

## Part II Affordability exemptions: Household and Gross Income very low (Feb.14, 2017)

Part II affordability exemptions on Form 8965 can exempt the whole family for the whole year, so it's advisable to make use of them before resorting to the Part III Code A affordability. Unfortunately, we can't access the form itself in TS, we have to go through the questions on the screens. These instructions will help you use the software, but to understand the theory behind Part II and Part III exemptions, you have to consult other training materials.

### HOUSEHOLD INCOME AFFORDABILITY EXEMPTION

One tests for Household Income affordability, then tries Gross if it fails. TS screens don't at this point differentiate between the two, because they're using the same text for both even though behind the scenes, they're calculating for both and applying them to Part II of the 8965.

**Scenario: a really low-income family has had no insurance all year. They're below the filing threshold but are filing for EIC or withholding and thus have to get an exemption.**

Entering the Healthcare section, these questions come up, and your response:

Did you or your family have health insurance at any time in 2016? \*

Yes

No

### Verify Your Household Members

Name	SSN	Date of Birth
TP LOINCOME	105-00-9876	1/1/1980
SP LOINCOME	105-00-6789	1/1/1985
KID LOINCOME	105-00-9786	1/1/2005

**Dependents' Modified AGI (if filing requirement)** None in this scenario. Just click "Continue"

**Do you qualify for Health Care Exemptions?** Don't fill this out.

The software starts a calculation for the Part II exemptions.

(A lot of people won't be using the "Click here" in the last line, as it takes you to Healthcare.gov, and many states have their own plan finders.)

### Health Care Exemption Certificates

 You qualify for the coverage exemption for household income below the filing threshold. Please select continue and we will apply the coverage exemption to the return.

Did you receive an exemption certificate from a marketplace or qualify to claim a coverage exemption on your return? \*

Yes

No

[Click here](#) to determine if you can claim a health coverage exemption.

When you go to Print Preview, you'll see the "X" in the box at the right of the Part II section of Form 8965.

<b>Part II Coverage Exemptions Claimed on Your Return for Your Household</b>															
7 If you are claiming a coverage exemption because your household income or gross income is below the filing threshold, check here. <input checked="" type="checkbox"/>															
<b>Part III Coverage Exemptions Claimed on Your Return for Individuals.</b> If you and/or a member of your tax household are claiming an exemption on your return, complete Part III.															
(a) Name of Individual	(b) SSN	(c) Exemption Type	(d) Full Year	(e) Jan	(f) Feb	(g) Mar	(h) Apr	(i) May	(j) June	(k) July	(l) Aug	(m) Sept	(n) Oct	(o) Nov	(p) Dec
8															

Once again: Part II affordability is the best option because it's the simplest. The whole family gets the exemption for the whole year. Note that by pressing "Continue" and doing nothing else, TS doesn't assign any Code A affordability exemptions to Part III.

If you answer "Yes" to the question below the yellow band of text at the bottom of the screen, you will be given a chance to add ECNs and Part III exemptions (e.g., short gap Code B) – even though it's not necessary. They may fix that at some point, because it's kind of redundant. For the heck of it, I gave the TP a "PENDING" ECN. Form 8965 took both the Part I ECN and the Part II full family affordability exemption:

<b>Part I Marketplace-Granted Coverage Exemptions for Individuals.</b> If you and/or a member of your tax household have an exemption granted by the Marketplace, complete Part I.			
(a) Name of Individual	(b) SSN	(c) Exemption Certificate Number	
1 TP LOINCOME	105-00-9876	PENDING	
<b>Part II Coverage Exemptions Claimed on Your Return for Your Household</b>			
7 If you are claiming a coverage exemption because your household income or gross income is below the filing threshold, check here. <input checked="" type="checkbox"/>			

I also tried it with TP uninsured all year (gave him a full-year Code A), with SP and Kid fully covered. TS not only applied the Part II exemption to the whole family, in spite of the fact two of them had coverage, but it gave the TP the Code A I had asked for:

<b>Part II Coverage Exemptions Claimed on Your Return for Your Household</b>															
7 If you are claiming a coverage exemption because your household income or gross income is below the filing threshold, check here. <input checked="" type="checkbox"/>															
<b>Part III Coverage Exemptions Claimed on Your Return for Individuals.</b> If you and/or a member of your tax household are claiming an exemption on your return, complete Part III.															
(a) Name of Individual	(b) SSN	(c) Exemption Type	(d) Full Year	(e) Jan	(f) Feb	(g) Mar	(h) Apr	(i) May	(j) June	(k) July	(l) Aug	(m) Sept	(n) Oct	(o) Nov	(p) Dec
8 TP LOINCOME	105-00-9876	A	X												

I don't know if these redundancies will be eliminated in future software updates, but at least it's working. No penalty on Line 61, which is what this whole thing is about.

You do get the chance to edit or delete the Code A, as well as add other exemptions:

### Health Coverage Exemptions

Name of Individual	Type	
TP LOINCOME	A	

✎ Edit
🗑 Delete

[➕ Add another exemption](#)

But again, adding exemptions is pretty pointless, since they've already got the all-encompassing Part II.

If you already had been using Jeff's calculator before going into the Health Insurance section in TS, the message for a low-income family eligible for the Household affordability exemption looks like this:

**STOP!** Household Income is less than the filing threshold (20700). [Check "Yes" box 7 on Form 8965 Part II.](#) [Here's how](#)

He's added a button ("Here's how") that links to these instructions, which will be probably be revised from time to time. For example, right now, because not only did TS change their screens in the past 24 hours, but I'm adding a section below on Part II Gross Income affordability.

### GROSS INCOME AFFORDABILITY EXEMPTION

If you can't get the Part II Household exemption and you still want to exempt the whole family for the whole year, the next option is Gross Income affordability.

Jeff explains that the ACA calculator will do the Gross Income test if the AGI is below the filing threshold and there's enough tax-free interest to push it over. "That causes the calculator to fail the Household Income test and try the Gross Income test, which is AGI plus the bracketed items for the TP/SP only."

Modifying the above scenario using AGI \$20,500 and tax-free interest \$500 (threshold MFJ: \$20,700):

<b>Income</b>	<b>7</b>	Wages, salaries, tips, etc. Attach Form(s) W-2		20,500 00
	<b>8a</b>	Taxable interest. Attach Schedule B if required		0 00
	<b>b</b>	Tax-exempt interest. <b>Do not</b> include on line 8a	500 00	
<b>Attach Form(s)</b> <small>W-2 here. Also</small>	<b>9a</b>	Ordinary dividends. Attach Schedule B if required		0 00

add these two amounts into the calculator and Click to test:

**Household Income Information:**

Enter amounts from tax returns only for those dependents who must file other than to obtain a

	<u>Amount</u>	<u>Location</u>	<u>TP &amp; SP</u>	<u>Depend 1</u>
AGI		Form 1040 line 37	20500	
Tax-exempt interest		Form 1040 line 8b	500	
Social Security Income		Form 1040 line 20a		

This instruction appears lower down -- it now begins with the word "Gross" (instead of "Household"):

**STOP!** Gross Income is less than the filing threshold (20700). [Check "Yes" box 7 on Form 8965 Part II.](#)

Notice that the Gross Income test requires more TP/SP income amounts to be added into the calculator if they exist, so the boxes that had been grayed out to the left of the big bracket are now fillable.

**Household Income Information:**

Enter amounts from tax returns only for those dependents who must file other than to obtain a refund of withholding or estimated payr

Amount	Location	TP & SP	Depend 1	Depend 2	Depend 3	Deper
AGI	Form 1040 line 37	20500				
Tax-exempt interest	Form 1040 line 8b	500				
Social Security Income	Form 1040 line 20a					
Taxable Social Security	Form 1040 line 20b					
Foreign Income	Form 2555 line 45 & 50					
Form 1040 cap gain/loss	Form 1040 line 13					
Adjustments to income	Form 1040 line 36					
Main Home Sale exclusion	Sched D & Forms 8949					
Schedule D gains	Sched D & Forms 8949					
Business expenses/losses	Sched C, lines 28 + 30					

Gross income test needed (TP & SP only).  
Enter any applicable amounts in these five rows.

[Click for more information](#)

(Dependent income does not count in this test.)

Clicking the green “Click for more information” button gives this pop-up clarification and further instructions:

**cotaxaide.org says:**

**Addbacks needed to determine Gross Income given the AGI:**

**1040 Capital Gain/Loss:**  
Enter the amount from Form 1040 line 13.  
This removes the effect of any losses, including carryovers, from the AGI so that the full Schedule D gains can be added back in below. These two entries result in adding back in the capital gain losses as required.

**Adjustments to income:**  
Enter the amount from Form 1040 line 36.

**Main Home Sale exclusion:**  
Enter the amount excluded.

**Schedule D gains:**  
Add all individual sale transaction gains and all gains for amounts in Sched D lines 4, 5, 11, 12 and 13.

**Schedule C expenses and losses:**  
Enter the amount on Schedule C line 28. Also include line 30 if it is in scope for you.


Prevent this page from creating additional dialogs.

**OK**

Jeff says that if the AGI from Schedule C had been lower than the filing threshold and their business losses pushed them over, it would be enough to fail the Gross income test. (Remember to watch out for out-of-scope issues dealing with Schedule C: see Pub 4012 pp. D-33 and 34, and of course foreign income as well.)

Going into TS to apply this needs some ingenuity, because the screen text in the yellow band doesn't mention the term "Gross Income":

### Health Care Exemption Certificates

 You qualify for the coverage exemption for household income below the filing threshold. Please select continue and we will apply the coverage exemption to the return.

But not to worry: the software acts the same as before for getting the Part II Household exemption. TS's calculations get you the desired "X" in Part II of form 8965:

<b>Part II</b>	<b>Coverage Exemptions Claimed on Your Return for Your Household</b>
7	If you are claiming a coverage exemption because your household income or gross income is below the filing threshold, check here. <span style="float: right;"><input checked="" type="checkbox"/></span>

And of course no penalty on Line 61.

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*Prepared by Julie Woodward, NY-1*