McGuire v. Commissioner of Internal Revenue, 149 T. C. No. 9 (2017)

In McGuire v. Comm'r, the U. S. Tax Court ruled that excess advance premium tax credits received under the Affordable Care Act (ACA) must be repaid as an increase in tax, despite the taxpayers' lack of awareness due to administrative errors. The McGuires, who were overpaid credits because of unprocessed income changes, were not liable for penalties due to their reasonable reliance on the health exchange and their tax preparer, highlighting the complexities and potential pitfalls of ACA implementation.

Parties

Steven A. McGuire and Robin L. McGuire, Petitioners, v. Commissioner of Internal Revenue, Respondent. The McGuires were the taxpayers and petitioners at the trial level before the United States Tax Court.

Facts

In 2014, Steven and Robin McGuire applied for and received advance premium tax credits under the Affordable Care Act through Covered California, a health insurance exchange. Initially, their eligibility was determined based on Steven's income of approximately $800 per week. However, Robin began working in late 2013, increasing their household income above 400% of the federal poverty line, which disqualified them from receiving the credit. Despite notifying Covered California of the income change, the McGuires' eligibility was not re-evaluated, and they continued to receive the credits, totaling $7,092 for the year. The McGuires did not receive Form 1095-A, which is necessary to reconcile the credits received with the credits to which they were entitled. They also did not report the excess credits as an increase in tax on their federal income tax return for 2014.

Procedural History

The Commissioner of Internal Revenue issued a notice of deficiency to the McGuires on August 8, 2016, disallowing the $7,092 in advance premium tax credits and determining an accuracy-related penalty. The McGuires, residing in California, petitioned the United States Tax Court for a redetermination of the deficiency. The Tax Court reviewed the case de novo, focusing on the statutory requirements under the Internal Revenue Code and the McGuires' liability for the tax and penalty.

Issue(s)

Whether excess advance premium tax credits received under the Affordable Care Act must be repaid as an increase in tax, even if the taxpayers did not receive Form 1095-A and were unaware of the excess credits due to administrative errors by the health insurance exchange?

Whether the McGuires are liable for an accuracy-related penalty under section

6662(a) for the understatement of their tax liability resulting from the unreported excess advance premium tax credits?

Rule(s) of Law

Under section 36B(f)(2) of the Internal Revenue Code, if the amount of the advance premium tax credit exceeds the amount to which the taxpayer is entitled, the excess must be repaid as an increase in tax. There is no limit to the amount of the tax increase for taxpayers with income above 400% of the federal poverty line.

Section 6662(a) imposes an accuracy-related penalty for any portion of an underpayment of tax required to be shown on a return, which is attributable to negligence or a substantial understatement of income tax. However, section 6664(c)(1) provides a defense to this penalty if the taxpayer can show that the underpayment was due to reasonable cause and the taxpayer acted in good faith.

Holding

The Tax Court held that the McGuires were liable for the $7,092 deficiency resulting from the excess advance premium tax credits they received, as mandated by section 36B(f)(2) of the Internal Revenue Code. However, the court also held that the McGuires were not liable for the accuracy-related penalty under section 6662(a) due to their reasonable cause and good faith in relying on Covered California and their tax preparer.

Reasoning

The court reasoned that it lacked the equitable power to override the clear statutory language of section 36B(f)(2), which treats excess advance premium tax credits as an increase in tax. The McGuires' failure to report the excess credits was not excused by their lack of knowledge, as the statute imposes a clear obligation on taxpayers to reconcile the credits received with those to which they are entitled.

Regarding the penalty, the court found that the Commissioner failed to meet the burden of production for the negligence penalty under section 6662(a). For the substantial understatement penalty, the court acknowledged that the McGuires' understatement exceeded the threshold but determined that they had reasonable cause and acted in good faith. The McGuires' nonreceipt of Form 1095-A, coupled with their reliance on Covered California to properly adjust their eligibility and on their tax preparer, contributed to their reasonable cause defense. The court cited cases such as Frias v. Commissioner and Rinehart v. Commissioner, where nonreceipt of information returns and reliance on third parties contributed to reasonable cause and good faith defenses.

Disposition

The Tax Court entered a decision for the respondent (Commissioner) as to the tax deficiency of $7,092 and for the petitioners (McGuires) as to the accuracy-related penalty.

Significance/Impact

McGuire v. Comm'r underscores the strict liability imposed on taxpayers for repaying excess advance premium tax credits under the ACA, regardless of administrative errors or lack of notification. The decision highlights the importance of taxpayers' proactive engagement with health exchanges and the necessity of receiving and acting on Form 1095-A. The case also emphasizes the potential for reasonable cause and good faith defenses to penalties when taxpayers rely on third parties and do not receive required information returns. This ruling may influence future cases involving ACA tax credits and underscores the need for clear communication and efficient administration by health exchanges to prevent similar issues.

