Individual Shared Responsibility Payment (pages 475-478)

As noted in the Practitioner Note on page 476 of the 2015 National Income Tax Workbook, the August 25, 2015, draft of Form 8965 appeared to be incorrect. On October 23, 2015 (after the book went to press) the IRS posted new draft instructions that include a new Worksheet. The new draft instructions and Worksheet A correct the errors.

Example 11.27 (page 476)

Under both the August draft and October draft instructions, the only worksheet that Tina Thompson needs to complete is the shared responsibility payment worksheet shown in the book. Tina’s entries in the shared responsibility payment worksheet are the results of the questions in Steps 1-5 in both the August draft and October draft instructions. Steps 1-5 of the October draft instructions are illustrated in the following discussion of Example 11.28.

Example 11.28 (pages 476 and 477)

The August draft instructions did not direct the John and Latisha Reynolds to Worksheet A because Question 3 in Step 1 asked only if the taxpayer and dependents qualified for a coverage exemption. Question 3 of the October draft instructions, shown in Figure 11.21a, also asks if the taxpayer or dependents have qualifying coverage for any month in 2015. Because the Reynolds did have qualifying coverage for June through December, the instructions direct them to Worksheet A. The October draft Worksheet A, shown in Figure 11.21c, includes two additional lines to compute the flat dollar amount.

1. New line 6 on the October draft of Worksheet A asks for the total of the amounts on line 5, which is $4,875 ($975 × 5) for the Reynolds.
2. New line 7 on the October draft of Worksheet A asks for the result of dividing the total on line 6 by 12, which is $406 ($4,875 ÷ 12) for the Reynolds. They enter this amount on line 1 of the shared responsibility payment worksheet.

Line 8 of the October draft Worksheet A was line 6 of the August draft of Worksheet A. The instructions for line 8 of the October draft of Worksheet A direct the Reynolds to Step 3 of the Form 8965 instructions, which in turn directs them to Step 4 to compute the percentage of income amount.

Worksheet B

Step 4 of the October draft for the Form 8965 instructions directs the Reynolds to Worksheet B, shown in Figure 11.21d, because they had to complete Worksheet A. Worksheet B compares the 2% of excess income amount with the flat dollar amount for each month to arrive at the amount to enter on line 2 of the shared responsibility payment worksheet.

For the Reynolds, 2% of their $54,400 excess income is $1,088, which is greater than their $975 flat dollar amount for each month. Line 13 of Worksheet B is the $5,440 total of column (c), lines 1 through 5 ($1,088 × 5 months). Line 14 is $453 ($5,440 ÷ 12). That amount is entered on line 2 of the shared responsibility payment worksheet shown in Figure 11.21b.
Shared Responsibility Payment Worksheet

Line 3 of the shared responsibility payment worksheet is $453 for the Reynolds—the greater of the $406 flat dollar amount entered on line 1 and the $453 percentage income amount entered on line 2.

The $5,175 ($207 \times 25) national bronze plan premium amount for the Reynolds is calculated in Step 5 of the October draft for the Form 8965 instructions and entered on line 4 of the shared responsibility payment worksheet. The $453 shared responsibility payment on line 5 is the lesser of the line 3 and line 4 amounts.

The October draft instructions for Form 8965 do not change the narrative for Example 11.28 on page 477 of the book.

FIGURE 11.21a Form 8965 Instructions for John and Latisha Reynolds

---

3. Do you, your spouse (if filing jointly), or anyone else you claimed or could have claimed as a dependent have qualifying health coverage or qualify for a coverage exemption for any month in 2015?

[X] Yes. [ ] No. Continue

Claim any coverage exemption you qualify for on Form 8965: skip questions 4 and 5; go to Worksheet A.

4. Did you elect not to claim a dependent you could have claimed?

[X] Yes. [ ] No. Continue

Skip question 5; go to Worksheet A.

5. Did you, your spouse (if filing jointly), or any of your dependents turn 18 during 2015?

[X] Yes. Go to Worksheet A. [ ] No. Go to Step 2.

---

Step 1: All Filers

1. Can someone claim you as a dependent?

[X] Yes. [ ] No. Continue

You do not owe a shared responsibility payment. Do not check the box on line 6a of Form 1040 or Form 1040A. If you file Form 1040EZ, check the box on line 5.

2. Did you, your spouse (if filing jointly), and everyone you claimed or could have claimed as a dependent have qualifying health coverage for every month of 2015?*

[X] Yes. [ ] No. Continue

You do not owe a shared responsibility payment. Check the Full-year coverage checkbox on Form 1040, line 61; Form 1040A, line 38; or Form 1040EZ, line 11.

---

Step 2: Flat Dollar Amount

1. Multiply $325 for each person for whom you claimed an exemption on line 6d of Forms 1040 or 1040A who was at least 18 years old. Multiply $325 by each person for whom you did not check a box on Form 1040EZ, line 5, who is at least 18 years old.

\[
1 \times 325 = 325 
\]

2. Multiply $162.50 for each person for whom you claimed an exemption on line 6d of Forms 1040 or 1040A who was under age 18. Multiply $162.50 by each person for whom you did not check a box on Form 1040EZ, line 5, who is under age 18.

\[
2 \times 162.50 = 325 
\]

3. Add lines 1 and 2.

\[
325 + 325 = 650 
\]

4. Enter the smaller of line 3 or $975 here and on line 1 of the Shared Responsibility Payment Worksheet. Go to Step 3.

\[
4 \]
FIGURE 11.21a Form 8965 Instructions for John and Latisha Reynolds (continued)

**Step 3 Household Income**

1. Enter the amount from Form 1040, line 38; Form 1040A, line 21; or Form 1040EZ, line 4.
   
   75,000

2. Did you receive any tax-exempt interest?
   - [ ] Yes, Enter the amount from Form 1040, line 8b; Form 1040A, line 8b; or the amount entered in the space to the left of Form 1040EZ, line 2.
   - [X] No. Continue

3. Did you attach Form 2555 or Form 2555-EZ?
   - [ ] Yes. Enter the amount from Form 2555, lines 45 and 50, or Form 2555-EZ, line 18.
   - [X] No. Continue

4. Did you claim any dependents?
   - [X] Yes. Continue
   - [ ] No.

5. Were any of the dependents you claimed required to file a return?
   - [ ] Yes. Complete questions 1 through 3 for each dependent with a filing requirement for whom you did not attach Form 8814. Enter the total here.
   - [X] No. Add lines 1 through 3. This is your household income. Enter the result on Step 4, line 1.

6. Did you attach Form 8814?
   - [ ] Yes. Continue
   - [X] No.

7. Is Form 8814, line 4 more than $1,050?
   - [ ] Yes. Add the amount from Form 8814, line 1b and the smaller of Form 8814, line 4 or 5.
   - [X] No. Enter -0- below. Continue

8. Add lines 1, 2, 3, 5, and 7. This is your household income. Enter the result on Step 4, line 1.

**Step 4 Percentage Income Amount**

1. Enter your household income from Step 3.
   
   75,000

2. Enter the amount listed below for your filing status.
   - Single—$10,300
   - Head of household—$13,250
   - Married filing jointly—$20,600
   - Married filing separately—$4,000
   - Qualifying widow(er) with dependent child—$16,600

   20,600

3. Were you or your spouse (if filing jointly) born before January 2, 1951?
   - [ ] Yes. Check the correct number of boxes below. Go to question 5.
   - [X] No. Enter -0- on line 4, then go to question 4.

   You:
   - [ ] Born before January 2, 1951
   - [ ] Born before January 2, 1951

   Total number of boxes checked:

   3

4. Is your filing status single or head of household?
   - [ ] Yes. Multiply the total number of boxes checked above by $1,550.
   - [X] No. Multiply the total number of boxes checked above by $1,250.

   0
FIGURE 11.21a Form 8965 Instructions for John and Latisha Reynolds (continued)

5. Add the amounts on line 2 and 4.
   \[5 \times 20,700\]

6. Subtract line 5 from line 1.
   \[54,400\]

7. Is the amount on line 6 zero or less?
   [ ] Yes. Continue
   [ ] No. Continue
   You do not owe a shared responsibility payment. Complete Form 8965 by checking the box on line 7a.

8. Multiply line 6 by 2.0% (0.02). This is your percentage of income amount.
   \[1,088\]

9. Were you required to complete Worksheet A?
   [ ] Yes. Go to Worksheet B.
   [ ] No. Continue

FIGURE 11.21b Shared Responsibility Payment Worksheet for John and Latisha Reynolds

1. Enter the flat dollar amount .......................... 1 406
2. Enter the percentage income amount .................... 2 453
3. Enter the larger of line 1 or line 2 ......................... 3 453
4. Enter the National Average Bronze Plan Premium ........... 4 5,175
5. Enter the smaller of line 3 or line 4 here and on Form 1040, line 61, Form 1040A, line 38, or Form 1040EZ, line 11. This is your shared responsibility payment .......... 5 453

\*$207 is the 2015 national average premium for a bronze level health plan available through the Marketplaces for one individual for one month.
FIGURE 11.21c Worksheet A for John and Latisha Reynolds

Use this worksheet if you were referred here from Step 1 under Shared Responsibility Payment. After completing the worksheet, go to Step 3 under Shared Responsibility Payment. If everyone in your tax household had either minimum essential coverage or a coverage exemption for every month during 2015, stop here. You do not owe a Shared Responsibility Payment.

Complete the monthly columns by placing “X” in each month in which you or another member of your tax household had either minimum essential coverage or a coverage exemption.

<table>
<thead>
<tr>
<th>Name</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Reynolds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latisha Reynolds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taylor Reynolds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lindsay Reynolds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Celine Reynolds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Total number of X’s in a month. If 5 or more, enter 5
2. Total number of X’s in a month for individuals 18 or over*
   - 2
   - 2
   - 2
   - 2
3. One-half the number of X’s in a month for individuals under 18*
   - 1.5
   - 1.5
   - 1.5
   - 1.5
   - 1.5
4. Add lines 2 and 3 for each month
   - 3.5
   - 3.5
   - 3.5
   - 3.5
   - 3.5
5. Multiply line 4 by $325 for each month. If $975 or more, enter $975
   - 975
   - 975
   - 975
   - 975
   - 975
6. Add the amounts for each month on line 5
   - 4,875
7. Divide line 6 by 12.0. This is your flat dollar amount. Enter this amount on line 1 of the Shared Responsibility Payment Worksheet.
   - 406
8. Add the amounts entered for each month on line 1. Go to Step 3
   - 25

*For purposes of figuring the shared responsibility payment, an individual is considered under 18 for an entire month if he or she didn’t turn 18 before the first day of the month. An individual turns 18 on the anniversary of the day the individual was born. For example, someone born on March 1, 2000, is considered age 18 on March 1, 2018, and, therefore, isn’t considered age 18 for purposes of the shared responsibility payment until April 2018.

FIGURE 11.21d Worksheet B for John and Latisha Reynolds

Do not complete this worksheet unless you were directed here in Step 4 under Shared Responsibility Payment.

<table>
<thead>
<tr>
<th>Month</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>975</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>February</td>
<td>976</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>March</td>
<td>975</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>April</td>
<td>975</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>May</td>
<td>975</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>June</td>
<td>975</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>July</td>
<td>975</td>
<td>1,088</td>
<td>1,088</td>
</tr>
<tr>
<td>August</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Add the amounts in column (c)
   - 5,440
14. Divide line 13 by 12.0. Enter the result on lines 2 and 3 of the Shared Responsibility Payment Worksheet. Go to Step 5
   - 453

*If the amount on line 1 of Worksheet A is 0, for any month, leave all columns of this worksheet blank for that month.
On November 24, 2015, the IRS announced in Notice 2015-82, that it is increasing the $500 limit for the de minimis safe harbor in the repair regulation for taxpayers without an applicable financial statement to $2,500 effective for tax years beginning on or after January 1, 2016. The Notice provides audit protection for tax years beginning before January 1, 2016. It also says the IRS will not further pursue the issue if it is under examination, on appeal, or before the US Tax Court for years that begin after December 31, 2011, and end before January 1, 2016. This change does not affect the text on pages 373-380 with respect to tax years beginning before 2016. For tax years beginning on or after January 1, 2016, $500 should be replaced with $2,500 each time it appears on pages 373-380 except as follows.

1. Examples 10.34, 10.35, 10.37, and 10.40 are not affected by the change for years beginning on or after January 1, 2016, because the taxpayers in those examples chose a $500 ceiling for amounts that are currently deducted under their accounting procedure.

2. For years beginning on or after January 1, 2016, Notice 2015-82 changes the result in Example 10.38. The $600 cost of the tablet is deducted for tax purposes because it is within the 12 month or less accounting procedure and is less than the $2,500 limit for the de minimis safe harbor.

### Chapter 17, Tax Rates and Useful Tables

2016 Earned Income Phaseout Ranges: Replace the estimated end of the phaseout ranges published in the book with the final amounts published in Rev. Proc. 2015-53 as follows:

<table>
<thead>
<tr>
<th>Taxpayers not filing MFJ or MFS</th>
<th>Taxpayers filing MFJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate</td>
<td>Final</td>
</tr>
<tr>
<td>$14,340</td>
<td>$14,880</td>
</tr>
<tr>
<td>$37,870</td>
<td>$39,296</td>
</tr>
<tr>
<td>$43,038</td>
<td>$44,648</td>
</tr>
<tr>
<td>$46,227</td>
<td>$47,955</td>
</tr>
</tbody>
</table>

Lifetime Learning Credit: In the 2016 column, replace the $110,000-$130,000 MAGI phaseout for MFJ with $111,000-$131,000. The final MAGI phaseout range for S, HoH, or QW is the same as the estimated range in the book.

Retirement Plan Contribution Limits: Fill in the blanks for 2016 with the same amounts as reported for 2015.

Age 50 Catch-Up Contribution Limit: Fill in the blanks for 2016 with the same amount as reported for 2015.

Social Security and Medicare Information: Fill in the blanks in the 2016 column as follows:

- OADI maximum earnings: $118,500
- Domestic employee wage threshold: $2,000
- Earnings required to earn one quarter of social security coverage: $1,260
- Earnings ceiling for social security:
  - Below full retirement age (FRA): $15,720
  - Monthly maximum earnings before FRA for full benefits: $3,490
<table>
<thead>
<tr>
<th>Date</th>
<th>Page</th>
<th>Correction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov. 1</td>
<td>23</td>
<td>Figure 1.33, second row: “Standard deduction” should be “Itemized deduction.”</td>
</tr>
<tr>
<td>Oct. 9</td>
<td>48</td>
<td>Second column, six lines from the bottom: “March 2010” should be “March 2016.”</td>
</tr>
<tr>
<td>Nov. 1</td>
<td>73</td>
<td>First column, Review SEP Contribution Limits, last sentence: Replace “after the deduction for the retirement contribution on page 1 of Form 1040” with “of the owner’s or partner’s share of net profit reduced by the deductible portion of his or her self-employment tax.”</td>
</tr>
<tr>
<td>Oct. 9</td>
<td>135</td>
<td>Second column, I.R.C. § 195 Start-Up Expenditures, first line: “$10,000” should be “$5,000.”</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>212</td>
<td>Second column, second paragraph, last sentence: “Schedule O (Form 1040)” should be “Schedule O (Form 1120).”</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>421</td>
<td>First column, Full-Time Equivalent Employees for ALE Determinations. US Treasury Department Fact Sheet on Final Regulations states that the IRS will consider whether transition rules should be extended beyond 2015. However, the IRS has not yet extended the 6-month time period option to 2016 ALE determinations. The text should be corrected as follows. Line six, delete “and 2016,” line 8, delete “or 2015,” line 11 “2017” should be “2016.” The sentence beginning at the bottom of the first column and continuing after Figure 11.2 in the second column should read, “If the hours in Figure 11.2 are for 2014 instead of 2015, and Sullivan’s opted to use a 6-month time period under the relief provision to determine its ALE for 2015, using either the first 6 or the last 6 months of the year would result in an average less than 50.”</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>436</td>
<td>Note 2: “To answer yes” should be “To answer no.”</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>442</td>
<td>Second column, Observation, first sentence: “April” should be “July.”</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>480</td>
<td>Second column, Accuracy-Related Penalty, last sentence: “Notice 2015-39” should be “Notice 2015-30”</td>
</tr>
<tr>
<td>Nov. 1</td>
<td>536</td>
<td>Second column, third line after Figure 13.2: “$37,688” should be “$14,211.”</td>
</tr>
<tr>
<td>Nov. 1</td>
<td>537</td>
<td>First column, first sentence after the numbered list: Delete everything after the closing parenthesis and add the following sentence. “However, the amount of the refund includable in income is limited to the $1,811 difference between the $14,211 itemized deduction claimed in 2014 and the $12,400 standard deduction for 2014.”</td>
</tr>
<tr>
<td>Oct. 9</td>
<td>575</td>
<td>I.R.C. § 30D(g): “30-wheeled” should be “3-wheeled.”</td>
</tr>
</tbody>
</table>