2022 TAX TRAINING
REFUNDABLE CREDITS

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Refundable Credits are credits that will be refunded to the taxpayer even if the taxpayer owes no Federal tax. For example, with the Earned Income Credit, if the taxpayer has income less than the Standard Deduction, the taxpayer will owe no Federal income tax but will receive the amount of the Earned Income Credit as a refund in the same manner as a refund of withheld taxes.

The following are the refundable credits typically seen at VITA sites:

- Additional Child Tax Credit (see the discussion in Nonrefundable Credits)
- Education Credits (see the separate session on Education)
- Earned Income Credit
- Premium Tax Credit

EARNED INCOME CREDIT

The Earned Income Credit (EIC) is a refundable tax credit provided to working lower-income taxpayers. The credit is determined based on the taxpayer's earned income, Adjusted Gross Income (AGI), the number of qualifying children the taxpayer can claim, and the taxpayer's filing status.

Fortunately, TaxSlayer does the EIC for you automatically. Information you provide, including income items you input, as well as any Dependent information, provides the information TaxSlayer needs to determine if the taxpayer qualifies for the EIC and, if so, the amount of the credit. TaxSlayer also provides a great summary at the top of the Summary Print page which explains why a given taxpayer does not qualify for the EIC. Pub. 4012, Tab I has an extensive discussion of the EIC rules.

A Qualifying Child for EIC purposes is generally a QC but with no Support Test, so the Child could support him/herself and still qualify. In addition, the child and taxpayer must live together in the U.S. for more than half the year and they all must have SSNs valid for employment.

EARNED INCOME CREDIT – PRIOR DISQUALIFICATION

If a taxpayer had the EIC disallowed in a prior tax year, we must include Form 8862 in the return, or the return will reject. Note that this also applies to the CTC and AOC, but it is most commonly seen with reference to the EIC.

PREMIUM TAX CREDIT

The Premium Tax Credit (PTC) is the subsidy provided to make insurance purchased through the Marketplace (or other state exchanges – NC does not have an exchange) more affordable for lower-income taxpayers. This coverage is under the Affordable Care Act. Taxpayers who had Marketplace insurance during 2022 must file Form 8962 with their tax return. In order to complete this form, the taxpayer MUST have Form 1095-A, which is a tax document from the Marketplace that has the information needed to compute the PTC on the taxpayer's tax return. If a taxpayer receives Form 1095-A, they must file a tax return.

This appears in the Health Insurance section of TaxSlayer.

The PTC is not available on an MFS return unless the taxpayer can claim he/she was the victim of domestic abuse or spousal abandonment (which are very specific terms as described in the instructions to Form 8962).

The PTC in most situations is paid in two ways:

- Advance PTC (shown in Column C of Form 1095-A); and
- Through a reconciliation process on the tax return that can result in additional PTC (called Net PTC which is a refundable credit on Line 9 of Form 1040, Schedule 3) or Excess Advance PTC Repayment (which is an additional amount of tax due as shown on Line 2 of Form 1040, Schedule 2).

The amount of Advance PTC paid during the year is initially determined when the taxpayer annually signs up for Marketplace insurance. The amount is based on the coverage selected and the taxpayer's projected income for the year as provided by the taxpayer. This is paid directly to the insurance companies by the Marketplace to reduce or eliminate the premiums owed by the taxpayer for the Marketplace health insurance. Taxpayers can (and should) inform the Marketplace of changes during the year (such as the birth of a child or income change) that impact the amount of Advance PTC.

Form 1095-A reports to the taxpayer the total premiums owed with respect to the selected policy for the year (Column A), the premiums for the second-lowest-cost policy available to the taxpayer (which is used in the calculation of PTC and is shown in Column B), and the amount of Advance PTC paid during the year to the insurance company on the taxpayer's behalf (Column C).
The information on Form 1095-A is entered into TaxSlayer, which then determines the amount of PTC to which the taxpayer is entitled based on actual income and then determines if the amount of Advance PTC received is less than the actual PTC (in which case the taxpayer receives a Net PTC) or is greater (in which case the taxpayer *may* have a repayment obligation in the form of Excess Advance PTC Repayment).

PTC – REPAYMENT LIMITS

If a taxpayer receives Advance PTC that is greater than the actual PTC based on the tax return, there are limits for most taxpayers for the amount of the excess Advance PTC received that has to be repaid. These limits are based on the percentage of the Federal Poverty Line (FPL) that the taxpayer's income represents. The FPL varies based on the number of persons claimed on the tax return. Fortunately, TaxSlayer does all these calculations for you once you enter the taxpayer's other return information and the Form 1095-A information.

There are no repayment limits if the taxpayer's income is in excess of 400% of FPL. For example, for a Single taxpayer with no dependents, this would be income of $51,520 and income of $106,000 for a married couple with two children. These limits apply to MFS returns even if the taxpayer doesn't qualify for the PTC.

PTC – SPECIAL SITUATIONS

There are complicated rules concerning situations where the taxpayer is eligible for coverage under an employer plan or has other health insurance such as Medicare. If such coverage is deemed "affordable," the taxpayer may be ineligible to receive any PTC. These rules are very complex and beyond the scope of this presentation.
There are also certain situations that are out-of-scope for VITA:

- If the taxpayer has self-employment income and has Marketplace insurance, the return is out-of-scope due to the complexity of determining the interaction of the PTC and the Self-Employed Health Insurance deduction.
- There are special rules for determining the amount of PTC in the year of marriage, however, the use of these rules is elective, so the return can still be done using the normal rules. The alternative calculation only helps the taxpayers if they would be required to repay excess Advance PTC paid in months prior to the marriage.
- The final out-of-scope issue is shared policy allocations. This occurs when the people covered by a Marketplace policy as shown on Form 1095-A are on more than one tax return. The general rule is that a taxpayer's return reports the Marketplace consequences for the taxpayer, the spouse on MFJ returns, and any Dependent of the taxpayer or spouse. The shared policy allocation issue does not arise if a taxpayer is claimed as a Dependent on the parents' return and files a tax return not claiming him/herself. In this situation, the Marketplace policy implications for the parents and their Dependents are all reported on the parents' return.

  When someone on the taxpayer's Marketplace policy is not claimed as a Dependent of the taxpayer such as a child over the age of 24 who earns too much money to be a Qualifying Relative, this issue arises. For example, if a child of the taxpayer files his or her own return and cannot be claimed as a Dependent of the taxpayer, the PTC calculation requires splitting the premiums and Advance PTC between the two tax returns. This is out-of-scope.