

On Jan. 9, 2017, IRS Commissioner John Koskinen updated members of Congress regarding 2016 tax filings related to Affordable Care Act provisions. The following is the text of the letter:

Dear Member:

Thank you for your letter regarding the IRS's implementation of the Affordable Care Act (ACA). In your letter, you requested tax return data on the individual shared responsibility and the premium tax credit provisions for tax years 2014 and 2015.

On July 17, 2015, and January 8, 2016, we reported preliminary results from the 2015 tax filing season related to tax year 2014 tax returns. In August 2016, we also published complete data for 2014 income tax returns in the Statistics of Income Publication 1304, which includes ACA data classified by adjusted gross income class, filer type, and geographic area.¹

In addition, we are providing you the following information for tax year 2015 to provide a broader picture of the ACA and our continued efforts to administer and enforce the law's provisions. This update includes information from returns processed through mid-December, 2016. It also includes more detailed statistics based on returns processed through the end of October 2016.

The 2016 tax filing season opened on January 19, 2016. Since that time, we have processed approximately 146 million individual tax returns. I can report that, despite the continued erosion of taxpayer services due to cuts in our budget, the 2016 tax filing season went smoothly, both generally and as it relates to the ACA. While the tax filing season ends in mid-April for most individuals, we conduct a substantial data review after this time to gather a fuller picture of tax season and determine appropriate post-filing compliance or corrective actions. While the October 17 extended filing deadline is now behind us and we are busy preparing for the 2017 filing season, this review continues. Therefore, the data remains preliminary and is subject to change as the data is analyzed, as we conduct post-filing compliance activities, and as taxpayers continue to file returns and to provide us with additional information.

Preliminary Data on the Premium Tax Credit Provision

When eligible individuals sign up for coverage at a Health Insurance Marketplace (Marketplace), they choose either to have advance payments of the premium tax credit (APTC) made directly to their insurance provider to reduce their premiums throughout the year, to receive their assistance at tax time as a premium tax credit (PTC), or some

¹See <https://www.irs.gov/uac/soi-tax-stats-individual-income-tax-returns-publication-1304-complete-report>. Under our normal process, tax return statistics are published a year or more after the close of the tax year. This provides time for all returns to be filed, statistically valid samples to be drawn, and analyses to be conducted. Preliminary data for tax year 2015 are tentatively scheduled to be published in February 2017 and final data are scheduled to be published in August.

combination of the two. Taxpayers who had APTC paid on their behalf in 2015 must file a tax return to reconcile the APTC using Form 8962, regardless of whether they otherwise had a tax filing requirement. As expected, most eligible individuals opted for advance credit payments² and we informed these individuals that they must reconcile APTC with the actual amount of PTC they were entitled to based on their 2015 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.

Forms 8962 processed as of December 15, 2016 show:

- About 5.3 million taxpayers claimed approximately \$19.2 billion in PTC, reporting an average credit of \$3,620. We estimate that about 49 percent claimed less than \$2,000, 29 percent claimed \$2,000 to \$5,000, 22 percent claimed \$5,000 to \$10,000 and about 5 percent claimed PTC in excess of \$10,000. (Percentages do not add to 100 percent due to rounding)
- About 5.8 million taxpayers reported a total of approximately \$20.7 billion in APTC.
- Approximately 2.4 million 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).³ The average additional amount received was about \$670. An estimated 62 percent of these filers claimed net PTC of less than \$500 and 80 percent claimed less than \$1,000.
- Approximately 3.3 million taxpayers reported excess APTC (meaning APTC paid during the year exceeded PTC). The average amount reported as excess to be repaid was about \$870, for a total of \$2.9 billion. An estimated 50 percent of these filers reported owing a repayment of less than \$500 and 75 percent reported owing less than \$1,000. About 62 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

² Of those taxpayers who claimed PTC, an estimated 98 percent also reported APTC.

³ The statistics on net PTC are from a different data source than the other statistics in this section. The data source for the net PTC estimates reflects returns as initially processed and does not include any corrections or amendments made at a later date. Thus, the number of persons claiming net PTC and the amount claimed should be considered more preliminary and not directly comparable to the estimates for total PTC, APTC, and excess APTC.

depends on many factors, including for example, whether the taxpayer's employer withheld sufficient tax or over-withheld tax throughout the year.

- The statute limits the amount that certain taxpayers must repay.⁴ The statutory repayment caps affected approximately 921,000 taxpayers or about 28 percent of those who reported excess APTC. We estimate that approximately \$874 million in excess APTC for tax year 2015 was above the statutory caps.

We identified approximately 7.3 million taxpayers with APTC, based on Forms 1095-A we processed. We have performed more detailed analysis of this group, attempting to match recipients of these Forms 1095-A to tax returns as processed through the end of October 2016. Of this group, we have identified:

- Approximately 5.5 million taxpayers who had filed a tax return including Form 8962 that we processed through the end of October.
- Approximately 243,000 taxpayers with APTC who filed for an extension but did not file a tax return that we processed by the end of October.
- Approximately 647,000 taxpayers with APTC who did not file a tax return that we processed by the end of October and did not file an extension.
- Approximately 884,000 taxpayers with APTC who filed a tax return but did not attach Form 8962 to reconcile those payments, as required.

These figures understate the number of taxpayers for whom APTC has been reconciled, for several reasons. First, to the extent that APTC was paid on behalf of one taxpayer in the 7.3 million group and was reconciled by a different taxpayer (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. Second, these data are based on returns as filed and thus generally do not reflect the effects of our ongoing compliance activities. Finally, the number of taxpayers who have reconciled continues to grow as late and amended returns are processed.

The figures above show that compliance has improved considerably relative to tax year 2014. For example, about 80 percent of taxpayers who received APTC for 2015 have reconciled, and about 80 percent of the approximately \$25 billion in APTC that was paid has been reported. At the same time last year, these figures were about 70 percent for tax year 2014.

⁴ Pursuant to statute, repayment of excess APTC may be capped based on household income. For example, for taxpayers with household income of less than 200 percent of the applicable Federal Poverty Line, repayment is capped at \$300 for single filers and \$600 for taxpayers with any other filing status. 26 U.S.C. §36B(f)(2).

Our ongoing compliance work – which as noted above is not fully reflected in these figures - is an important reason for this improvement and will lead to continued improvement over time. Our compliance strategy includes a number of activities. For example, if taxpayers filed a tax return but did not attach Form 8962 and Marketplace data available during the filing season indicated they should have done so, we corresponded with them and asked them to file a Form 8962 before we continued to process their return. Of the 1.7 million taxpayers who received letters for this reason, about 50 percent responded with the necessary information. Also, during August and September 2016, we sent approximately 670,000 letters to taxpayers who received APTC in 2015 but either had not yet filed a tax return or had filed for an extension (and had not yet filed a return). We 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 they must meet this obligation to maintain their eligibility for APTC in 2017.

In preparation for the upcoming filing season, we worked with software companies that develop tax preparation software to ensure that interview questions and prompts appropriately remind preparers and taxpayers to file Form 8962 if they received APTC. Tax year 2015 is the second year for APTC and PTC, and we expect that taxpayers will continue to better understand the 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 must have qualifying health insurance coverage for each month of the year, to have an exemption from the requirement to have coverage or to make an individual shared responsibility payment. Most taxpayers have coverage from one source or another, such as through the individual's workplace, Medicare, or Medicaid. These taxpayers only needed to check a box on their 2015 tax return to indicate their coverage. As expected, about 80 percent of taxpayers (currently approximately 117 million tax returns processed through mid-December) checked the box to indicate they had qualifying coverage all year. Another approximately 6.9 million dependents (about 5 percent of tax returns), who do not have to report on their coverage,⁵ filed a return, for a total of 85 percent of returns. This is up from the 81 percent of taxpayers I reported in my January 2016 letter who were in this category for tax year 2014.

About 12.7 million taxpayers claimed one or more health care coverage exemptions.⁶ Some health coverage exemptions are available only from the Marketplace, others are

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.

⁶ Approximately 4.3 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.

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 us 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. This is the most common exemption claimed. Other exemptions that are claimed with us 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 primarily when an individual has income below a certain threshold and resides in a state that did not expand Medicaid (Code G).
- The code used by U.S. citizens living abroad and certain noncitizens (Code C).
- The code used when health care coverage available to an individual is considered unaffordable (Code A).

Approximately 6.5 million taxpayers reported a total of \$3.0 billion in individual shared responsibility payments. The average payment was around \$470 and the median payment was around \$330. About 7 percent of these payments were \$100 or less, and about 70 percent of these payments were \$500 or less. The vast majority – 77 percent – of taxpayers reporting a shared responsibility payment still reported a refund. The 6.5 million taxpayers who reported a payment is about 20 percent lower than the approximately 8 million taxpayers who reported a payment for tax year 2014.

I appreciate the opportunity to share our data with you. I hope you find this information helpful as we are committed to being responsive to Congress.

Sincerely,

John A. Koskinen