



State of California—Health and Human Services Agency
California Department of Public Health



KAREN L. SMITH, MD, MPH
Director & State Health Officer

EDMUND G. BROWN JR.
Governor

OFFICE OF AIDS (OA)
AIDS DRUG ASSISTANCE PROGRAM (ADAP)

Management Memorandum
Memorandum Number: 2016-03

DATE: MARCH 18, 2016

TO: ADAP ENROLLMENT WORKERS

SUBJECT: FEDERAL TAX FILING REQUIREMENTS AND ADVANCED PREMIUM TAX CREDIT (APTC) RECONCILIATION

The purpose of this memorandum is to inform ADAP Enrollment Workers and Coordinators of the process for federal tax filing for individuals enrolled in OA-Health Insurance Premium Payment (OA-HIPP) Program and a Covered California health plan. This is an update to previous guidance regarding APTC reconciliation which includes the following changes: the requirement for submission of IRS Form 1095-A to OA-HIPP, potential consequences for not filing federal taxes, and the new OA-HIPP policy regarding the payment of the Internal Revenue Service (IRS) tax liability related to APTC reconciliation.

Background

All clients who enrolled in a Covered California health insurance plan for 2015 coverage reported a *projected/estimated* household income to Covered California for 2015. If clients' projected income was between 139% and 400% Federal Poverty Level, they were eligible for APTC assistance. APTC is applied to the monthly premium, thus lowering the premium amount. It is paid on a monthly basis directly to the health plan by the federal government. Because the APTC amount is based on a projected income, everyone who received an APTC must file a federal tax return. This is to reconcile their actual income over the year in which the APTC was received with the projected income the federal government used to determine the APTC amount.

Step 1: IRS Form 1095-A

All clients who were eligible for an APTC in 2015, will receive [IRS Form 1095-A](#), Health Insurance Marketplace Statement, from Covered California by early February 2016. IRS Form 1095-A includes the amount of monthly APTC sent to the client's health plan. If a client does not receive his/her IRS Form 1095-A or the form contains inaccurate information, the client must complete and submit a Covered California [Dispute Form](#).

Step 2: Complete IRS Form 8962

Next, the client will need to complete [IRS Form 8962](#) using the information from IRS Form 1095-A to reconcile the APTC amount received.

Step 3: File Federal Tax Return

All clients who received an APTC must file an IRS Form 1040, 1040A, or 1040NR. These clients cannot file Form 1040EZ, Form 1040NR-EZ, Form 1040-SS, or Form 1040-PR. The IRS Form 8962 cannot be filed with these types of returns. This federal filing requirement applies whether or not a client would otherwise be required to file a return.

Married individuals must file their federal taxes jointly if they received an APTC (except in situations of domestic abuse, as outlined in [IRS Notice 2014-23](#)). Otherwise, they will not be eligible for APTC in the next coverage year.

Note: If a client did not file his/her 2014 federal taxes, his/her APTC for coverage year 2016 will be cut off by Covered California around April 1, 2016. Such clients must immediately notify OA-HIPP of their adjusted monthly health insurance premium to avoid an underpayment.

If the client received APTC for the 2015 coverage period and the client does not file a 2015 federal tax return, the client will not be eligible for APTC in coverage year 2017. Furthermore, the client may potentially lose OA-HIPP assistance.

APTC Reconciliation

The reconciliation process compares the *projected* income the client reported when he/she first enrolled in the Covered California plan to the *actual* income reported on the federal tax return for the year in which he/she received the APTC. On the federal tax return, specified boxes will indicate either money owed to the client as an IRS refund due to APTC underpayment or money owed to the IRS because of an APTC overpayment:

- APTC Refund: If a client overestimated his/her projected 2015 income and thus did not receive enough in APTC, he/she will be due a net premium tax credit (refund) from the IRS, the amount will be listed here:
 - Line 69 on Form 1040
 - Line 45 on Form 1040A
 - Line 65 on Form 1040NR

- APTC Tax Liability: If a client underestimated his/her projected 2015 income to Covered California and thus received too much in APTC, he/she will owe the IRS money in the form of a tax liability. The tax liability will be listed here:
 - Line 46 on Form 1040
 - Line 29 on Form 1040A
 - Line 44 on Form 1040NR

It is important to note how tax liabilities and refunds are looked at by the IRS. If a person owes the IRS an amount because of an APTC overpayment, the IRS will first look to see whether there are other refunds owed to the taxpayer and take the payment directly out of those refunds. And, if a person is owed a refund by the IRS because of an APTC underpayment, the IRS will first look to see whether the person owes other tax liabilities for that year and apply the refund to those liabilities.

OA-HIPP Requirement

Clients who had their Covered California health plan premiums paid for by OA-HIPP for any part of 2015 must submit their IRS Form 1095-A, IRS Form 8962, and their signed 2015 federal tax return during their OA-HIPP re-enrollment or recertification, whichever comes first after April 15,

2016. Electronic tax returns must include the electronic signature page. Clients who submitted a tax extension (IRS Form 4868) will need to submit the IRS Form 4868 to OA-HIPP and must provide a copy of their tax return and Forms 1095-A and 8962 by October 15, 2016.

- a) If the client has an APTC refund, then this means that OA-HIPP overpaid the monthly premiums, therefore the net premium tax credit (for the applicable months) needs to be returned to OA-HIPP. The client must mail a cashier's check or money order, made payable to CDPH Insurance Assistance Section, to:

CDPH, Insurance Assistance Section
P.O. Box 997426, MS 7704
Sacramento, CA 95899-7426

A letter will be sent to the client indicating the amount that is due to OA-HIPP. The payment will be due 30 days after the date of the letter. The template letter is attached for your reference (letter #1).

- b) If a client has an APTC tax liability, this means that OA-HIPP underpaid in premiums. Therefore, OA-HIPP will send a payment to the IRS to cover the tax liability, for the applicable months, on the client's behalf upon receipt of the tax documentation and identification of the tax liability. A letter will be sent to the client informing him/her of the payment. The template letter is attached for your reference (letter #2).

Report Changes to Covered California

It is critical that clients report changes to Covered California throughout the year to avoid underpayment or overpayment of APTC. Clients should notify Covered California if they get married or divorced, gain or lose a dependent, have a change in income, or experience other changes that may affect the household income or household size. Clients should report changes within 30 days of change by calling Covered California at (800) 300-1506. Subsequently, OA-HIPP must be immediately notified of the updated premium.

Client Resources

Clients may be able to get free help filing taxes, including free software programs or in-person assistance, here: www.irs.gov/freefile or www.irs.gov/VITA. A client letter outlining the federal tax filing requirement and the APTC reconciliation process has been sent to all OA-HIPP clients who are enrolled in a Covered California health plan. The letter is attached for your reference (letter #3). Furthermore, this mobile-friendly tool, [Taxes and Health Coverage: What You Need to Know](#), can help clients answer some key questions around tax filing.

If you have any questions about anything covered in this memo, please contact your [ADAP Advisor](#).

Thank you,



Niki Dhillon, ADAP Branch Chief
California Department of Public Health
cc: ADAP Coordinators



KAREN L. SMITH, MD, MPH
Director and State Health Officer

State of California—Health and Human Services Agency
California Department of Public Health



EDMUND G. BROWN JR.
Governor

[Date]

Dear _____,

You are getting this letter because in 2015 you were enrolled in a Covered California health insurance plan and the California Department of Public Health, Health Insurance Premium Payment (HIPP) program. HIPP paid your health insurance premiums for the period of _____.

The Internal Revenue Service (IRS) reviewed your 2015 Advanced Premium Tax Credit (APTC). The APTC is the amount that reduced your monthly health insurance premium. Based on your reported 2015 income, the IRS has found that your APTC amount was short. This means that HIPP overpaid your premiums. Line ____ on your federal tax return (IRS Form _____) shows a net premium tax credit (refund) of \$_____. Because HIPP is the payer of last resort and has paid your health insurance premiums on your behalf for the period listed above, **the refund amount of \$_____ is due to HIPP. You must send this amount in the form of a cashier's check or money order, made payable to CDPH HIPP Program, and it mail to:**

CDPH HIPP Program
P.O. Box 997426 - MS 7704
Sacramento, CA 95899-7426

You must send the payment within 30 days of this letter. Please return a copy of this letter with your payment.

HIPP requires that you take the full monthly APTC that is available to you. It is critical that you report changes that may affect your income and/or household size to Covered California throughout the year. This is to make sure that you are getting the correct amount of APTC. To report changes, call Covered California at (800) 300-1506 within 30 days of the change. Right after that, you must notify HIPP of your new monthly premium.

Please contact me at (916) xxx-xxxx if you have any questions.

[analyst name]



KAREN L. SMITH, MD, MPH
Director and State Health Officer

State of California—Health and Human Services Agency
California Department of Public Health



EDMUND G. BROWN JR.
Governor

[Date]

Dear _____,

You are getting this letter because in 2015 you were enrolled in a Covered California health insurance plan and the California Department of Public Health, Health Insurance Premium Payment (HIPP) program. The HIPP program paid your 2015 health insurance premiums on your behalf for the period of _____.

The Internal Revenue Service (IRS) reviewed your 2015 Advanced Premium Tax Credit (APTC). The APTC is the amount that reduced your monthly health insurance premium. Based on your reported 2015 income, the IRS has found that you got too much APTC. Line _____ on your federal tax return (IRS Form _____) shows a tax liability amount of \$_____. This amount is due to the IRS.

This letter is to inform you that **the HIPP program has paid the IRS tax liability on your behalf for the period mentioned above.** HIPP sent check # _____ in the amount of \$_____, dated _____, to the IRS on your behalf. This payment covers ONLY the tax liability that is due because of the review of your 2015 APTC and income. And it is only for the period listed above. If you owe the IRS other taxes or penalties, you must coordinate with the IRS for repayment. For more information, please visit www.irs.gov.

HIPP requires that you take the full monthly APTC that is available to you. It is critical that you report changes that may affect your income and/or household size to Covered California throughout the year. This is to make sure that you are getting the correct amount of APTC. To report changes, call Covered California at (800) 300-1506 within 30 days of the change. Right after that, you must notify HIPP of your new monthly premium.

Please contact me at (916) xxx-xxxx if you have any questions.

[analyst name]



KAREN L. SMITH, MD, MPH
Director and State Health Officer

State of California—Health and Human Services Agency
California Department of Public Health



EDMUND G. BROWN JR.
Governor

March 10, 2016

Dear Client:

You are receiving this letter because in 2015 you were in a Covered California health insurance plan. You were also enrolled in the California Department of Public Health, Health Insurance Premium Payment (HIPP) Program. The HIPP Program paid your health insurance premiums on your behalf. The program also paid your drug co-pays. Here is an example of the prescription drug card that you have:



This letter lists what you need to do to file federal taxes. It also explains the review process of your Advanced Premium Tax Credit (APTC).

Background

The APTC is the amount that reduced your monthly health insurance premium. The APTC review process compares the following:

- the *projected* income you reported when you first enrolled in the Covered California plan, and
- the *actual* income reported on your federal tax return for the year in which you got the APTC.

This comparison will show if you got too much in APTC or not enough. Your federal tax return will show either:

- money you owe to the Internal Revenue Service (IRS) because you received too much APTC, or
- money owed to you as an IRS refund because you did not receive enough APTC.

Filing Federal Taxes

Step 1: IRS Form 1095-A

You should have got IRS Form 1095-A from Covered California by early February 2016. IRS Form 1095-A lists the amount of monthly APTC sent to your health plan in 2015.

You must fill out and submit a Covered California Dispute Form if:

- you did not get IRS Form 1095-A, or

Disclaimer: Final authority on tax filing guidance comes from the IRS. Please visit www.irs.gov for more information.

- the form has the wrong information.

Step 2: IRS Form 8962

Next, you must fill out IRS Form 8962 using the information from IRS Form 1095-A.

Step 3: File Federal Tax Return

Once you have filled out Form 8962, you must file one of the following types of federal tax returns:

- IRS Form 1040,
- IRS Form 1040A, or
- IRS Form 1040NR.

IRS Form 8962 cannot be filed with the following types of returns if you received an APTC:

- IRS Form 1040EZ,
- IRS Form 1040NR-EZ,
- IRS Form 1040-SS, or
- IRS Form 1040-PR.

Therefore you should not file these types of returns.

The federal filing requirement applies to everyone enrolled in a Covered California health plan; even if you would otherwise not be required to file a return. If you are married, you must file jointly with your spouse. An exception would be in cases of domestic abuse. Please see [IRS Notice 2014-23](#) for more information. Otherwise, if you do not file jointly, you will not be eligible for APTC in the next coverage year.

Note: If you did not file your 2014 federal taxes, your APTC for coverage year 2016 will be cut off by Covered California around April 1, 2016. You must contact the HIPP program if your monthly health insurance premium changes. If you got an APTC in 2015 and you do not file a 2015 federal tax return, you will not get an APTC in coverage year 2017. Also, you may lose HIPP program eligibility.

APTC Review

Submit Documentation to HIPP

You must submit your IRS Form 1095-A, Form 8962, and your signed 2015 federal tax return during:

- your HIPP re-enrollment (every year during your birth month) or
- your HIPP re-certification (six months after your birth month).

This depends on which comes first after April 15, 2016. If you submit a tax extension (IRS Form 4868), you will need to:

- submit the IRS Form 4868 to HIPP, and
- provide a copy of your tax return by October 15, 2016.

If you filed electronically, you must include your electronic signature page.

IRS Liability

If you underestimated your 2015 income to Covered California and thus received too much APTC, you will owe the IRS money. The amount due will be listed here:

- Line 46 on IRS Form 1040,
- Line 29 on IRS Form 1040A and
- Line 44 on IRS Form 1040NR.

If the HIPP program paid your 2015 premiums on your behalf and sees a tax liability on your tax return, the program will cover the tax liability (for the applicable period) on your behalf. If this is your case, you will receive a letter from HIPP stating the amount paid to the IRS on your behalf.

IRS Refund

If you overestimated your 2015 income and thus did not receive enough APTC, you are due a net premium tax credit (refund) from the IRS. This means that HIPP overpaid the monthly premiums to your health plan. The refund amount will be listed here:

- Line 69 on IRS Form 1040,
- Line 45 on IRS Form 1040A, or
- Line 65 on IRS Form 1040NR.

The refund amount (for the applicable period) must be returned to HIPP in the form of a cashier's check or money order, made payable to CDPH HIPP Program, and mailed to:

CDPH HIPP Program
P.O. Box 997426 - MS 7704
Sacramento, CA 95899-7426

If this is your case, you will receive a letter from HIPP stating the amount due to HIPP.

Notify Covered California of Changes

It is vital that you report changes to Covered California throughout the year. This is to avoid underpayment or overpayment of APTC. You must notify Covered California if you:

- get married or divorced;
- gain or lose a dependent;
- have a change in income; or
- experience other changes that may affect your income and/or household size.

To report changes, call Covered California at (800) 300-1506 within 30 days of the change. You must notify the HIPP program right away anytime your premium amount changes.

Helpful Resources

Please use the following resources:

- your drug assistance program enrollment worker
- (844) 421-7050 for questions about the HIPP Program
- (800) 300-1506 or visit www.coveredca.com for questions about Covered California
- for questions about federal taxes, please visit www.irs.gov
- Please visit www.irs.gov/freefile or www.irs.gov/VITA for free help filing taxes, including free software programs or in-person assistance.

Thank you
California Department of Public Health Notice