

Reporting Your Income When Buying Health Insurance on Your State's Marketplace

Summary

These FAQs will explain what you need to know when filing your ACA health insurance application and how to verify your income down the road.

The new health care law offers special tax credits to help low- and moderate-income people pay for insurance they buy on their state's Health Insurance Marketplace. This help is available to individuals earning up to about \$46,000 a year and a family of four earning up to about \$94,000 a year. You can use these tax credits right away to lower the cost of your insurance premium.

To figure out whether you qualify for this benefit, Health Insurance Marketplaces need to know what you expect your household income to be during the year you are purchasing coverage. (For Medicaid, they will look at your current *monthly* income.) That's an easy question to answer if you have a predictable income from a job or Social Security, but not if you have erratic and hard-to-predict income from self-employment, sales commissions or seasonal work.

What do the Marketplaces count as income?

The Marketplaces measure income using a formula called "Modified Adjusted Gross Income" (MAGI). For most people, MAGI will be the same as the Adjusted Gross Income (AGI) reported on your federal tax return (Line 37 on Form 1040, Line 4 on Form 1040-EZ, and Line 21 on Form 1040A). If you receive Social Security benefits that aren't taxed, or any tax-exempt interest, you must add those to your AGI to get your MAGI. Here's an annotated version of Form 1040 that we marked up to show what goes into MAGI.

http://www.consumerreports.org/health/resources/pdf/health-reform/1040_callouts.pdf

If you don't have a previous tax return to refer to, this worksheet can help you understand more about MAGI.

http://laborcenter.berkeley.edu/healthcare/MAGI_summary13.pdf

There are several people in my household who earn income. Do I report everybody's income or just my own?

For the premium tax credits and cost-sharing subsidies, report your income, your spouse's income and the income of any dependent on your tax return who is required to file taxes. In general, for 2013, a dependent who is unmarried and under age 65 is required to file a tax return if he has earned income greater than \$6,100 or unearned income greater than \$1,000. Unearned income is generally investment-related, unemployment compensation and taxable social security; it does not include non-taxable social security benefits, SSI or TANF.

Do I report my past income, current income or future income?

The income that you report should be for the year that you are seeking health insurance coverage. If you apply in October for coverage beginning the next calendar year starting in January, you will need to estimate your future income for the next calendar year.

If you are applying during the same year you would like coverage (for example, applying in February for insurance that would start in March of that same year), you would report your income for the current calendar year.

How do I estimate my income for a year that has not ended yet?

If your income is from a regular paycheck, that won't be difficult. But if your income is unpredictable because you run your own business, are a freelancer, work on commission, or are seasonally employed, you will need to make the best possible educated guess.

If you filed a federal tax return last year, look for the Adjusted Gross Income you reported, as a starting point (See above). Then add or subtract, depending on how you think your income might change. Don't forget to deduct self-employment expenses.

What happens if I guess wrong?

It is important to be as accurate as you can be when predicting your income. If you under-estimate your income on your application, you may receive more financial help than you should and will pay all or part of it back when you file your taxes next year. The amount you would owe depends on what your final income turns out to be.

On the other hand, if you over-estimate your income on your application, the tax credit you receive in advance may be less than you are entitled to receive. If that's the case, you will receive the rest of your premium tax credit as a credit on your tax return and may receive a tax refund.

One way to avoid owing all or a portion of your tax credit back later on is to ask for only a portion of the tax credit throughout the year to reduce your premium and plan to receive the remainder of your credit when you file your taxes. Another alternative is to take none of the credit in advance and receive any credit you are entitled to on your tax return.

How will the Marketplace verify my income?

The Marketplace will verify the income you reported on your application by electronically checking the Internal Revenue Service (IRS) database and other databases at its disposal. Usually, the IRS information comes from your last tax filing. That means that sometimes the Marketplace is comparing the income you reported in your application with income that is a few years old. For people whose income has changed or who are self-employed, these numbers are less likely to match the data on file.

- If your projected income is *similar* to or *higher* than what is on file, it will likely be verified electronically without any additional steps.
- If your projected income is *lower* than what is on file or if your income *cannot be verified* (for instance, if you have not filed a recent tax return), the Marketplace may ask you to provide information to prove the accuracy of your projection. You will be given 90 days to get this done. If you don't, your subsidy will end or be changed to reflect the information on file.

What documents will I need to prove my expected income?

If the Marketplace can't verify your income or you are claiming a decrease in income from the information on file, you will be asked to prove that what you reported in your application is accurate. Many types of proof are acceptable. In addition to the

suggestions below, your 2013 tax return – or any of the tax forms used to complete your 2013 taxes – might also help support your 2014 projections if the amounts are similar.

If you have...	Acceptable forms of proof might include...
Wages	<ul style="list-style-type: none"> • Most recent W-2 • A recent pay stub • A letter from your employer • A copy of a check paid to you as wages • Signed time sheets
Self-employment income	<ul style="list-style-type: none"> • Most recent 1099-MISC • Most recent quarterly or year-to-date profit and loss statement • Bookkeeping records or a self-prepared ledger that shows income and deductible expenses • Bank statement showing deposits and expenses from your business
Social Security	<ul style="list-style-type: none"> • Form SSA-1099 Social Security benefits statement • Any correspondence from the Social Security Administration that shows your benefit amount, including a Cost of Living Adjustment letter
Other income	<ul style="list-style-type: none"> • A statement of your unemployment compensation benefits • Bank or investment fund statement • A lease agreement that shows income from rental property • Proof that you qualify for Food Stamps, TANF or Medicaid • Veterans Benefit statement

If you cannot provide any of the listed documents, do your best to submit something that proves that you will earn what you reported on your application.