It's Tax Time: Here Are Some Changes That May Affect You

Although there have been no major tax law changes enacted in the past year, fees and exemptions associated with the federal health insurance system -- the Affordable Care Act (ACA) -- may affect some taxpayers starting this filing season. There is also a long list of routine inflation adjustments and other items to keep in mind as you undergo the annual chore of preparing your tax returns.

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As part of the Affordable Care Act, individuals who can afford health insurance but choose not to purchase coverage must qualify for one of many exemptions or pay a fee. The fee, sometimes referred to as the "individual mandate," went into effect on January 1, 2014, and will continue each year going forward. In 2014, the fee assessed will be the higher of the following:[1]

- 1% of your yearly household income. (Only the amount of income above the tax filing threshold, about $10,000 for an individual, is used to calculate the penalty.) The maximum penalty is the national average premium for a benchmark plan.
- $95 per person for the year ($47.50 per child under 18). The maximum penalty per family using this method is $285.

In 2015, the fee will increase considerably to 2% of yearly household income or $325 per person for the year ($162.50 per child under age 18). The maximum penalty per family using this method will be $975. For 2016, the fee jumps to 2.5% of income or $695 per person and thereafter will be adjusted for inflation.[1] Exemptions from the fee are available to many Americans, depending on their individual circumstances. Some of the more common exemptions for 2014 include:[1]

- You were uninsured any number of months before May 2014, but enrolled in a plan starting no later than May 1, 2014.
- You were uninsured for no more than two consecutive months of the year.
- You don't have to file taxes because your income is below the tax filing threshold.
- Coverage would cost more than 8% of household income.

For an exhaustive list of potential exemptions, visit the Healthcare.gov website.

ACA Enrollees Affected by Tax Error, Others Gain Reprieve

Adding frustration to an already vexing process, some 800,000 taxpayers in 37 states who purchased insurance policies through HealthCare.gov in 2014 received incorrect tax information from the government. It is estimated that about 50,000 who had already filed their taxes may have to file amended forms.[2] Others have been urged to hold off on filing their taxes until the problem can be resolved.

In a seemingly coordinated move, the Obama administration announced that it would extend a "special enrollment period" from March 15 through April 30 to accommodate those Americans who had been unaware of the penalty until they prepared to file their 2014 tax returns.[2] The extended enrollment period will be available to individuals in the 37 states that use the federal insurance marketplace. According to *The New York Times*, other states may also extend the enrollment period if they wish (Washington, Minnesota, and California have announced their intentions to do so), but officials at the Centers for Medicare and Medicaid Services warned that "this was a one-time opportunity" that would "not be repeated in future years."[2]

According to the Urban Institute, more than four in 10 uninsured adults who may be subject to the penalty have heard little or nothing about it.[3] To learn more about obtaining health insurance through the federal and/or state insurance exchanges visit Healthcare.gov or contact your financial professional.

Inflation Adjustments for 2015

To help keep pace with inflation, the IRS adjusted more than 40 tax provisions for 2015, including the tax rate schedules and other changes. Some of the most popular with taxpayers include the following:[4]

- **Maximum income tax rate** of 39.6% affects singles whose income exceeds $413,200 ($464,850 for married taxpayers filing a joint return), up from $406,750 and $457,600, respectively, in 2014.
- **The standard deduction** rises to $6,300 for singles and married persons filing separate returns and $12,600 for married couples filing jointly, up from $6,200 and $12,400, respectively, in 2014.
- **The personal exemption** rises to $4,000, up from $3,950 in 2014. The exemption is subject to a phase-out that begins with adjusted gross incomes of $258,250 ($309,900 for married couples filing jointly). It phases out completely at $380,750 ($432,400 for married couples filing jointly).
- **The Alternative Minimum Tax** exemption amount for tax year 2015 is $53,600 ($83,400 for married couples filing jointly). The 2014 exemption amount was $52,800 ($82,100 for married couples filing jointly).
- **The maximum Earned Income Credit** amount is $6,242 for taxpayers filing jointly who have three or more qualifying children, up from a total of $6,143 for tax year 2014.
- **The maximum estate tax rate** remains at 40%. The base exemption amount is $5,430,000 for each individual and may be adjusted for inflation in future years. This is up from a total of $5,340,000 for estates of decedents who died in 2014.
- **The annual gift tax exclusion** remains at $14,000 for 2015.

- **Maximum contributions to qualified retirement plans**. Retirement savers can now put away up to $18,000 a year in their 401(k) and 403(b) plans, and most 457 plans. Those aged 50 and over can add an extra $6,000 a year. That's up from $17,500 (regular contributions) and $5,500 (catch-up contributions) in 2014.
- **Maximum contributions to IRAs** is unchanged at $5,500 (regular contributions) and $1,000 (catch-up contributions) for 2015, but the income ceilings associated with IRA contributions have been raised.

Visit the IRS website and/or consult with your tax or other financial professional to learn more about tax changes that may affect you or for help preparing your 2014 tax return.

[1]Healthcare.gov, March 2, 2015.

[2]*The New York Times*, "Tax Error in Health Act Has Impact on 800,000," February 20, 2015.

[3]The Urban Institute, "Health Reform Monitoring Survey," February 19, 2015.

[4]Internal Revenue Service, "In 2015, Various Tax Benefits Increase Due to Inflation Adjustments," October 30, 2014.