Information Regarding the Health Insurance Premium Tax Credit

The Internal Revenue Service (IRS) has issued **final regulations** relating to the health insurance premium tax credit enacted by the **Affordable Care Act.** The tax credit is designed to reduce certain individuals' out-of-pocket premium costs for enrolling in qualified health plans through the Health Insurance Exchange (Marketplace).

Special Update: The U.S. Supreme Court has **ruled** that the Affordable Care Act's premium tax credits **are available to eligible individuals who enroll in qualified health plans through any Health Insurance Exchange (Marketplace)**, regardless of whether it is a state-based Exchange or a federally-facilitated Exchange. The ruling comes in response to conflicting July 2014 court rulings in the **District of Columbia Circuit Court of Appeals** and the **Fourth Circuit Court of Appeals**, after each court considered whether the premium tax credits are limited under the law only to individuals who enroll in qualified health plans through **state-based** Health Insurance Exchanges. (The DC Circuit ruled that the tax credits are limited to individuals who enroll in state-based Exchanges, while the Fourth Circuit upheld **IRS rules** that also include individuals enrolled in federally-facilitated Exchanges.) **The IRS is expected to provide updates regarding this matter on IRS.gov/aca.**

Who is eligible for the premium tax credit?
An individual is eligible for the premium tax credit if he or she meets all of the following requirements:

- Purchases coverage through the Marketplace.
- Has household income that falls within a certain range.
- Is not able to get affordable coverage through an eligible employer plan that provides minimum value.
  - **Note:** For this purpose, for plan years beginning in 2015 an employer-sponsored plan is affordable if the portion of the annual premium an employee must pay for self-only coverage **does not exceed 9.56%** of his or her household income (for plan years beginning in 2016, this percentage is **increased to 9.66%**).
- Is not eligible for coverage through a government program, like Medicaid, Medicare, CHIP or TRICARE.
  - **Note:** An individual who may enroll in a CHIP "buy-in" program that the U.S. Department of Health and Human Services has designated as minimum essential coverage is eligible for minimum essential coverage under the program for purposes of the premium tax credit only for the period the individual is enrolled **Click here** for more information.
- Files a joint return, if married.
- Cannot be claimed as a dependent by another person.

Special Update: A **letter** from the U.S. Treasury Department clarifies that an individual who is covered by an eligible employer-sponsored plan would not be eligible to receive a premium tax credit, regardless of whether the individual is covered by a single-employer plan or a multiemployer plan.

What is the amount of the credit?

Under the **final regulations**, the credit amount is generally equal to the difference between the premium for the "benchmark plan" and the taxpayer's "expected contribution."

- The benchmark plan is the second-lowest-cost plan that would cover the family at the "silver" level of coverage offered through an Exchange.
- The expected contribution is a specified percentage of the taxpayer's household income.

    - The percentage increases as income increases. (The actual amount a family pays for coverage will be less than the expected contribution if the family chooses a plan that is less expensive than the benchmark plan.)
- The credit is capped at the premium for the plan the family chooses (so no one receives a credit that is larger than the amount they actually pay for their plan).

What does it mean that the credit is "advanceable"?

An Exchange makes an advance determination of credit eligibility for individuals enrolling in coverage through the Exchange and seeking financial assistance. Using information available at the time of enrollment, the Exchange determines whether the individual meets the income and other requirements for advance credit payments and the amount of the advance payments. Advance payments are made monthly directly to the insurance company issuing the qualified health plan in which the individual or family enrolls.

- The advance payments are then reconciled against the amount of the family's actual premium tax credit, as calculated on the family's federal income tax return.
- Any repayment due from the taxpayer is subject to a cap for taxpayers with incomes under 400% of FPL.

Special Update: IRS **Notice 2015-9** provides limited penalty relief for taxpayers who have a balance due on their 2014 income tax return as a result of reconciling advance payments of the premium tax credit against the premium tax credit allowed on the tax return. Specifically, the guidance provides relief from penalties under IRS regulations for late payment of a balance due and underpayment of estimated tax **for taxpayers who are otherwise current with their filing and payment obligations that meet the eligibility conditions specified in the guidance** on pages 4 and 5. The relief applies only for the 2014 taxable year.