HOARD'S DAIRYMAN

Tax considerations of the Affordable Care Act

by Gerald R. Anderson

REGARDLESS of how the Presidential election goes, it is a safe bet that the Affordable Care Act or ObamaCare, as it is sometimes called, will be here at least one more year. And depending on how the election bounces, it could go on for years.

People in the tax preparation industry are frustrated about ObamaCare because it injects the IRS into the business of health insurance, when the two really shouldn't mix. Also, it connects in mind-boggling ways Departments of Health and Human Services with the disjointed networks of the IRS. It's a really bad marriage at best.

A farmer's point of view

Dairy farmers have to gaze at this mess from a tax standpoint. The premium and tax credit is so large you can't overlook it. My recommendation is that dairy farmers who want private insurance should consider purchasing their health insurance from an exchange, but do not apply for advanced payments unless you are absolutely sure that you qualify. Wait until you file your taxes, and apply for the credit then. If you qualify, it will be a nice financial bonus.

As far as going without health insurance, the penalties are getting larger every year, unless you qualify for an exemption. Next year, the penalty is $695 per person or 2.5 percent of income, whichever is greater. This is called the individual shared responsibility payment. The maximum penalty is the total yearly premium for the national average price of a bronze plan sold through the marketplace.

The goal on every dairy farm should be to have everyone insured for health. Remember, health insurance purchased directly from your insurance agent will not qualify for credits. It must be purchased on an exchange. You can do this yourself or seek help.

Some independent health insurance agents are also qualified assisters and can help you purchase your policy on an exchange and help you understand those policies and the differences between companies. That is absolutely invaluable advice. Unlike the help information you will get from state exchange workers, the health insurance professional is trained to understand networks, deductibles, co-pays and the like.

My insurance agent is an assister. Not all agents are, but he took the time to get accredited for this. I asked him how many people buy health insurance on the marketplace exchanges without applying for up-front credits. He relayed that only a handful had ever done this in his office. Nowadays, he told me most of his private health insurance work is Medicare supplemental policies. This just shows how things are changing.

Income can vary so greatly year to year on a dairy, it is hard to predict the future. Taking the credit at the end of the year when you file your taxes is the safe way to go, and that way you don't have to pay any of the refundable credit back for misjudging your financial situation.

For those who took the Advanced Premium Tax Credit, the penalties can range from as low as $300 for someone filing with a single filing status to no limit if you are someone who made over 400 percent of the Federal poverty level. Things can go wrong on a dairy: You might get sick and have to sell out. This would create a great deal more income and eliminate any possibilities of credits. So, a word to the wise — hold off on asking for those credits if you can.

Get the most benefit

Once you have purchased your policy on an exchange, there are things you can do, or not do, that will greatly enhance your chances of a premium tax credit. Remember, the premium tax credit can amount to thousands of dollars and is considered almost as valuable as the earned income credit. Like the earned income credit, it will probably be scrutinized carefully. There has been so much misuse and outright fraud involving the earned income credit that the IRS is requiring due diligence of tax preparers . . . which really means that the preparers are getting audited instead of their clients.

This is putting pressure on preparers not to outright accept a client's tax information, but to instead dig around and make sure that all information is correct and accurate. So don't be surprised when you make an appointment to get your taxes done, if you are asked a bunch of questions and asked for documentation to substantiate your claims.

For dairy farmers, obtaining the premium tax credit is really an exercise in skillful tax planning. You might have to work with your tax preparer ahead of time to achieve the best outcome. The credit is based on household income, which is defined as modified adjusted gross income plus the modified adjusted gross income of any dependents, if they have to file a tax return. Modified adjusted gross income is really just adjusted gross income plus a few other items like tax-exempt interest and social security benefits that were excluded from income.

If your income is too high, you go over a cliff and don't get a credit. On the opposite end, if your income is too low, you won't get a credit either since you only qualify for Medicaid. It is a very delicate balancing act to get in the right zone to obtain the credit.

In dairy farming, there are opportunities to change your modified adjusted gross income. You could sell more cattle to raise your income, though that is not always practical from an operational standpoint. You might avoid some equipment purchases or put them off for awhile. For equipment you have already purchased, you might consider not taking the Section 179 deduction or bonus depreciation.

Also, as crazy as it might seem, putting money into a traditional IRA or Simplified Employee Pension (SEP) plan for the self-employed, or even a health savings account, might be a very good idea if it reduces your income so you can qualify for the credit. On the other hand, if your income is too low, putting money into these types of accounts might knock you out of getting credits altogether and place you in the Medicaid bracket. So, what normally was just a straightforward tax situation has now become a complicated maze of strategies to maximize credits.

Note the irony

If you have very low income, as many dairy farmers do, foregoing private insurance and getting medical assistance through the Affordable Care Act is a fairly easy process in some states. The biggest drawback of Medicaid is that not all doctors or facilities accept it, not everyone wants to be on it, and for older farmers, it is subject to estate recovery, which means that Medicaid is just a loan and not insurance at all.

For states that are participating, you usually just have to apply on the local state website during the signup period, verify that you meet the income criteria and coverage will begin in January the following year. If you have low income and your state is one of the 20 or so states that opted out of the expanded federal program, you won't get any help on insurance at all. That's one of the big ironies of ObamaCare; in many cases, it helped the middle class more than the poor.

The takeaway for most dairy farmers is that they need to work closely with a competent tax preparer. The tax preparer has sophisticated software that can do some of these calculations making it easier to plan a strategy that will help grab the premium tax credit for your dairy. I have mentioned some techniques above that can help achieve this, and your tax preparer can suggest additional maneuvers that might be employed. Plan ahead now if you want the premium tax credit.

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