

Health Coverage Tax Credit

Cross References

- Notice 2016-02
- IRC §35

The Health Coverage Tax Credit (HCTC) expired for tax years after 2013 and was not included with the extenders bill signed into law in December 2014. Thus, taxpayers were not given the option to claim the credit when filing their 2014 and 2015 tax returns. On June 29, 2015, the President signed into law the Trade Preferences Extension Act of 2015. Among other provisions, the law retroactively reinstated the HCTC for tax years 2014 and 2015, and gave it a new expiration date of December 31, 2019.

The HCTC is equal to 72.5% of the amount paid by an eligible individual for qualified health coverage of the individual and qualifying family members for eligible coverage months. Eligible individuals for purposes of the HCTC are:

- 1) Eligible trade adjustment assistance (TAA) recipients (individuals eligible for trade adjustment assistance under a program administered by the Employment and Training Administration of the U.S. Department of Labor),
- 2) Eligible alternative TAA (ATAA) recipients and reemployment TAA (RTAA) recipients (individuals eligible for alternative or reemployment trade adjustment assistance under a program administered by the Employment and Training Administration of the U.S. Department of Labor), and
- 3) Eligible Pension Benefit Guaranty Corporation (PBGC) pension recipients (individuals who are at least age 55 and who are receiving a benefit any portion of which is paid by the PBGC).

The Trade Preferences Extension Act of 2015 added health insurance purchased through the Marketplace as qualified health coverage for coverage months in 2014 and 2015 taxable years. However, coverage through the Marketplace is not qualified health coverage for months in taxable years beginning after 2015. In addition, the Extension Act removed the requirement that applied for taxable years before 2014 that individual market coverage must start at least 30 days before the taxpayer becomes separated from employment to be qualified health coverage.

The IRS recently issued Notice 2016-02 which provides specific information on how to claim the HCTC for 2014 and 2015. The notice points out that taxpayers cannot claim both the HCTC and the Premium Tax Credit (PTC) for the same month. The HCTC is an election, so if the taxpayer already claimed the PTC for a month, nothing needs to be done if the taxpayer wishes to do nothing. However, if the taxpayer wishes to elect the HCTC for a month in which the PTC was already claimed, Notice 2016-02 provides specific information on how to make such election. The notice also provides other information in a frequently asked questions and answers format. See Notice 2016-02 if an eligible individual wants to elect the HCTC for 2014 or 2015.