



Economic and Market Insights

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Complexity of Tax Returns Rises Again – Implications of Patient Protection and Affordable Care Act

As head of The Commerce Trust Company's East Region tax group, Tom Bassett takes a moment to share his bird's-eye view of various issues that federal tax filers will face as we build toward the April 15th tax deadline.

Q. You addressed taxpayer identify theft fraud in your last bulletin. What else do you see coming as we approach the April 15th tax deadline?

A. Some filers are coming face to face with fallout from the Affordable Care Act. We are starting to see how this plays out on actual tax returns. As we all know, working Americans were required to have health insurance in 2014 and there is a penalty for not having done so. It's the greater of \$95 or 1% of your income. But many people forget there is a penalty.

Q. What happens when they discover it on their return?

A. The penalty tends to surprise those who haven't complied because it is rarely the minimum \$95. If you failed to get health insurance in 2014 and you earned \$45,000, the penalty more than quadruples to \$450. The penalty rate increases again in 2015, by the way.

Q. How does the IRS collect this penalty?

A. Ironically, the only way the IRS can collect the penalty is an offset against your refund, assuming you get a refund. If you have a net balance due, the IRS cannot enforce collection of the penalty. This creates all kinds of added complexity in the tax code for everyone.



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Q. How so?

A. This penalty provision is in force for 10 years. So even though the IRS can't collect a levy against you this year if you had a balance due, they can collect it any time in the next 10 years if you have a refund. That's a lot of government tax personnel "looking back" at past returns at the IRS for, relatively speaking, tiny amounts. It's a form of social engineering like Congress does for other government programs, whether it's energy conservation or health care actions engineered into the tax code. It takes resources to enforce them.

Q. Does this affect mostly younger taxpayers?

A. The penalty affects them for the most part, but the added layer of complexity affects all of us given that the IRS is already terribly resourced-strapped in a time period where fraud is rampant. Those receiving Social Security payments with Medicare, or employer-provided insurance or COBRA, probably don't have much to worry about relative to the penalty.

** Always consult with your CPA and professional advisor on matters involving income taxes.*

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