

U.S. Department of Labor

Employment and Training Administration
Sam Nunn Atlanta Federal Center
Room 6M12 - 61 Forsyth Street, S.W.
Atlanta, Georgia 30303



SWA ISSUANCE NO. 05-02

SUBJECT: Health Coverage Tax Credit for Eligible Trade Adjustment Assistance (TAA) and Alternative Trade Adjustment Assistance (ATAA) Recipients

1. Purpose. To outline the requirements related to eligibility verification for TAA/ATAA recipients as part of the Health Coverage Tax Credit (HCTC) Program (e.g., generating eligibility letters in certain cases for purposes of the HCTC).

SWAs are not required to issue any IRS forms to individuals who wish to claim the HCTC. However, SWAs should be prepared to respond to individuals who have been denied the credit by the Internal Revenue Service (IRS) and need to verify and obtain proof of their eligibility for the purpose of claiming the HCTC on their Federal tax return for the tax year.

2. Background. The Trade Act of 2002 created a Federal tax credit which subsidizes health coverage for displaced workers certified to receive certain TAA benefits and for individuals receiving benefits from the Pension Benefit Guaranty Corporation (PBGC). This federally funded tax credit, referred to as HCTC, pays 65 percent of the eligible premium amount that eligible individuals pay for qualified health coverage. The IRS is responsible for administering the HCTC Program.

The HCTC first became available during the 2002 Tax Year, and states were required to issue an IRS Form 8887 for Tax Year 2002 to individuals who received TRA (or would have been eligible to receive TRA had their unemployment insurance (UI) been exhausted) during December 2002. Form 8887 is no longer necessary.

The Act provides two options for eligible individuals to receive the credit: 1) In advance on a monthly basis to help individuals pay for health plan premiums as they become due, or 2) When they file their Federal tax return. This directive addresses the latter option as it relates to the SWA's responsibilities in generating eligibility letters in certain cases for purposes of the HCTC.

3. Procedures. IRS Form 8887 is obsolete and is no longer used as documentation of TAA eligibility by individuals who claim the HCTC; therefore, states are not required to issue any IRS forms to individuals.

It is the responsibility of SWAs to identify potentially eligible TAA and ATAA recipients, as defined in the Trade Act of 2002, and to report those individuals to the HCTC Program through the UI Interstate Connection (ICON) Network. Information received in ICON files from the states is used to verify individuals' potential eligibility for the HCTC.

The HCTC Program transmits the eligibility data it receives from the SWAs to the IRS for processing yearly tax returns during the first week in January. These eligibility data identify all individuals the SWAs and the PBGC reported as eligible at any time between January and December during the tax year. The IRS uses this list to place an indicator on each taxpayer's record allowing the claim to be processed.

Individuals who claim the tax credit on their Federal tax return and do not have an indicator on their records identifying them as eligible TAA, ATAA, or PBGC recipients will receive a letter issued from IRS disallowing the credit. The letter states that the individual has not been identified as a potentially eligible recipient for HCTC by either a SWA or the PBGC (i.e., they were not identified as an eligible TAA/ATAA or PBGC recipient). The letter provides general eligibility information for claiming the credit, and it directs individuals who believe they are entitled to the credit to contact the United States Department of Labor (USDOL)/Employment and Training Administration (ETA) help line (1-877-US2-JOBS) or the PBGC for assistance in obtaining proof of TAA, ATAA or PBGC status.

It is anticipated that a significant number of individuals who claim the credit may not be TAA, ATAA, or PBGC recipients. To reduce any unnecessary contacts to SWAs, the USDOL/ETA help line will attempt to screen individuals. Only individuals who believe they were part of a trade-affected worker group and were receiving income support benefits during the year that they claimed the HCTC will be referred to SWAs. If the help line is unable to verify this information, the individual will be referred to the appropriate state TAA coordinator for verification.

In some situations, individuals may meet the definition of an eligible TAA or ATAA recipient, yet their names did not appear in the ICON data file transmission. For taxpayers who are denied the credit because the SWA did not send the record by the deadline and the taxpayer is later determined to be an eligible TAA/ATAA recipient, the SWA must both send a letter to the individual and send a record to the HCTC Program via the ICON network. Updating the ICON file alone will not allow taxpayers to obtain the credit once they have submitted their tax returns to the IRS. These taxpayers must have a written communication from the SWA confirming their eligibility to verify their HCTC claim with IRS. (See Attachments A and B for sample letters.)

4. Administrative Costs. Funding from National Emergency Grants (NEGs) is available to cover state administrative costs for activities described in this memorandum and any other activities related to the HCTC. States must submit requests for funding according to the special application procedures for NEGs as outlined in Training and Employment Guidance Letter (TEGL) No. 10-02.

5. Action. When an individual seeks verification of his/her TAA/ATAA eligibility status for the purpose of claiming the HCTC on his/her federal tax return, SWAs should:

- Review the state's records to determine if the individual was an eligible TAA or ATAA recipient during the tax year.

- Issue a letter to the inquiring individual that will either affirm: (1) that the individual received TRA/ATAA benefits in the tax year; or (2) that agency records do not indicate that the individual received TRA/ATAA benefits during the tax year. Attachments A and B provide sample letters that the state can use as templates to respond to the individual taxpayers.
- SWAs should complete their review and issue a letter to the individual within one month of the request. See attached letters to use as templates.

(Note: The SWA's letter affirming that the individual meets the eligibility status will advise the individual to send a copy of the verification letter confirming eligibility status for the tax year to: IRS Service Center, 310 Lowell Street, Andover, MA 01810. The letter will also advise individuals to enclose the initial correspondence that they received from IRS disallowing the HCTC claim. The SWA should advise the individual to retain a copy of the SWA verification letter for his/her records.)

- If a record was not previously created and transmitted to HCTC via ICON, or if an incorrect record was transmitted, the SWA should:
 - Transmit corrected records for each month of eligibility via ICON with the appropriate adjustment code in accordance with the instructions in UIPL No. 24-03.

6. Inquiries. Direct questions to Andrew Gill at (404) 562-2122.

7. Expiration Date. December 31, 2005.

Helen N. Parker

HELEN N. PARKER
Regional Administrator

Attachments

Attachment A – Sample Eligibility Notification: Affirmative

Attachment B – Sample Eligibility Notification: Denial

Attachment C – DOL FAQ's

NOTE: Attachments not available on-line. Please call 404-562-2122 for a copy.