayers who contributed to certain retirement plans or IRAs may be eligible for a nonrefundable qualified retirement savings contributions credit.

Be sure to ask the taxpayer if IRA contributions were made or if they intend to make an IRA contribution before the April due date of the return. Carefully review the taxpayer's Form(s) W-2 for pretax retirement plan contributions and accurately input the amounts into the tax software. The software calculates the retirement savings credit based on the information entered.

The amount of the credit is determined by the taxpayer's filing status, adjusted gross income, and the taxpayer's qualified retirement contributions, reduced for certain retirement plan distributions.

Form 8880 is used to calculate the credit.

Taxpayers' IRA contributions are often overlooked. Ask taxpayers if they made traditional or Roth IRA contributions that may qualify for the retirement savings contributions credit. Taxpayers have until the April due date of the return to make contributions for the tax year.

Energy Efficient Home Improvement Credit

Taxpayers may be eligible to claim a credit for certain energy efficient improvements they make to a dwelling they use as a residence. The annual credit limit that may be claimed depends on the type or types of energy efficient improvements that the taxpayer makes during the year. Form 5695, Part II, is used to claim this credit.

Credit for the Elderly or the Disabled

Taxpayers age 65 or older, or under age 65 who retired on permanent and total disability, may be able to claim a special nonrefundable credit if they are U.S. citizens or resident aliens. Few qualify for this credit because most taxpayers' Social Security benefits exceed the income limits.

The Volunteer Resource Guide provides a flowchart for determining basic eligibility and a quick reference table of income and Social

Security limits. Schedule R, Credit for the Elderly or the Disabled, is used to calculate the credit.

What situations are out of scope for the VITA/TCE programs?

The following is out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Mortgage interest credit
- Other credits listed on Schedule 3 not included in this or a prior lesson.
- Residential clean energy credit (Form 5695, Part I) and qualified electric vehicle credits (Form 8834)

To gain a better understanding of the tax law, complete the practice return(s) for your course of study using the Practice Lab on L&LT.

EXERCISE Answers

Answer 1: b. Sybil qualifies for the credit because her adjusted gross income is under the threshold limit for Married Filing Jointly.

Answer 2: a, True. A taxpayer who is under age 65 at the end of the tax year, retired on permanent and total disability, had not reached mandatory retirement age by January 1 of the tax year, and who receives taxable disability income, may be able to take the credit for elderly or disabled. All these items must first be met before a taxpayer who is under age 65 can be considered for the credit for the elderly or disabled.

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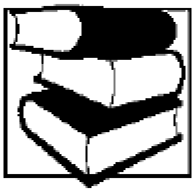
Premium Tax Credit



Introduction

In this lesson you will learn how to determine if taxpayers are eligible to receive the premium tax credit (PTC). A list of terms you may need to know is included at the end of the lesson.

Objectives

At the end of this course, using your resource materials, you will be able to:

- Determine eligibility for the PTC
- Calculate the PTC
- Report taxpayers’ PTC on the tax return

What do I need?

- Form 13614-C

- Publication 4012
- Publication 17
- Publication 974
- Form 1095-A & Instructions
- Form 8962 & Instructions

Optional

- Publication 5120
- Publication 5121
- Publication 5156
- Publication 5172
- Form 1095-B & Instructions
- Form 1095-C & Instructions

What is the Affordable Care Act?

Under the Affordable Care Act (ACA), the federal government, state governments, insurers, employers, and individuals share responsibility for improving the quality and availability of health insurance coverage in the United States. The ACA reforms the existing health insurance market by prohibiting insurers from denying coverage or charging higher premiums because of an individual's preexisting conditions. The ACA also creates the Health Insurance Marketplace. For more information about the Marketplace, see **www.healthcare.gov.** Some states have established their own health insurance marketplaces. We will refer to them all simply as the Marketplace.

The Marketplace is where taxpayers find information about health insurance options, purchase health insurance, and, if eligible, obtain help paying premiums and out-of-pocket costs. The Marketplace estimates the amount of the premium tax credit (PTC) that eligible taxpayers may be able to claim on their federal income tax returns. Based on that estimate, eligible taxpayers can decide if they want to have all, some, or none of their estimated credit paid in advance to their insurance company to help pay for coverage.

Did the taxpayer receive Form 1095-A?

While conducting an interview with taxpayers using Form 13614-C, Intake/Interview and Quality Review Sheet, you will determine whether taxpayers received Form 1095-A, Health Insurance Marketplace Statement from the Marketplace.

The Marketplace sends this form to individuals who enrolled themselves or family members in qualified health coverage through the Marketplace. The form includes information about the coverage, who was covered, and when.

The deadline for the Marketplaces to provide Form 1095-A to taxpayers is January 31 of the year after the year of coverage. Taxpayers expecting to receive a Form 1095-

A should wait to file their income tax return until they receive that form.

Who is allowed a PTC?

The PTC helps eligible taxpayers pay for health insurance purchased through the Marketplace. When enrolling in qualified health coverage through the Marketplace, the Marketplace estimates the amount of the PTC that eligible taxpayers may claim on their federal tax return. Based on that estimate, eligible taxpayers choose to have advance payments of the premium tax credit (APTC) made on their behalf to their insurance company, or to forego APTC and get all of the benefit of the PTC when they claim the credit on their federal tax return. Those who choose to get the benefit of APTC must file a federal tax return for the year the payments are made even if they have gross income for the year that is below the income tax filing threshold.

In general, taxpayers are allowed a PTC if they meet all of the following (but individuals who can be claimed as a dependent by another taxpayer for a taxable year cannot claim a PTC for the year):

- The taxpayer, spouse (if filing a joint return), or dependents were enrolled in a qualified health plan offered through the Marketplace for one or more months in which the enrolled individual was not eligible for Minimum Essential Coverage (MEC) other than coverage in the individual market. See Terms You May Need to Know at the end of this lesson for a definition of MEC.
- The premiums for the plan or plans in which the taxpayer and his or her family members enroll are paid by the due date of the taxpayer's return (not including extensions).
- If married, the taxpayer files a joint return with his or her spouse (unless the

taxpayer is considered unmarried for Head of Household filing status, or meets the criteria which allow certain victims of domestic abuse or spousal abandonment to claim the PTC using the Married Filing Separately filing status). See the instructions for Form 8962, Premium Tax Credit, for more details about these exceptions.

- The taxpayer is an applicable taxpayer. A taxpayer is an applicable taxpayer if:
    - His or her household income is at least 100 percent of the federal poverty line for the taxpayer's family size (see the exceptions to this requirement below)

Through 2025, the PTC remains available to taxpayers with household incomes that exceed 400% of the federal poverty line.

The following exceptions allow a taxpayer with household income below 100 percent of the federal poverty line to be an applicable taxpayer, provided the taxpayer meets the other applicable taxpayer requirements:

- The taxpayer, the taxpayer's spouse, or a dependent who enrolled in a qualified health plan is not a U.S. citizen, but is lawfully present in the U.S. and not eligible for Medicaid because of immigration status.
- The taxpayer was determined eligible for APTC by the Marketplace and received the benefit of APTC for one or more months of coverage of a family member.

Federal Poverty Line (FPL)

The federal poverty line (FPL) is an income amount adjusted for family size that is considered poverty level for the year. The U.S. Department of Health and Human

Services (HHS) provides three sets of federal poverty guidelines:

- one for residents of the 48 contiguous states and D.C.,
- one for Alaska residents, and
- one for Hawaii residents.

If the taxpayer moved at all during the tax year and lived in Alaska and/or Hawaii, or is filing jointly and his or her spouse lived in a different state, use the table with the higher dollar amounts for the family size.

What is household income and what are its limits?

A taxpayer's household income is the total of the modified adjusted gross income (MAGI) of the taxpayer (and spouse, if married and filing jointly) and the MAGI of all dependents required to file a federal income tax return because his or her income meets the filing threshold.

David and Melinda are Married Filing Jointly taxpayers. They have one child, Philip, age 17, whom they claim as a dependent. Philip works part time and has a filing requirement. David and Melinda's household income calculation would include their MAGI, as well as Philip's MAGI.

MAGI, for the purpose of the PTC, is the adjusted gross income on the federal income tax return plus any excluded foreign income, nontaxable Social Security benefits (including tier 1 railroad retirement benefits), and tax-exempt interest. It does not include Supplemental Security Income (SSI) or other types of exempt or excluded income. The taxpayer's MAGI does not include the MAGI of a person who is not claimed as a dependent. Similarly, the spouse's MAGI is not included when the taxpayer is filing Married Filing Separately or qualifies to file as Head of Household.

For most years, only taxpayers and families whose household income for the year is between 100 percent and 400 percent of the FPL for their family size may be eligible for the PTC. Through 2025, however, taxpayers with household income of 100 percent or more of the FPL may be eligible for a PTC (no 400% limit). A taxpayer with household income meeting these income requirements must also meet the other eligibility criteria to claim a PTC.

EXERCISES

Question 1: Jocelyn and Larry file jointly and claim their child, Hank. Hank has a part-time job and earns $5,000. Hank will file a return to get a refund of the tax that was withheld from his paychecks.

Will Jocelyn and Larry include Hank’s $5,000 as part of their household income for ACA purposes?

a. Yes

b. No

Question 2: (Continuing from Question 1) If Hank earned $15,000, would Jocelyn and Larry include Hank’s income as part of their household income for ACA purposes?

a. Yes

b. No

Question 3: Leana and Jake are married, but lived apart the entire year. Their son Elton lives with Jake, who qualifies to file as Head of Household. Leana will use the Married Filing Separately status. Will Jake’s return include Leana’s MAGI as part of his MAGI for PTC purposes?

a. Yes

b. No

Question 4: (Continuing from Question 3.) Under what circumstances could Leana claim PTC?

a. Only if she qualifies under the exception for abused or abandoned spouses.

b. Only if she works part-time.

c. Only if she lived with Jake for at least part of the year.

Please see the Volunteer Resource Guide, Tab H, for the current year Poverty Guidelines.

Are taxpayers allowed a PTC for all enrolled family members?

A taxpayer is allowed a PTC only for months that a member of the taxpayer's tax family is (1) enrolled in a qualified health plan offered through the Marketplace and (2) not eligible for minimum essential coverage (other than individual market coverage) for one or more months of enrollment. Also, the taxpayer is not allowed a PTC for a month unless the portion of the enrollment premiums for which the taxpayer is responsible has been paid by the unextended due date of the taxpayer's return. The taxpayer's tax family consists of the taxpayer, the taxpayer's spouse if filing jointly, and all individuals the taxpayer claims as dependents. The tax family members who meet the above two requirements (enrolled in coverage through the Marketplace and not eligible for other MEC) are the taxpayer's "coverage family." The importance of the tax family and coverage family in computing the PTC is explained later.

Are taxpayers allowed a PTC if offered coverage from an employer?

Generally, a person enrolled in Marketplace coverage for months he or she is eligible for employer- sponsored coverage is not eligible for a PTC for those months, even if the person turns down the employer's coverage. This includes the employee or a family member of the employee who is eligible to enroll in the employer coverage as a result of a relationship to the employee. A person may be eligible for a PTC for his or her Marketplace coverage despite an offer of employer coverage if the employer's coverage is unaffordable or fails to meet a minimum value standard. (Employers will provide employees with information concerning whether the minimum value standard is met.)

In general, for individuals requesting APTC, the Marketplace determines whether the employer coverage is affordable by comparing the employee's cost of the employer coverage for self-only coverage to household income. The affordability test used by the Marketplace for family members of an employee who are eligible for coverage from the employer is the same as the test for the employee (compare the cost of the employee's self-only coverage to household income). If the Marketplace determines that, based on projected household income, the employer coverage would be unaffordable, the employer coverage is considered unaffordable for the employer's plan year even if it turns out it would have been affordable based on the actual household income reported on the tax return. This is referred to as the employee safe harbor.

If a household member actually enrolls in an employer plan that is minimum essential coverage, he or she is ineligible for a PTC for the months of enrollment, regardless of the affordability or minimum value of the plan. That means that a PTC is not allowed for this individual's coverage for the months the individual is enrolled in the employer coverage.

Cedric is single and has no dependents. When enrolling through the Marketplace during open enrollment, Cedric was not eligible for employer-sponsored coverage.

In August of the tax year, Cedric began a new job and became eligible for employer-sponsored coverage that is affordable and provides minimum value on September 1st. Since Cedric became eligible for employer-sponsored coverage on September 1st and the coverage was affordable and provides minimum value, he would usually be unable to claim a PTC for September and the other months he was eligible for the employer coverage. Cedric may be able to get a PTC for September if APTC was being paid for his Marketplace coverage, Cedric informed the Marketplace about his new coverage, and the Marketplace did not discontinue the APTC for September.

Maria is single and has no dependents. Her employer offers health insurance, but she didn't enroll because she felt it was too expensive. The Marketplace determined that the employer offer was not affordable, and Maria enrolled in Marketplace coverage and received the benefit of APTC. At the end of the year, she received both a Form 1095-A from the Marketplace and a Form 1095-C from her employer indicating that the employer coverage was affordable. Because of the employee safe harbor rule, Maria is not considered eligible for the employer coverage because in good faith she provided the Marketplace information about her employer offer and the Marketplace determined that the coverage was unaffordable.

What is a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)?

Eligible employers may offer a qualified small employer health reimbursement arrangement (QSEHRA) to their eligible employees. Under a QSEHRA, an eligible employer can reimburse eligible employees for health care costs, including premiums for Marketplace health insurance. If taxpayers were covered under a QSEHRA, their employer should have reported the annual permitted benefit in Box 12 of Form W-2 with code FF. If the QSEHRA is affordable for a month, no PTC is allowed for the month. If the QSEHRA is unaffordable for a month, taxpayers must reduce the monthly PTC (but not below -0-) by the monthly permitted benefit amount. If there is a code FF on Form W-2 Box, 12 and the employee has a marketplace policy and is otherwise eligible for PTC, the return is out of scope for the VITA/TCE Programs.

What is an Individual Coverage Health Reimbursement Arrangement (ICHRA)?

Employers may offer an ICHRA to reimburse their employees for individual market coverage, including premiums for Marketplace health insurance. An ICHRA is considered affordable if the employee's monthly premium for the lowest-cost silver plan offered to the employee by the employee's Marketplace, minus the employer's ICHRA contribution, does not exceed the employee's required contribution. If the ICHRA is affordable for a month, no PTC is allowed. If the ICHRA is unaffordable for a month, the employee is eligible for PTC for a Marketplace plan only if he or she opted out of the employer's ICHRA. This is out of scope for the VITA/TCE programs.

Are taxpayers allowed the PTC if they are eligible for coverage through a government- sponsored program?

An individual eligible for coverage through a government-sponsored program such as Medicaid, Medicare, CHIP or TRICARE, is not a member of the coverage family for the months in which the individual is eligible for government-sponsored coverage. Therefore, a PTC is not allowed for this individual's Marketplace coverage for the months the individual is eligible for the government-sponsored coverage. However, an individual is treated as not eligible for Medicaid, CHIP, or a similar program for a period of coverage under a qualified health plan if, when the individual enrolls in the qualified health plan, the Marketplace determines or considers the individual to be not eligible for Medicaid or CHIP.

Regarding Medicaid and CHIP, taxpayers are generally considered eligible for a government- sponsored program for a month if they met the eligibility criteria for that month, even if they did not enroll. However, if the Marketplace made a determination that the taxpayer or a family member was ineligible for Medicaid or CHIP and eligible for APTC when the individual enrolls in a qualified health plan, the individual is treated as not eligible for Medicaid or CHIP for purposes of the premium tax credit for the duration of the period of coverage under the qualified health plan (generally, the rest of the plan year), even if the taxpayer's actual income for the tax year suggests that the individual may have been eligible for Medicaid or CHIP.

Accordingly, if a taxpayer was enrolled in both Medicaid coverage and in a qualified health plan for which APTC was paid for one or more months of the year for which the Marketplace determined that he or she was ineligible for Medicaid, the taxpayer can claim the PTC for these months, if otherwise eligible. The Marketplace may periodically check state Medicaid data to identify consumers who may be dual-enrolled, and direct them to return to the Marketplace to discontinue their APTC. If you believe that the taxpayer may currently be enrolled in both Medicaid and a qualified health plan with advance credit payments, you should advise the taxpayer to contact the Marketplace immediately.

Taxpayers have a limited time to obtain Medicare, during which time they remain eligible for PTC. A person who is eligible for Medicare loses eligibility for PTC even if he or she fails to enroll in Medicare. The loss of eligibility occurs the first day of the fourth full month after the person became eligible for Medicare. For example, a person who is enrolled in Marketplace coverage with APTC, but becomes Medicare-eligible on his 65th birthday on May 17, loses eligibility for PTC on September 1, the first day of the fourth full month after Medicare eligibility. See Publication 974, Premium Tax Credit (PTC), for details.

If APTC is being paid for coverage of an individual enrolled in a qualified health plan and the individual becomes eligible for government-sponsored coverage that is effective retroactively (such as Medicaid or CHIP), the individual will not be considered eligible for the government-sponsored coverage until the month after the date of approval. Taxpayers can get the PTC for Marketplace coverage until the first day of the calendar month after they are approved for the government-sponsored coverage.

A person is considered eligible for other MEC only if the person is eligible for MEC for every day of that month. For example, if a person does not become eligible for employer- or government-

sponsored coverage until the 5th day of a month, he or she may be allowed a PTC for the month. The person should alert the Marketplace to the change and discontinue any APTC being paid for the Marketplace coverage.

EXAMPLE

Adele is single with no dependents. She works part-time and has no offer of employer-sponsored health coverage. She projects her income to be $17,500 for the year (roughly 150 percent of FPL), based on her earnings at the same job in the prior year. She enrolls in a qualified health plan in the Marketplace and is determined eligible for APTC.

Adele's place of employment was closed for two weeks, unexpectedly lowering the number of hours she worked. Her employer also didn't pay an end-of-year bonus that she anticipated. Adele's actual household income for the year was $16,000. This income would *make her eligible for Medicaid under her state's eligibility rules. However, based on Adele's projection of income when she enrolled in Marketplace coverage, the Marketplace determined that she was not eligible for Medicaid. Therefore, Adele is treated as not eligible for Medicaid for the year and is eligible for the PTC.*

How does the taxpayer get the APTC?

During enrollment, the taxpayer projects household income and family composition. The Marketplace verifies this information through various data sources, including prior year tax information, Social Security Administration data, and state-level wage data. Using all this information, the Marketplace estimates the amount of PTC a taxpayer will be able to claim. The estimated PTC is the maximum amount of APTC for which the taxpayer is eligible.

Taxpayers may choose to:

- Have some or all of the APTC paid to the insurance company to lower the taxpayer's share of monthly premiums; or
- Forego APTC, pay all the premiums out of pocket, and get all the benefit of the PTC when they file their tax return

The amount of APTC will appear on Form 1095-A.

How is the amount of PTC determined?

The amount of the PTC is based on a sliding scale. A taxpayer with household income at 200 percent of the FPL for the taxpayer's family size will generally get a larger credit to help cover the cost of insurance than a taxpayer with the same family size who has household income at 300 percent of the FPL. In other words, the higher the household income, the lower the amount of the credit.

As explained earlier, FPL is based on tax family size.

The PTC is the sum of the credit amount for each month. The credit amount for a month is the lesser of two amounts: (1) the monthly premium for the plan or plans in which the taxpayer’s family enrolled (enrollment premiums) and (2) the monthly premium for the taxpayer’s applicable second lowest cost silver plan (SLCSP) minus the taxpayer’s monthly contribution amount. This calculation is done on Form 8962. The applicable SLCSP premium is the premium for the second lowest cost silver plan that applies to the coverage family discussed earlier (the members of the taxpayer’s tax family enrolled in Marketplace coverage and not eligible for other minimum essential coverage). If the SLCSP premium amount does not appear on Form 1095-A, or the SLCSP premium amount reported on Form 1095-A is incorrect because of a change in circumstances the Marketplace did not know about, the taxpayer must find the correct applicable SLCSP premium on either **www.healthcare.gov** (for taxpayers who enroll in coverage through a federally facilitated Marketplace), the website for the taxpayer's state-based Marketplace, or by calling the Marketplace customer service. If the taxpayer must allocate policy amounts with another taxpayer (because members of more than one tax family are enrolled in a single policy), the return is out of scope for the VITA/TCE programs.

A taxpayer's contribution amount is computed by the software as a percentage of the taxpayer's household income determined by multiplying the taxpayer's household income by the applicable figure (from the table in the instructions for Form 8962). The applicable figure is based on the FPL; the higher the FPL, the higher the percentage of household income that is used to compute the contribution amount.

The contribution amount is an annual amount because it is a percentage of household income, which is an annual amount. The monthly contribution amount is the contribution amount divided by 12. Taxpayers with no changes in enrollment premiums and applicable SLCSP premiums for all 12 months can do a single, annual calculation to compute their PTC.

Taxpayers who have a Form 1095-A showing changes in monthly amounts must do a monthly calculation to determine their PTC in Part II of Form 8962. Taxpayers who have changes in monthly amounts not shown on Form 1095-A must also do a monthly calculation to determine their PTC (for example, a taxpayer enrolled in a qualified health plan who became eligible for employer coverage during the year, but did not notify the Marketplace). See the Volunteer Resource Guide, Tab H, for instructions on completing Form 8962.

If taxpayers received the benefit of advance credit payments, they will reconcile the APTC with the amount of the actual PTC that is calculated on the tax return (more information on reconciliation is provided under How is the PTC claimed on the return, later).

The PTC is a refundable tax credit. If the amount of a taxpayer's net PTC (the excess of PTC over APTC) is more than the amount of a taxpayer's tax liability on the return, the taxpayer will receive the difference as a refund. If a taxpayer has no tax liability, all of the net PTC is paid to the taxpayer as a refund. If there is excess APTC (the excess of APTC over PTC), the taxpayer may be required to repay some or all of the excess.

What happens if income or family size changed during the year?

Part of the PTC calculation is the contribution amount, which will be higher at a higher household income level (and lowers the amount of the credit). The FPL is based on the state in which the taxpayer resided and family size. Therefore, a taxpayer’s PTC for the year will differ from the APTC payment amount estimated by the Marketplace if the taxpayer’s family size or household income as estimated at the time of enrollment is different from the family size or household income reported on the return.

The more the family size or household income differs from the projections used by the Marketplace to compute the APTC payments, the more significant the difference will be between the advance credit payments and the actual credit.

Taxpayers should notify the Marketplace about changes in circumstances when they happen, which allows the Marketplace to update the information used to determine the expected amount of the PTC and adjust the APTC payment amount. This adjustment decreases the likelihood of a significant difference between the advance credit payments and the actual PTC. Changes in circumstances that can affect the amount of the actual PTC include:

- Increases or decreases in household income
- Marriage
- Divorce
- Birth or adoption of a child
- Other changes in household composition
- Gaining or losing eligibility for government-sponsored or employer-sponsored health care coverage

- Change of address

If taxpayers are currently enrolled in Marketplace coverage and have an excess APTC repayment, they should contact the Marketplace now to adjust their APTC and avoid another repayment.