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credits from a new health insurance exchange likely ran into this question:

Nov. 22, 2013

Nov. 21 — Anyone trying to estimate their 2014 income to know whether they qualify for tax credits from a new health insurance exchange likely ran into this question:

What in the world is modified adjusted gross income? Or, what is MAGI, as they say in tax circles?

It's understandable you might be confused, says David Baldwin, an accountant at Cleveland Estes Avellone in Phoenix, Ariz. and an expert on self-employment taxes. The MAGI used to calculate Cover Oregon tax credits differs from the MAGI you'll find when you search for the term on the IRS.gov website or on TurboTax's site for that matter.

In fact, MAGI for calculating insurance premium tax credits even differs from the MAGI you calculate to determine the penalty you could face for not getting health insurance. That's right: Health reform has introduced two new MAGIs.

First, let's start with AGI — adjusted gross income. That's the figure you find on the last line of the front page of Form 1040 and Form 1040A and on Line 4 of Form 1040EZ.

MAGI requires that you to add back some income items that you'd originally subtracted to get your AGI. But the add-backs differ depending on which tax break you're looking at.

MAGI in the Affordable Care Act is not the MAGI used to figure out whether you make too much money to contribute to a Roth IRA. It's also not the MAGI used on Form 8582 to calculate passive activity loss limits for landlords.

To calculate your MAGI for the premium tax credits, find the sum of:

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Even an unrelated person living with you for whom you provided at least half their support and who grossed less than \$3,800 last year can be a dependent.

To get your MAGI for calculating your “shared responsibility” penalty for not getting health insurance:

Do the same calculation above EXCEPT

- Don't add in any untaxed Social Security income

Why is this any of this important?

If you have significant foreign earnings or income from tax-free municipal bonds, knowing this calculation could be the difference in determining your credits. It could help you from over-estimating credits and having to pay them back when you file your 2014 tax return.

That's the importance of health reform's MAGIs.

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