

ObamaCare's Tax Credit System Will Make April 15 Even Harder

By David Hogberg

September 27, 2010 Due to ObamaCare, millions of Americans may need to spend even more time on the [income tax returns](#) that they file in 2015 and beyond — and many will discover they owe the tax man more than before.

Beginning in 2014, individuals and families earning 100% to 400% of the federal poverty level are eligible for a federal [tax credit](#) to buy insurance via a health insurance exchange. The amount of the credit is based on a sliding scale and decreases as income gets closer to 400% of the poverty line.

Ultimately, the size of the tax credit an individual or family receives in 2014 will be based on 2014 income. But initially it'll be based on the income reported on the 2012 [tax return](#), filed in 2013.

The health exchange's open enrollment for 2014 will begin in late 2013. ObamaCare requires a person to present his or her tax return at that time to qualify for the tax credit. In effect, the size of the insurance subsidy will be tentatively set by how much an individual or family earned two years earlier.

"In the meantime, your income may have risen or fallen," said Devon Herrick, senior fellow and health economist at the conservative National Center for Policy Analysis. "If it's risen, then you may have gotten more of subsidy than you deserve and you'll owe money on your next tax return. If your income has fallen, you could apply for a tax rebate on your return."

Exactly how many Americans will see their [income taxes](#) affected is anybody's guess. Yet the number could be substantial.

"Most households have income changes bigger than 5% to 10% year to year, up or down," said Stephen Shore, a professor of economics at Johns Hopkins University who has studied income changes over time. "In fact, about 20% of households had an income change of at least 50%, up or down, over a one-year period, according to the Panel Study of Income Dynamics. These aren't

necessarily big lifestyle shocks. They are often due to bonuses, a spouse leaving work to have children, or a person leaving school and entering the work force."

The law does limit what is owed to the IRS to no more than \$250 for an individual and \$400 for a family if the tax credit received is too large.

"The amount is capped because we did not want to discourage those whose income is low enough to qualify for some credit from using the advance feature of the credit," said a Senate Finance Committee aide.

However, the cap only applies to those with incomes between 100% to 400% of the poverty line. If an individual's or family's income ends up exceeding that in a year they received a tax credit, the person or family will owe the entire tax credit to the IRS on the next tax return.

The law also allows individuals or couples to apply for a tax credit adjustment if they have a change in marital status, a decline in income of 20% or more, or receive unemployment insurance.

Making sure the tax credit is properly applied will pose serious challenges for the IRS, say some experts.

"There are presently tens of millions of people who are not required to file tax returns but who could qualify for the tax credit," said Kathy Pickering, vice president and executive director at H&R Block's [Tax Institute](#). "To take advantage of the credit, they'll have to file something with the IRS, but we don't know what yet."

Fraud may be another problem.

"The temptation is to boost your tax refund by claiming you have insurance you don't have on your tax return," said Joe Kristan, an accountant at Roth & Co. "The law does require insurance companies to report to the IRS who has purchased insurance on the exchange, but to catch the fraud the IRS will have to generate a computer program to match taxpayers with the insurance they purchase. That's a massive IT challenge."

Kristan says the IRS record on matching programs is mixed, being successful at matching interest and dividends but less successful at [capital gains](#) reporting.

Sorting through the new tax requirements could prove a boon for the tax preparation industry.

"If you thought that taxes were complicated before . . . now when we're adding a 2,000-page health care bill to the whole equation, it will only add to the tax code's complexity," Pickering said. "We think this will be a good opportunity for H&R Block to showcase its expertise."