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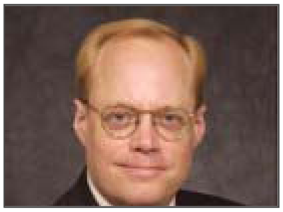

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TAXES 1/15/2015

3 Reasons Filing Taxes Sucks? Obamacare, Obamacare & Obamacare

Tax filing is already hard enough, but get ready for more complexity under the Affordable Care Act. Even if your tax bill doesn't go up, the IRS has an important role. The law creates a trickier tax season, including these three points:

1. Individual Insurance Penalty. A major feature of the law is a 'mandate' requiring most Americans to carry health insurance. Do you have coverage? Yes or no? If no, you may need to compute your penalty. Take the lesser of $95 per non-insured adult and $47.50 for each child under 18; *or* $285. Then, pay the greater of this amount or your household income minus $10,150 if filing single or $20,300 for married filing jointly. However, your penalty can't exceed the "national average bronze level premium," around $2,500. Got it?

If you get confused, you won't be alone. In fact, the IRS says it has to trust tax filers to answer truthfully whether they had health insurance or need to pay a penalty. Some taxpayers are likely to skip the question about health insurance. 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.

Remember, though, that you must sign your tax return under penalties of perjury. If you must pay a penalty, you pay it as part of your tax bill. That will make some people unhappy. Still, the flak from people who got subsidies but are getting smaller refunds than they thought–or even owing money–may be greater. See point 3 below.

2. Net Investment Income Tax. To help pay for Obamacare, there's a new 3.8% tax. Actually, this 3.8% Net Investment Income Tax applied in 2013 too, but you may not have noticed. It's an add-on to *other* taxes you pay. For example, your long-term capital gain rate might be 20%, but add the 3.8% tax and your total is 23.8%.

The 3.8% rate is applied to the ***lesser*** of your net investment income or the amount by which your modified adjusted gross income exceeds a threshold based on your filing status. You may owe the tax if you have net investment income and your modified adjusted gross income is more than these amounts:

- Single or head of household filing status – $200,000
- Married filing jointly – $250,000
- Married filing separately – $125,000
- Qualifying widow(er) with a child – $250,000

If you owe this tax, you must file Form 8960. If you had too little tax withheld or did not pay enough estimated taxes, you may have to pay an estimated tax penalty. The IRS website has more details here. You can also check out the IRS's questions and answers on the Net Investment Income Tax. And if you want even more, see IRS Tax Topic 559.

3. Premium Tax Credit. On the surface, this credit seems simple, but it's the most complex of all and applies to the taxpayers who are probably used to simple returns. They won't be so simple this year. If you acquired health insurance coverage on an Exchange, the government may *subsidize* your premiums. It is complex, but there seem to be 3 ways to get there: Form 8962 can help determine the credit,but you need a Form 1095-A from the Exchange. Your Form 1095-A is supposed to arrive by January 31, 2015

But watch out. In some cases, the government paid the anticipated credit in advance *to the Exchange* on behalf of the taxpayer. It was an estimate, but estimates can be wrong. That's one reason you may owe a lot when you file your taxes. H&R Block estimated 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.

Finally, the U.S. Supreme Court may weigh in on whether the Premium Tax Credit even exists in 36 states that did not set up their own Exchange. If the Supreme Court gives a thumbs down, your credit could evaporate just like that.

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