

New England Intergovernmental Audit Forum



**Auditing Challenges: Affordable Care Act
Premium Tax Credit
October 23, 2014**

In March 2010, President Obama signed into law the Affordable Care Act.



ACA Legislation Overview

Major pieces of legislation...

- Patient Protection & Affordable Care Act (ACA) (3/23/2010)
- Health Care & Education Reconciliation Act (3/30/2010)

...impacting numerous existing laws...

- Internal Revenue Code
- Medicaid, Medicare and Children's Health Insurance Program (CHIP) programs
- ERISA (Employee Retirement Security Act of 1974)
- Indian Health Improvement Act

...requiring collaboration & coordination among many players...

- HHS (incl. CMS, Medicaid, CHIP, Medicare), CCIIO (Exchanges), IHS, NIH, CDC
- IRS (incl. W&I, SB/SE, LBI, TE/GE, Appeals, IT, CFO, AWSS)
- Other Federal Agencies including Treasury (FMS), OMB, Labor, SSA, Interior, OPM, VA, DHS, DOD, Justice
- States (incl. Medicaid/Medicare/CHIP, Exchange, Attorney General)
- Private Sector
 - Insurers, Employers, Individuals, Hospitals and medical personnel, practitioners, health advocacy groups, other health providers

...with implementation dates from 2010 to 2018 & beyond...

Exchange:

- October 2013: 1st Exchange Open Season
- 2014: 1st Coverage Year
- 2015: 1st Filing Season

Non-Exchange:

- 2010: Early provisions take effect, some immediate filings
- 2011 – 2013: Additional taxes and fees
- 2014: Filing season for NIIT/Medicare
- 2019: Last filing season with new non-exchange provisions

IRS's Role in ACA

- ACA represents largest set of tax law changes in 20 years.
- Approximately 50 provisions add to or amend the Internal Revenue Code.
- Eight provisions require the IRS to build new systems & processes.
- Key Provisions:
 - Impose penalties for individuals and businesses that do not obtain health coverage for themselves or their employees.
 - Provide incentives and tax breaks to individuals and small businesses to offset health care expenses.

Preparing to Oversee Implementation of the ACA

- Used available resources to educate our staff on the ACA.
- Attitude of continual learning.
- Drew upon our audit knowledge across functional lines.

Oversight of the ACA

Multi-year audit strategy covering Fiscal Years 2011 through 2016.

Fiscal Year	Number of Audit Completed
2011	5
2012	5
2013	5
2014	7
Total Reports Issued	22



ACA Audit Results to Date

- Implementation Planning Efforts
- Small Business Health Care Tax Credit
- Medical Device Excise Tax
- Expansion of the Adoption Credit and Adoption Assistance Programs



ACA Audit Results to Date

- Accounting for the Health Insurance Reform Implementation Funding
- Branded Prescription Drug Fee

Audit Priorities for FY 2015

- Information Technology Systems Development
- Minimum Essential Coverage
- Premium Tax Credit

Premium Tax Credit

- Refundable tax credit.
- Helps eligible families pay for health insurance.



Risk of Refundable Tax Credits

Refundable Credit	Estimated Erroneous Payments
Earned Income Tax Credit	\$13.3 billion to \$15.6 billion FY 2013
Additional Child Tax Credit	\$5.9 billion to \$7.1 billion FY 2013
First-Time Homebuyer Credit	More than \$26.7 million in TY 2008
Adoption Credit	More than \$11 million in TY 2010 & 2011



Premium Tax Credit Eligibility

To be eligible an individual must:

- Enroll in a QHP through a Marketplace,
- Not eligible for other minimum essential coverage,
- Have income between 100 and 400% Federal Poverty Line for their family size,
- Not be claimed as a dependent,
- If married, files a joint return, and
- Pay their premiums.

Premium Tax Credit Income Limits

Income Limits Based on 2013 Federal Poverty Line (FPL)

- One Individual
 - \$11,490 (100% FPL) - \$45,960 (400% FPL)
- Family of Two
 - \$15,510 (100% FPL) - \$62,040 (400% FPL)
- Family of Four
 - \$23,550 (100% FPL) - \$94,200 (400% FPL)

Example: Based on the 2013 FPL, a family of four could have a household income up to and including \$94,200 and still be eligible for the PTC.

Receiving the Premium Tax Credit

- Two ways to receive the credit:
 - Get it now – advance payment.
 - Get it later – claimed on the tax return.
- A tax return *must* be filed.
- Reconciling advance credit payments is required.
- Differences between advance credit payments and the credit are likely.
- Changes in circumstances can affect the PTC amount.

How Reconciliation Works

Advance payments	\$4,000
Calculation of PTC	<u>\$3,000</u>
Difference	\$1,000

Repayment amount = \$1,000 *

* Amount from Form 8962 that would be entered on Form 1040.

Verifying Premium Tax Credit Claims

- Marketplaces will share enrollment and eligibility data with the IRS monthly.
- Individuals and the IRS will receive information statement Form 1095-A, Health Insurance Marketplace Statement, to help with claiming and verifying the credit.
- The IRS can use all available enforcement tools to collect excess advance Premium Tax Credit payments and erroneous credit payments.

Repayment Caps

Household Income As % of FPL	Single Filers	Married Filers
Less than 200%	\$300	\$600
At least 200% - Less than 300%	\$750	\$1,500
At least 300% - Less than 400%	\$1,250	\$2,500
More than 400%	N/A	N/A

Example:

Total advance payments	\$2,952
Premium Tax Credit	<u>\$1,062</u>
Equals	\$1,890*

***Capped at \$1,250 so the total amount due is \$1,250.**



Audit Results to Date

Information Technology

- Delays in the development of the Return Review Program increase the risk of undetected fraudulent Premium Tax Credit claims.
- Process improvements are needed for the IFSV Project. Further, an integrated suite of automated tools could improve requirements management and testing for the IFSV Project.



Audit Results to Date

Information Technology

- Improvements are needed to ensure long-term success of the PTC project by adherence to system development controls.
- Additional procedures are needed to provide greater assurance that FTI will be protected prior to approving release.



Audit Results to Date

Cost Management

- The IRS could improve the processes it uses to account for and report costs associated with the implementation of the ACA.

Customer Service

- The IRS ACA customer service strategy is sufficient. However, changes to the ACA provisions will create challenges.



Audit Results to Date

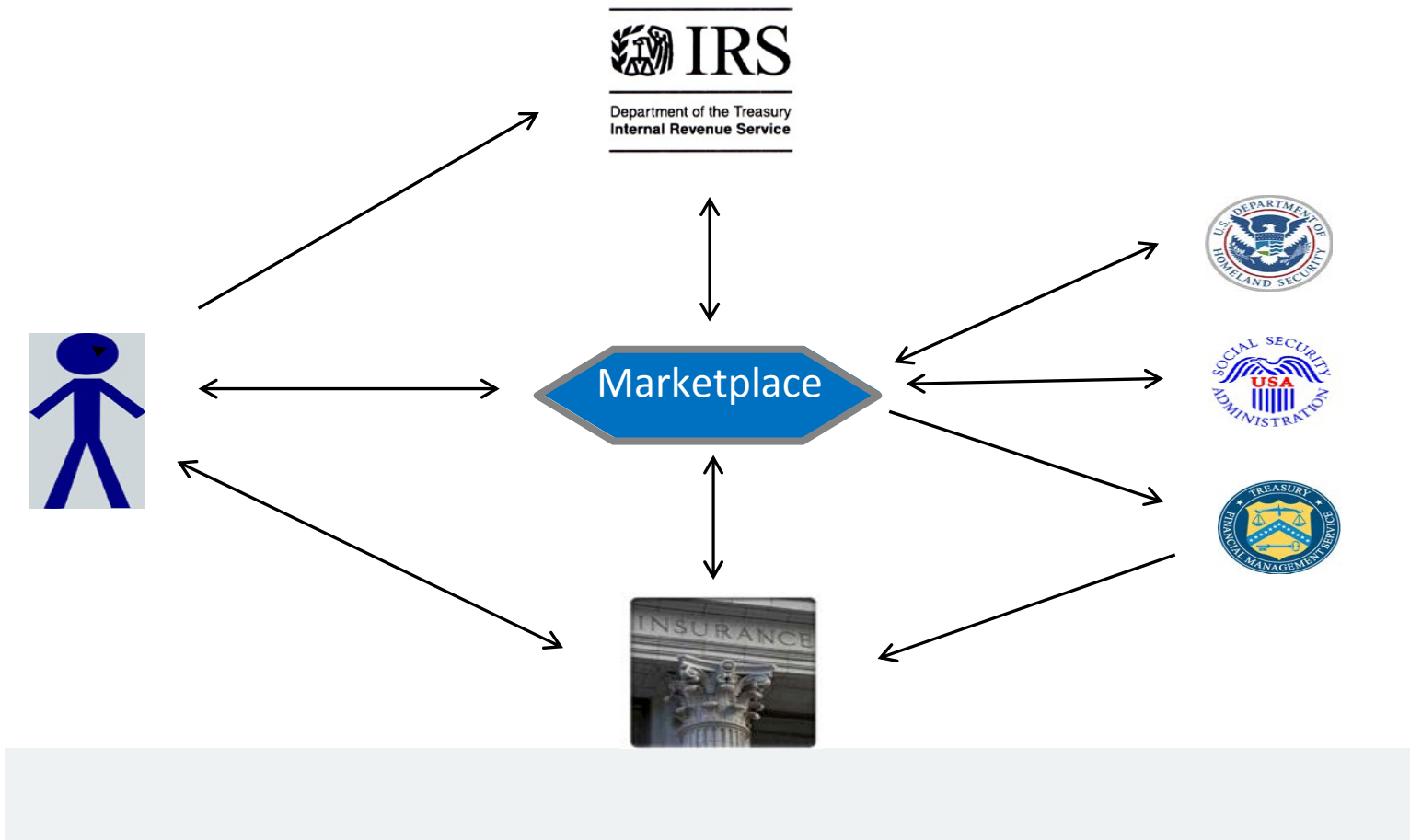
Assisting the Marketplaces

- Responses to IFSV and APTC requests from the Marketplaces are generally accurate.

Ongoing or Planned Audits

- Ongoing reviews of IRS's development of various IT applications to receive and store PTC data and verify claims.
- Reviews of IRS's preparations for verifying PTC claims during the 2015 Filing Season.
- Accuracy of IRS's verification of PTC claims during the 2015 Filing Season forward.

Premium Tax Credit Process





Challenges to Providing Oversight

- Eligibility determinations are made by HHS/States and IRS.
- IRS is responsible for preventing or recovering erroneous Premium Tax Credit payments.
- Auditing the Premium Tax Credit requires access to information from multiple Federal agencies.
- Auditing from a Government-wide perspective.



Coordination With HHS OIG

- Coordinating audit coverage between HHS OIG and TIGTA.
- Educating HHS, IRS, and the States on the role of the HHS OIG and TIGTA in overseeing the implementation of the Premium Tax Credit.
- Conducting joint HHS OIG and TIGTA audit work.
- Joint briefings of external stakeholders.



Questions/Comments



THANKS