



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

July 17, 2015

The Honorable Orrin G. Hatch  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

This is the first year that taxpayers saw changes to their income tax returns related to the individual shared responsibility provision and the premium tax credit provision of the Affordable Care Act (ACA). Likewise, this is the first year the IRS is administering these new provisions. Because we have received numerous requests from Members of Congress, today we are reporting preliminary results from the 2015 tax filing season related to the ACA.

The 2015 tax filing season opened on January 20, 2014. Since that time, the IRS has processed approximately 135 million of the around 150 million individual tax returns we expect.<sup>1</sup> Every year, millions of taxpayers request an extension beyond April 15th to file their return. This year was no different in that the IRS received nearly 12 million requests for extensions which gives taxpayers until October 15th to file their return.<sup>2</sup>

I can report that with the exception of the continued erosion of taxpayer services, the 2015 tax filing season has gone smoothly, generally, and as it relates specifically to the ACA provisions mentioned above. While many people may think that tax filing season is over on April 15th, we conduct a substantial data review afterwards to gather a fuller picture of tax season and determine what post-filing compliance or corrective actions are appropriate. Indeed, this review remains ongoing and our data remains preliminary and is subject to change as additional returns are filed and analyzed, we correct data transcription and other errors, we conduct post-filing compliance activities, and taxpayers provide us with additional information.

Under the normal process, tax return statistics are published about 15 to 18 months after the close of the tax year.<sup>3</sup> This provides time for all returns to be filed, statistically

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<sup>1</sup> Generally, the data reflected in this letter is based on our preliminary review through June 25th.

<sup>2</sup> Some of the taxpayers who filed for an extension have since filed an income tax return, and are included in the 135 million.

<sup>3</sup> For example, preliminary data for tax year 2013 was published in the Spring 2015 Statistics of Income Bulletin and final statistics for tax year 2013 will be published this August in Publication 1304, Individual

valid samples to be drawn, data to be corrected, and analyses to be conducted. Because this data is preliminary and preparing for publication requires a substantial dedication of resources, we anticipate generally following the normal timeline in the future.

### ***Preliminary Data on the Premium Tax Credit Provision***

When eligible individuals signed up for coverage at the Health Insurance Marketplaces (Marketplace), they chose to either have advance payments of the premium tax credit (APTC) made directly to their insurance provider to reduce their premiums throughout the year, get their assistance at tax time as a premium tax credit (PTC), or some combination of the two. Taxpayers who had APTC paid on their behalf in 2014 must file a tax return to reconcile the APTC, regardless of whether they otherwise had a tax filing requirement. As expected, most eligible individuals opted for advance credit payments up front,<sup>4</sup> and were informed that they were required to reconcile APTC with the actual amount of PTC to which they were entitled based on their 2014 household income.

We project that about 4.8 million taxpayers need to file a return to claim PTC or reconcile APTC.<sup>5</sup> So far, approximately 3.2 million taxpayers have filed Form 8962, *Premium Tax Credit*, 3 million of whom reported APTC. These taxpayers reported a total of approximately \$10 billion in APTC of the approximately \$15.5 billion the Marketplaces paid out in 2014.

About 2.7 million taxpayers claimed approximately \$9 billion in PTC, reporting an average credit of \$3,400. About 40 percent claimed less than \$2,000, 40 percent claimed \$2,000 to \$5,000, and 20 percent claimed \$5,000 or more.

- Among taxpayers who claimed PTC or reconciled APTC, approximately 1.3 million, or about 40 percent, claimed a net PTC (meaning PTC exceeded the APTC paid during the year). The average additional amount received was about \$600. An estimated 65 percent claimed net PTC of less than \$500 and 80 percent claimed less than \$1,000.
- By contrast, approximately 1.6 million, or 50 percent, of taxpayers who claimed PTC or reported APTC reported excess APTC (meaning APTC paid during the year exceeded PTC). The average amount repaid was about \$800, for a total of \$1.3 billion in excess APTC reported as repaid. An estimated 50 percent owe a repayment of less than \$500 and 75 percent owe less than \$1,000. About 65 percent of taxpayers with excess APTC still reported a refund.

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Income Tax Returns Complete Report for tax year 2013. See [www.irs.gov/uac/SOI-Tax-Stats-Upcoming-Data-Releases](http://www.irs.gov/uac/SOI-Tax-Stats-Upcoming-Data-Releases) for a schedule of upcoming releases.

<sup>4</sup> Of those taxpayers who claimed PTC, through June 25th, 97 percent also reported APTC.

<sup>5</sup> Of this 4.8 million, the IRS has identified 4.5 million taxpayers with APTC. This 4.5 million does not include taxpayers who claim PTC but did not receive APTC. It also excludes analysis from some Forms 1095-A with data problems that IRS has not yet matched to taxpayers. This does not mean that the information that the taxpayer received was wrong, and these taxpayers may have successfully filed their tax returns. While most of the data in this letter is through June 25th, this figure is through the end of May.

A taxpayer's APTC is calculated based on their expected income, number of family members, and other factors. If a taxpayer's actual circumstances at the end of the year differ from projections, they may have to repay excess APTC or receive net PTC. Even if a taxpayer reports changes in circumstances to their Marketplace, they may receive more APTC than PTC they are eligible to claim. The statute limits the amount that certain taxpayers must repay.<sup>6</sup> The statutory repayment caps affected only approximately 400,000 taxpayers or about 25 percent of those that reported excess APTC. We estimate that to date approximately \$345 million in APTC repayments were above the statutory cap.

- About .3 million or 10 percent of taxpayers received the correct amount of APTC during the year and did not need to make any adjustments at tax time or did not claim any PTC or APTC on their final return. We continue to conduct analysis on these tax returns.

Some taxpayers who received APTC have not yet filed their tax returns. We continue to analyze these cases and contact taxpayers as appropriate. While data in this letter is generally through the end of June, our data analysis on taxpayers who still need to reconcile is through the end of May. Based on information received from the Marketplaces and tax returns filed through the end of May, we have identified 4.5 million taxpayers who received APTC out of a total of 4.8 million who need to file to reconcile APTC or claim PTC and have analyzed their filing behavior.<sup>7</sup>

- Of these 4.5 million taxpayers with APTC, approximately 2.7 million had filed a tax return that was processed by IRS through the end of May.
- Some 360,000 taxpayers with APTC filed for an extension and have until October 15th to file their tax return. We therefore expect additional returns to be filed in the coming months.
- Approximately 710,000 of the taxpayers with APTC have not yet filed a tax return and have not filed an extension, as required. As one part of our post-filing compliance strategy, we are sending letters to taxpayers who had APTC paid on their behalf who have not yet reconciled and who did not file an extension to remind them of their obligation to file a tax return. Under regulations issued by the Department of Health and Human Services (HHS), taxpayers must meet this obligation in order to maintain their eligibility for APTC to help pay for Marketplace coverage in 2016. We are urging these taxpayers to file an electronic tax return to reconcile their APTC within 30 days. We will follow up with these taxpayers as appropriate.

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<sup>6</sup> Pursuant to statute, repayment of excess APTC is capped based on household income. For example, for taxpayers with household income of 200% or less of the Federal poverty line, repayment by single filers is capped at \$300 and repayment by taxpayers with any other filing status is capped at \$600.

<sup>7</sup> There are approximately 7 million individuals represented in this subset of 4.5 million Forms 1095-A with APTC.

- Finally, we note that based on preliminary analysis, some 760,000 taxpayers with APTC filed a tax return but did not attach Form 8962 to reconcile those payments, as required. If Marketplace data available during the filing season indicated that taxpayers should have filed a Form 8962, we corresponded with these taxpayers as appropriate and asked them to file a Form 8962.

It is not unusual for the IRS to follow up with taxpayers for more information about their returns after April 15th. This is the first year for this new provision, and we expect that taxpayers will continue to better understand this process as it becomes more routine. We are committed to learning from this experience so that we can improve our processes and enhance the support we provide in the future.

### ***Preliminary Data on the Individual Shared Responsibility Provision***

Under the individual shared responsibility provision, individuals are required to have qualifying health insurance coverage for each month of the year, have an exemption from the requirement to have minimal essential coverage, or make an individual shared responsibility payment. The vast majority of taxpayers have coverage from one source or another, such as through the individual's workplace, Medicare or Medicaid. These taxpayers needed to do nothing more than check a box on their 2014 tax return. As expected, we are seeing that about 76 percent of taxpayers (currently approximately 102 million tax returns) just checked the box to indicate they had qualifying coverage all year. Another approximately 7 million dependents, who do not have to report on their coverage, filed a return and did not have to do anything new this year, for a total of 81 percent of returns.

Approximately 7.5 million taxpayers reported a total of \$1.5 billion in individual shared responsibility payments. By contrast, about 12 million taxpayers claimed a health care coverage exemption.<sup>8</sup> Payments were generally relatively small, with the average payment around \$200. About 40 percent of these payments were \$100 or less and about 95 percent of these payments were \$500 or less. The vast majority – 85 percent – of taxpayers reporting a shared responsibility payment still reported a refund.

Of the taxpayers who reported an individual shared responsibility payment, and estimated 300,000 low-income taxpayers reported a payment when they should have claimed a health care coverage exemption. Although we have not yet completed our post-filing analysis, we are committed to conducting additional outreach to taxpayers, including letters to these specific taxpayers who did not have to report or make a payment. These letters will inform them about available exemptions and note that they may benefit from amending their return. Generally, taxpayers have three years to file amended returns. We are also working with tax software companies to build on lessons

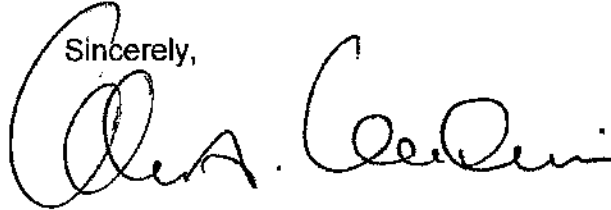
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<sup>8</sup> Currently approximately 5.1 million non-dependent taxpayers did not check the box, claim a health care coverage exemption, or report an individual shared responsibility payment. We are analyzing these cases to determine their status.

we learned from this first filing season as they develop their products for the next tax season, which could also help address this issue going forward.

I hope you find this information helpful as we are committed to being responsive to Congress's interest in this data. [REDACTED]

Sincerely,

A handwritten signature in cursive script, appearing to read "John A. Koskinen". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

John A. Koskinen