Decision point: Will Direct File allow taxpayers to submit an ACA Explanation Statement when their return is rejected because it's missing Form 8962?

What is the ACA Explanation Statement and why is it important?

If you're listed as a covered individual on **separate** IRS8 or an earlier version of the Premium Tax Credit (PTC) Form 8962 (Form 8962) and you don't have Form 1095-A, Health Insurance Marketplace Statement, you don't need to file Form 8962. If Form 8962 is in the IRS Enforcement is not inconsistent with the return, you also can't e-file your return. Instead, you must do one of the following:

- It doesn't matter if you enrolled yourself or someone else including you, you're still the signatory
- **If taxpayer(s) or anyone else in household received advance Premium Tax Credit (PTC) and enrolled coverage through the Marketplace, you must file Form 8962 to reconcile the advance payment of PTC, your return will not get processed for a missing Form 8962**
- Mail your return to the address where you would normally send your original return.
- You have to do it yourself because they don't reconcile with the statement.

Why do we need this decision now?

We needed engineering to enter the scope decision until after PTC was built because we thought it was similarly a point calculation issue, but we were wrong.

- Taxpayers who are married filing jointly can't e-file unless what we do with dependent taxpayers. Specifically:
- Taxpayers who are MFJ and choosing to prepare their return on dependent taxpayers
- Taxpayers who are MFJ and said they could be claimed as a dependent

Taxpayers who are married filing jointly can't e-file if they received advance payments of PTC with advance payment of PTC. Currently, in order to do it, taxpayers would need to submit a paper form (Form 8962), or if someone else can't schedule it for them.

- Because we don't support Married, we can't let them proceed as dependent taxpayers. Doing so would:
- Calculate their income for the dependent taxpayers and send it to Some Rich Guy Hedge Fund, which
- Would be a disaster because Some Rich Guy Hedge Fund would then know how much Some Rich Guy Hedge Fund **pays in taxes**
- **Because Some Rich Guy Hedge Fund** is a **Marketplace** customer, **Some Rich Guy Hedge Fund** would know **exactly how much Some Rich Guy Hedge Fund owes in taxes**

Impact on numbers

- Should we do it? No, the reason the top claim impact last year, in PTC, the IRS received $600,000 ACA Explanation Statements off of about 4 million registrant cases of which could have been duplicated. Only 1 of those 600,000 was a valid ACA Explanation Statement.
- Form creep we can add 1040 for last year's claim tax
- Were also asked DFA for data to better understand the impact (waiting on hear back)

Option A: Don't support the ACA Explanation; Add warnings and "speed bumps" to help prevent the rejection from occurring

Pro-taxpayer tax option

- Those would be content only updates to:
- Warn for taxpayer such as whether they have Marketplace coverage
- Warn taxpayers who are married filing jointly that they can't claim a dependent for those who said they didn't have it in confirm - cases people might answer accurately that they didn't have Marketplace coverage, but they were issued a form 1095-A because someone else in their household
- Explain that if they get a 1095-A - even if they didn't have Marketplace coverage or didn't know they had Marketplace coverage - that their return will be rejected. Let the same as a paper flag.

Pros:

- Less LOE for design & engineering (sunken cost)

Cons:

- Taxpayers using Direct File will not see rejections that they can't resolve within Direct File - a frustrating experience
- Customer support will have to field lots of questions about the rejection (and they won't have a good way to help them resolve it in Direct File)

Option B: Support a lightweight version of the ACA Explanation

- Allow some "lightweight" version
- Not a PDF upload
- Not a full version of the PDF statement
- This would be that bad case after IRS has gone down the path of trying to affirm reasons for the taxpayer to select and provide a helpful attestation agent to

Pros:

- Most taxpayers who hit the rejection will have a way to resolve it within Direct File
- We don't have to break anyone out
- Significantly less burden on customer support

Cons:

- Taxpayers will not be able to attach any supporting documentation (like certain 1095-As, for example)
- Taxpayers who need to file an ACA Explanation Statement will still have to do it on paper, and we'll have to deal with a new scenario in the claim reconciliation experience
- Taxpayers who are married filing jointly scenarios are tricky, but so tricky business reasons within the language, how to handle a second rejection with the same error, security, some of those might be trivial but require some investigation

Option C: Support PDF upload of ACA Explanation

Not really an option because we've made a decision at the product level not to support PDF upload this year

Decision

Thoughts:

- We can consider a **decision for MVP** and post-MVP enhancement.
- Based on the data we have, it doesn't seem worth the effort to develop a choice in cases where differed penalties, it won't solve the problem where we can get the people that the dept of treasury wrote about to an IRS and other software
- Consider a lightweight version of the ACA Explanation Statement, but not a full version, and only for those who are married filing jointly

Option A

Option B

Option C

Pros / Cons / Legal / Engineering / Design

Pro-taxpayer tax option

ACA's Implications Pro-taxpayer Wins Large

Option 0:
~~Don't support ACA Explanation and IRS tips we know will be rejected~~

This reasons are used for intentionally treating them about a path where they'd be rejected and unable to receive an Direct File. Also leave people with left get frustrated and be unable to receive a Direct File.

Have record (if known that someone is going to be rejected for missing Form 8962)

- We cannot know the many situations: kid and will know the dependent taxpayers
- Taxpayers who are married filing jointly can't claim a dependent for those who said they don't have it in confirm - cases people might answer accurately that they didn't have Marketplace coverage, but they were issued a form 1095-A because someone else in their household
- Explain that if they get a 1095-A - even if they didn't have Marketplace coverage or didn't know they had Marketplace coverage - that their return will be rejected. Let the same as a paper flag.
- Should we allow married filing jointly scenarios to file if they received advance payments of PTC and enrolled coverage through the Marketplace? Currently, in order to do it, taxpayers would need to submit a paper form (Form 8962), or if someone else can't schedule it for them.
- Because we don't support Married, we can't let them proceed as dependent taxpayers. Doing so would:
- Calculate their income for the dependent taxpayers and send it to Some Rich Guy Hedge Fund, which
- Would be a disaster because Some Rich Guy Hedge Fund would then know how much Some Rich Guy Hedge Fund **pays in taxes**
- **Because Some Rich Guy Hedge Fund** is a **Marketplace** customer, **Some Rich Guy Hedge Fund** would know **exactly how much Some Rich Guy Hedge Fund owes in taxes**

Pros:

- Less LOE for design & engineering (sunken cost)
- Less effort for engineering (?)

Cons:

- Taxpayers using Direct File will not see rejections that they can't resolve within Direct File - a frustrating experience
- Customer support will have to field lots of questions about the rejection (and they won't have a good way to help them resolve it in Direct File)

Backed up 2/28/25
File name: B/U DF: [Premium Tax Credit] Research

Design Area - Premium Tax Credit (PTC)

Key to PTC Mural

Global Design Questions & Notes

PTC Content Decisions Parking Lot

Assuming Direct File will support the ACA Explanation Statement

Pros

Cons

Assuming Direct File will **not** support the ACA Explanation Statement

Pros

Cons

PTC Section 1: Eligibility check

PRE-DECISIONAL | NOT FOR DISTRIBUTION

Section 1: Pre-Credits/PTC Screens

PRE-DECISIONAL | NOT FOR DISTRIBUTION

Section 2: PTC Scope check + Advance payments of PTC

PRE-DECISIONAL | NOT FOR DISTRIBUTION

Section 3: PTC applicable taxpayer

PRE-DECISIONAL | NOT FOR DISTRIBUTION

Section 4: PTC 1095-A collection - qualified coverage months

PRE-DECISIONAL | NOT FOR DISTRIBUTION

Section 5: PTC 1095-A collection - calculate PTC and reconcile APTC

PRE-DECISIONAL | NOT FOR DISTRIBUTION

PTC Section 6: Final PTC and APTC outcomes

Task #1: Update how PTC is reflected in Credits data view (Summary of credits)

Task #2: Update how PTC is reflected on credit summary qualified

Task #3: On tax amount explanation, move secure advance PTC to new section for additional taxes

#12849

PRE-DECISIONAL | NOT FOR DISTRIBUTION

PTC Section 7: Supporting Work

Credits — Introduction

PRE-DECISIONAL | NOT FOR DISTRIBUTION

Section 2: PTC Scope check + Advance payments of PTC

2/4/25 Snapshot - before incorporating proposed changes to lower F8962-070 rejection

Bolts 6-12 - APTC Grace Scenarios