

On January 8, 2016, IRS Commissioner John Koskinen updated members of Congress on preliminary results from the 2015 filing season related to Affordable Care Act provisions as of October 2015. The following is the text of the letter:

Dear Member

The 2015 filing season was the first in which taxpayers saw changes to their income tax returns related to the individual shared responsibility provision and the premium tax credit provision of the Affordable Care Act (ACA). Likewise, 2015 was the first year the IRS administered these new provisions. Because we received numerous requests from members of Congress, on July 17, 2015, we reported preliminary results from the 2015 tax filing season related to the ACA. Today we are updating the information contained in that letter. This update is based on returns processed through the end of October.

The 2015 tax filing season opened on January 20, 2015. Since that time, the IRS has processed approximately 143 million individual tax returns.

As I did in July, I can report that with the exception of the continued erosion of taxpayer services due to cuts in our budget, the 2015 tax filing season went smoothly, both generally and as it relates to the ACA provisions mentioned above. While many people assume that tax filing season is over on April 15th, we conduct a substantial data review afterwards to gather a fuller picture of tax season and determine what post-filing compliance or corrective actions are appropriate. Indeed, while the October 15th extended filing deadline is now behind us and we are busy preparing for the 2016 filing season, this review remains ongoing. Therefore, while this report updates the data provided in July, the data remains preliminary and is subject to change as the data is analyzed, we conduct post-filing compliance activities, and taxpayers continue to file returns and to provide us with additional information.

Under the normal process, tax return statistics are published a year or more after the close of the tax year.¹ This provides time for all returns to be filed, statistically valid samples to be drawn, and analyses to be conducted. Because this data is preliminary and preparing for publication requires a substantial dedication of resources, we anticipate generally following the normal timeline in the future.

Preliminary Data on the Premium Tax Credit Provision

When eligible individuals sign up for coverage at a Health Insurance Marketplace (Marketplace), they choose to either have advance payments of the premium tax credit (APTC) made directly to their insurance provider to reduce their premiums throughout the year, get their assistance at tax time as a premium tax credit (PTC), or some combination of the two. Taxpayers who had APTC paid on their behalf in 2014 must file a tax return to reconcile the APTC, regardless of whether they otherwise had a tax filing

¹ For example, preliminary data for tax year 2013 was published in the Spring 2015 Statistics of Income Bulletin, and final statistics for tax year 2013 were published in August 2015 in Publication 1304, *Individual Income Tax Returns Complete Report*, for tax year 2013.

requirement. As expected, most eligible individuals opted for advance credit payments,² and individuals who opted for advance credit payments were informed that they were required to reconcile APTC with the actual amount of PTC to which they were entitled based on their 2014 household income.

A taxpayer's APTC is calculated based on their expected income, number of family members, and other factors. If a taxpayer's actual circumstances at the end of the year differ from projections, they may have to repay excess APTC or receive net PTC. Even if a taxpayer reports changes in circumstances to their Marketplace, they may receive more or less APTC than the PTC they are eligible to claim.

We continue to project that about 4.8 million taxpayers need to file a return with Form 8962 to claim PTC or reconcile APTC. Approximately 3.5 million taxpayers have filed Form 8962, Premium Tax Credit, 3.3 million of whom reported APTC. These taxpayers reported a total of approximately \$11.3 billion in APTC of the approximately \$15.5 billion the Marketplaces paid out in 2014. As discussed further below, the IRS continues to evaluate this discrepancy and conduct compliance activities as appropriate.

Of the 3.5 million taxpayers who filed Form 8962 through October:

- About 3.0 million taxpayers claimed approximately \$10.3 billion in PTC, reporting an average credit of \$3,430. About 38 percent claimed less than \$2,000, 40 percent claimed \$2,000 to \$5,000, 19 percent claimed \$5,000 to \$10,000 and about 3 percent claimed PTC in excess of \$10,000.
- Approximately 1.4 million, or about 41 percent of Form 8962 filers, claimed a net PTC (meaning PTC exceeded the APTC paid during the year, including instances when PTC was claimed but no APTC was reported). The average additional amount received was about \$640. An estimated 63 percent claimed net PTC of less than \$500 and 81 percent claimed less than \$1,000.
- By contrast, approximately 1.8 million, or 51 percent of Form 8962 filers, reported excess APTC (meaning APTC paid during the year exceeded PTC). The average amount reported as excess to be repaid was about \$860, for a total of \$1.5 billion. An estimated 49 percent owe a repayment of less than \$500 and 75 percent owe less than \$1,000. About 61 percent of taxpayers with excess APTC still reported a refund. This does not necessarily mean, however, that the balance due from the remaining taxpayers *resulted from* owing excess APTC. Whether a particular taxpayer receives a refund or has a balance due depends on many factors, including for example, whether the taxpayer's employer withheld sufficient tax or over-withheld tax throughout the year.

² Of those taxpayers who claimed the PTC, 97 percent also reported APTC.

- The statute limits the amount that certain taxpayers must repay.³ The statutory repayment caps affected only approximately 463,000 taxpayers or about 26 percent of those who reported excess APTC. We estimate that to date approximately \$394 million in excess APTC was above the statutory caps.
- About 0.3 million or 8 percent of taxpayers who filed Form 8962 received APTC equal to the PTC claimed for the year and did not need to make any adjustments at tax time or did not claim any net PTC or report any excess APTC on their final return.

Of the 4.8 million taxpayers who we estimate will claim PTC or need to reconcile APTC, we have identified 4.6 million taxpayers with APTC, based on Forms 1095-A processed by IRS through the end of October.⁴

Of these 4.6 million taxpayers who need to reconcile APTC, we have identified:

- Approximately 3.1 million who had filed a tax return including Form 8962 that was processed by IRS through the end of October.
- Approximately 147,000 taxpayers with APTC who filed for an extension but did not file a tax return that was processed by the end of October.
- Approximately 316,000 taxpayers with APTC who did not file a tax return that was processed by the end of October and did not file an extension.
- Approximately 976,000 taxpayers with APTC who filed a tax return but did not attach Form 8962 to reconcile those payments, as required.

Note that the figures above may understate the number of taxpayers for which APTC has been reconciled. In particular, to the extent that another taxpayer reconciled the APTC paid on behalf of a taxpayer in the 4.6 million group (as can happen for several reasons under the premium tax credit rules), the figures above would indicate that those APTC payments had not been reconciled, when in fact they have.

We have employed a multifaceted post-filing compliance strategy to address taxpayers who had APTC paid on their behalf but have not satisfied the filing requirement. If taxpayers filed a tax return but did not attach Form 8962 and Marketplace data available

³ Pursuant to statute, repayment of excess APTC is capped based on household income. For example, for taxpayers with household income of 200 percent or less of the Federal Poverty Line, repayment by single filers is capped at \$300 and repayment by taxpayers with any other filing status is capped at \$600. 26 U.S.C § 36B(f)(2).

⁴ This 4.6 million does not include taxpayers who claim PTC but did not receive APTC. It also excludes information from some Forms 1095-A with data problems that IRS has not yet matched to taxpayers. This does not mean that the information that the taxpayer received was wrong, and these taxpayers may have successfully filed their tax returns. There are approximately 7 million individuals represented in this subset of 4.6 million Forms 1095-A with APTC.

during the filing season indicated that they should have done so, we corresponded with them as appropriate and asked them to file a Form 8962 before we continued to process their return. Secondly, over the summer we sent letters to taxpayers who had APTC paid on their behalf and either had filed for an extension (but had not yet filed a return) or had neither filed for an extension nor filed a return. We have also notified the Marketplaces of individuals who have not filed a return, and the Marketplaces have reached out to notify enrollees in this group that taxpayers must meet this obligation in order to maintain their eligibility for APTC to help pay for Marketplace coverage in 2016. In addition, we are sending letters to taxpayers to whom we did not send letters during the filing season. This would include taxpayers we missed during processing, because, for example, we did not yet have Marketplace data indicating that they needed to attach Form 8962. Finally, in preparation for the upcoming filing season, the IRS worked with software companies who develop tax preparation software to ensure that interview questions and prompts appropriately remind preparers and taxpayers to file Form 8962 if they received APTC.

It is not unusual for the IRS to follow up with taxpayers for more information about their returns. This is the first year for this new provision, and we expect that taxpayers will continue to better understand this process as it becomes routine. We are committed to learning from this experience so that we can improve our processes and enhance the support we provide in the future.

Preliminary Data on the Individual Shared Responsibility Provision

Under the individual shared responsibility provision, individuals are required to have qualifying health insurance coverage for each month of the year, have an exemption from the requirement to have coverage, or make an individual shared responsibility payment. The vast majority of taxpayers have coverage from one source or another, such as through the individual's workplace, Medicare or Medicaid. These taxpayers needed to do nothing more than check a box on their 2014 tax return. As expected, about 74 percent of taxpayers (currently approximately 106 million tax returns) just checked the box to indicate they had qualifying coverage all year. Another approximately 9 million dependents (about 7 percent of tax returns), who do not have to report on their coverage,⁵ filed a return and did not have to do anything new, for a total of 81 percent of returns.

Approximately 7.9 million taxpayers reported a total of \$1.6 billion in individual shared responsibility payments. Payments were generally relatively small, with the average payment around \$210. About 39 percent of these payments were \$100 or less and about 94 percent of these payments were \$500 or less. The vast majority – 82 percent – of taxpayers reporting a shared responsibility payment still reported a refund.

⁵ The responsibility to report health care coverage, claim an exemption, or make an individual shared responsibility payment lies with the taxpayer who can claim the individual as a dependent.

About 12.4 million taxpayers claimed one or more health care coverage exemptions.⁶ Some health coverage exemptions are available only from the Marketplace, others are available only by claiming them on a tax return, and others are available from either the Marketplace or by claiming them on a tax return. Among the exemptions claimed with the IRS on the tax return are exemptions that apply to the entire tax household for the full year if the household income or gross income of the taxpayer is less than the tax filing threshold. Other exemptions that are claimed with the IRS on the tax return apply to particular individuals in the tax household for all or part of the year, and are claimed using particular codes. The most commonly claimed codes, in order, are:

- The code used when an individual has income below a certain threshold and resides in a state that did not expand Medicaid, among other situations (Code G);
- The code used when an individual is a U.S. citizen or resident who spent at least 330 full days in a foreign country during a 12-month period, among other situations (Code C);
- The code used when health care coverage available to an individual is considered unaffordable (Code A).

Of the taxpayers who reported an individual shared responsibility payment, an estimated 313,000 low-income taxpayers reported a payment when it appears that they should have claimed a health care coverage exemption. We are committed to conducting additional outreach to these taxpayers, which included letters sent to these specific taxpayers who did not have to report or make a payment. These letters informed them about available exemptions and note that they may benefit from amending their return. Generally, taxpayers have three years from the date they filed their original return to file an amended return. We are also working with tax software companies to build on lessons we learned from this first filing season as they develop their products for the next tax season, which could also help address this issue going forward.

I hope you find this information helpful as we are committed to being responsive to Congress's interest in this data. If you have additional questions, please contact me, or a member of your staff may contact Leonard Oursler, Director, Legislative Affairs, at (202) 317-6985.

⁶ Approximately 6.2 million non-dependent taxpayers did not check the box, claim a health care coverage exemption, or report an individual shared responsibility payment. We continue to analyze these cases to determine their status.

Sincerely,

John A. Koskinen