

PART II, LINE 7 AFFORDABILITY EXEMPTIONS: HOUSEHOLD INCOME and GROSS INCOME

Part II Affordability exemptions on Form 8965 can exempt the whole family for the whole year, so it's advisable to understand how they work before resorting to the more difficult affordability tests in Part III. In TS, one answers questions and the software does the calculations in the background. These instructions explain TS procedures and Jeff's calculator relating to Part II Affordability, 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: AGI \$10,000, no insurance all year. He's below the filing threshold but filing for EIC or withholding and are looking for 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

Next screen: **Verify Your Household Members:**

Name	SSN	Date of Birth
LOW INCOME	346-00-0000	3/3/1993
+ Add New Household Member		

Next, if there had been dependents in the tax family: **Dependents' Modified AGI (if filing requirement).** None in this scenario, so select "Continue."

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

TS then calculates for the Part II Line 7 exemption and tells you in a yellow banner whether you've got it. It defaults to "No," and you're instructed to select continue. There's nothing more to do.

Health Care Exemption Certificates

 You qualify for the coverage exemption for Household or Gross Income below the Filing Threshold. Please select continue and we will apply the coverage exemption to the return.

Did you qualify for an exemption due to circumstances or receive an exemption certificate from the marketplace? *

Yes

No

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

You and/or the QR can check in the Print Return that Form 8965, Part II Line 7 has the little “X” in the box. Keep an eye out for the little Print icon next to the Continue button on many screens (below right), which will bring up a .pdf of Form 8965, so you don’t have to get a Print view of the whole return just to check out this form.

Once again: Part II Affordability is a great option because it’s the simplest: the whole family gets the exemption for the whole year.

Saying that, TS still seems to have some built-in redundancy this year.

If you answer “Yes” to the question below the yellow banner of text, you’ll be given a chance to add ECNs and Part III exemptions (e.g., short gap Code B), even though these aren’t necessary. TS may fix this at some point.

For the heck of it, I clicked “Yes” and entered both an ECN (Jan.-April) and a short-gap exemption (May-June).

The software accepted all three exemptions — the Part I (ECN), Part II Line 7, and the Part III Code B — and plopped them all into Form 8965.

Part I Marketplace-Granted Coverage Exemptions for Individuals. 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	LOW INCOME	346-00-0000	A222222													
2																
3																
4																
5																
6																
Part II Coverage Exemptions Claimed on Your Return for Your Household																
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"/>															
Part III Coverage Exemptions Claimed on Your Return for Individuals. 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	LOW INCOME	346-00-0000	B						X	X						

Last year, I also tried the Part II Line 7 exemption simultaneously with a Code A for the TP, even though he had a wife and child fully insured. TS not only applied the Part II exemption to the whole family, in spite of the fact that two of them had coverage, but it gave the TP the Code A I had asked for:

Part II Coverage Exemptions Claimed on Your Return for Your Household																
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"/>																
Part III Coverage Exemptions Claimed on Your Return for Individuals. 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 that's been changed (too lazy to go through all those screens), but at least it achieved the desired result: no penalty on Line 61, which is what this whole things is about.

You do get a chance to edit or delete these additional exemptions as before, or even add other, equally redundant, ones. (See the edit and delete icons on the right.)

Health Coverage Exemptions

[+ Add another exemption](#)

Name of Individual	Type		
LOW INCOME	Certificate A222222		
LOW INCOME	B		

[+ Add another exemption](#)

But again, adding exemptions is pointless, since this TP already has the all-encompassing Part II exemption.

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

[Click to test](#)

STOP Household Income is less than the filing threshold (10400). [Further information](#)

The [Further information](#) button links to this document.

GROSS INCOME AFFORDABILITY EXEMPTION

If you can't get the Part II Household exemption, the Gross Income affordability test might work. It's another Part II Line 7 exemption that would remove any penalty for the whole family the whole year. TS takes care of this for you, but here's how it works in this calculator.

The Gross Income test becomes possible when the AGI is below the filing threshold (as in the Household test), but there's some tax-exempt interest or taxable Soc. Sec. that would push the total income over the threshold when testing for affordability. Jeff says: "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."

Using the scenario Single, AGI 10,300 (threshold: \$10,400), but an additional \$200 tax-exempt interest, enter the AGI on the first line and the \$200 just beneath it.

Household Income Information:
 Enter amounts from tax returns only for those dependents who must file other than to obtain a refund of withholding or estimate payments.

Amount	Location	TP & SP	Depend 1	Depend 2	Depend 3	Depend 4	D
AGI	Form 1040 line 37	10300					
Tax-exempt interest	Form 1040 line 8b	200					
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](#)

As soon as you put figures into those 4 blank spaces under the AGI, the calculator jumps into action and removes the gray from the remaining blanks to allow further entries. In this case, there are no additional amounts.

NOTE: Dependent income does not count in this test.

Clicking to test produces the message:

[Click to test](#)
STOP! Gross Income is less than the filing threshold (10400). [Further information](#)

(Again, "Further information" gets you to this document.)

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.)

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.

A green [Click for more information](#) button gives this pop-up clarification (left) with additional instructions.

Again, TS takes care of the Gross Income calculation for you and gives the result of its test in the yellow banner as before. It places an "X" in the small box of Form 8965, Part II Line 7, and they'll be no penalty on on Line 61 of the 1040.