Individual Tax Issues: Part 1

Chapter 6

Pg 215

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Learning Objectives

- Reconciling advance premium tax credit with the allowable credit
- Form 1099-K reporting threshold
- Explain reporting for a 1099-K for personal losses

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Issue 4

Reconciling & Repayment of the Premium Tax Credit

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Reconciling and Repayment of the Premium Tax Credit

Pg 241

- For tax years beginning **after December 31, 2025**, there is **no repayment cap** on the advance premium tax credit
- Taxpayers must **reconcile** the advance credit paid against the allowable credit and **repay any excess, regardless of household income**

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Premium Tax Credit

Pg 241

- The 2010 **ACA** (Pub. L. No. 111-148) established an online **Health Insurance Marketplace** for purchasing ACA health insurance coverage
- Individuals generally qualify if they:
  - live in the U.S.;
  - are **US citizens, US nationals, or lawfully present noncitizens**;
  - are **not incarcerated**; and
  - do **not** have Medicare coverage

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Premium Tax Credit

Pg 241

- Taxpayers with Marketplace coverage may be eligible for the **premium tax credit (PTC)** [I.R.C. § 36B]
- The PTC is a **refundable** tax credit helping **low and moderate income** individuals and families afford Marketplace insurance

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Premium Tax Credit Pg 241

How the PTC is Calculated

- Generally equals the premium for the **second lowest-cost silver plan (SLCSP)** available to the household, **minus** the applicable percentage of household income
- At application, the Marketplace **estimates** the PTC using the taxpayer's **family composition, projected household income, and eligibility for other coverage**

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Advance Premium Tax Credit Pg 241

- The taxpayer can either **claim the PTC on their return** or have it paid **directly to the insurer** as an **advance premium tax credit (APTC)** to fund coverage throughout the year
- The **APTC amount** is based on the taxpayer's **household income and family size**, as **estimated when signing up** for coverage

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APTC Reconciliation Pg 241

- At year-end, the taxpayer must **reconcile the APTC with the PTC**, calculated using **actual household income** and **family size** from the return
- If the **APTC exceeds the allowable PTC**, the taxpayer generally **reduces their refund** by the excess or **repays it as additional tax**
- For tax years **after 2025: no repayment cap** – the taxpayer must repay **all** excess APTC

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Reasons for Excess APTC

Pg 241-242

- The actual PTC can differ from the Marketplace's estimated APTC because of:
  1. **Family size changes:** marriage or divorce, birth or adoption, or a change in the number of dependents
  2. **Household income differing** from the estimate – due to employment changes, lump-sum Social Security or disability payments, IRA/retirement distributions, capital gains on asset sales, or debt forgiveness/cancellation
  3. **Gaining or losing eligibility** for government- or employer-sponsored health coverage
  4. **Moving** to another address

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Practitioner Note: Notifying the Marketplace

Pg 242

- Taxpayers should report **changes in circumstances** to the Marketplace **as soon as they occur**
- The Marketplace will **update** the information used to determine the expected PTC and **adjust the APTC**
- This adjustment **reduces the likelihood** of a significant difference between the APTC and the actual PTC at year-end

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Filing Form 8962

Pg 242

- Taxpayers with Marketplace coverage should receive **Form 1095-A, Health Insurance Marketplace Statement**, by **January 31** of the year after the coverage year
- Form 1095-A provides the data to reconcile APTC and PTC – including **premium amounts and APTC paid** to the insurer

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Filing Form 8962

Pg 242

- If Form 1095-A shows **APTC payments**, the taxpayer must complete **Form 8962, Premium Tax Credit (PTC)**, to reconcile them
- If APTC was paid on the taxpayer's behalf, they **must file Form 8962 – even if not otherwise required to file** a return
- A taxpayer who **fails to file Form 8962** will be **ineligible for the APTC in future years**

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Rejected Returns

Pg 242

- E-filed returns are **rejected** (IRS business rule **F8962-070**) when IRS records show the taxpayer must reconcile APTC on Form 8962 but the form is missing
- To fix it, the taxpayer **refiles** with Form 8962 completed, or provides a **written explanation** for its absence

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Rejected Returns

Pg 242

- Paper returns missing a required Form 8962 generally trigger an **IRS letter**
- Because rule F8962-070 applies **only to e-filed returns**, the IRS **accepts** the paper return and **follows up by mail**

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Rejected Returns

Pg 242

- If Form 1095-A shows APTC received, but the taxpayer confirms **no APTC was actually paid**, attach a **PDF titled "ACA Explanation"** stating why Form 8962 isn't required
- The taxpayer may also upload a **corrected/voided Form 1095-A** or a **Marketplace notice** proving no enrollment

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Issue 5

Reporting Amounts from Form 1099-K for Sales of Personal Items

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Reporting Amounts From Form 1099-K For Sales of Personal Items

Pg 243

- Taxpayers may sell used personal items (e.g., **handbags on The RealReal, furniture on Facebook Marketplace, tools on** Craigslist)
- Even when the item sells for **less than its original cost** (no profit or gain), the taxpayer may still receive a **Form 1099-K, Payment Card and Third Party Network Transactions**, reporting the sale

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1099-K Reporting

Pg 243

- Form 1099-K is an **information return** from payment apps and online marketplaces when used to **sell goods or provide a service**
- It reports payments from:
  - **Payment Cards:** credit, debit, or stored-value cards
  - **Payment apps or online marketplaces** for goods/services (third-party settlement organizations)

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1099-K Reporting

Pg 243

- A taxpayer should receive a 1099-K if they **sold goods or provided a service**, were **paid through a payment app/marketplace**, and gross payments **exceed the reporting threshold**
- A 1099-K should also be issued for **any amount** accepted via a **payment card**

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Third-Party Settlement Organizations (TPSOs)

Pg 243

- OBBBA (§ 70432) **retroactively** amended § 6050W(e), effective as if included in the American Rescue Plan Act
- As amended, a TPSO must report only when, for a payee, gross payments **exceed $20,000 and** transactions **exceed 200**
- Before OBBBA, that threshold was **$600** (enacted by the American Rescue Plan Act of 2021)

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Payment Cards

Pg 243

- There is **no threshold** that must be met to receive a Form 1099-K for **payment card transactions**
- Even **$0.01** received via a payment card should generate a Form 1099-K for those payments

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Reporting Gain or Loss

Pg 244

- The **$20,000 / 200-transaction** threshold applies to TPSOs, but a TPSO **may still** send a 1099-K for amounts **below** the thresholds
- A 1099-K may also arrive for **personal items** sold if paid by **payment card**
- **Form 1099-K Box 1a** reports the **gross payment amount – not** adjusted for fees, credits, refunds, shipping, or discounts

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Reporting Gain or Loss

Pg 244

Gain on Sale of a Personal Item

- Gain or loss generally = **sales price – purchase price**
- **Gain is taxable** – report on **Form 8949** and **Schedule D (Form 1040)**

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Reporting Gain or Loss

Pg 244

Loss on Sale of a Personal Item

- A **loss on a personal item is not deductible**
- If a taxpayer receives a 1099-K for personal items sold at a loss, they should **either**:
  - Report the payment in the **entry space at the top of Schedule 1 (Form 1040)**, **or**
  - Report the loss on **Form 8949**, which carries to **Schedule D**

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Example 6.13: Sale of a Personal Item at a Loss

Pg 244

- **2024:** Kisa bought a Gucci purse for **$3,600**
- **2026:** She sold it on Runway Resale, receiving **$1,200** (after commission) and got a **1099-K** (Figure 6.7, Pg 245)
- **Result**: a **$2,400** ($3,600 – $1,200) **nondeductible personal loss**
- Kisa reports the payment in the **entry space at the top of Schedule 1 (Form 1040)** (Figure 6.8, Pg 245)

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Practitioner Note: IRS 1099-K FAQs

Pg 246

- IRS guidance on 1099-Ks comes from **frequently asked questions (FAQs)**
- FAQs address **general inquiries** rather than applying the law to specific facts, and **may not reflect** special rules or exceptions
- FAQs **not published** in the Internal Revenue Bulletin **cannot be relied on, used, or cited as precedent**
- However, a taxpayer's **reasonable reliance** on an FAQ (even one later updated) **is considered** in determining whether certain **penalties** apply

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Incorrect Forms 1099-K Pg 246

- For personal payments (e.g., **gifts or reimbursements**), the taxpayer can ask the issuer for a **corrected 1099-K showing a zero amount**
- If the **payee TIN is incorrect**, request a corrected 1099-K – but the taxpayer must still **report payments** from the 1099-K and all income on the appropriate return

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Incorrect Forms 1099-K Pg 246

- If the **gross payment amount is wrong** and a corrected 1099-K **can't be obtained**, report the amount from the incorrect 1099-K in the **entry space at the top of Schedule 1 (Form 1040)**

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Example 6.14: Reimbursed Personal Expenses Pg 246

- In 2026, Lisa and Delores attended a **wellness retreat** in Scottsdale, AZ
- Lisa **charged the retreat** to her credit card; Delores **reimbursed her $5,180 via Venmo**
- Lisa received a **Form 1099-K** for the payment
- The payment is a **reimbursement of personal expenses – not taxable**
- Lisa reports it in the **entry space at the top of Schedule 1 (Form 1040)**

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Questions
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