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Premium Tax Credits: Answers to Frequently Asked Questions

Beginning in 2014, millions of Americans will become eligible for a new premium tax credit that will help them pay for health coverage. This collection of frequently asked questions explains who will be eligible for this tax credit, how the size of an individual or family's credit will be calculated, how midyear changes in income and household size will affect tax credit eligibility, and how the reconciliation between the tax credit amount a person receives and the amount for which he or she was eligible will be handled.

What Are Premium Tax Credits?

Starting in January 2014, a new federal tax credit will be available to help people purchase health insurance in the newly established health insurance marketplaces (also known as exchanges). These "premium tax credits" will be available immediately upon enrollment in an insurance plan so that families can receive help when they need it rather than having to wait until they file taxes. Payments of the premium tax credits can go directly to insurers to pay a share of the monthly health insurance premiums charged to individuals and families.

Who Is Eligible for Premium Tax Credits?

Premium tax credits are available to individuals and families with incomes between 100 percent of the federal poverty line (\$23,550 for a family of four) and 400 percent of the federal poverty line (\$94,200 for a family of four) who purchase coverage in the health insurance marketplace

in their state. Premium tax credits are also available to lawfully residing immigrants with incomes below 100 percent of the poverty line who are not eligible for Medicaid because of their immigration status.

The Supreme Court decision upholding health reform gave states the choice whether to expand Medicaid to cover adults with incomes below 133 percent of the poverty. As a result, individuals earning between 100 and 133 percent of poverty can qualify for premium tax credits in states that do not expand Medicaid if states don't already cover those individuals.

To receive the credits, individuals must be U. S. citizens or lawfully present in the United States. They can't receive premium tax credits if they are eligible for other "minimum essential coverage," which includes most other types of health insurance such as Medicare or Medicaid,



or employer-sponsored coverage that is considered adequate and affordable.

What Kind of Marketplace Health Plan Can Someone Buy With the Credit?

People can use their premium tax credit to buy four different types of plans offered through the marketplace in their state: bronze, silver, gold, and platinum. All plans sold in the marketplace must meet standards to ensure they provide adequate coverage. However, the plans vary in bronze plans providing the least comprehensive coverage and platinum plans the most comprehensive.

In general, bronze plans require the most overall “cost-sharing,” which means costs like deductibles and co-pays. Platinum plans would have the least overall cost-sharing. For example, a bronze plan will likely have a higher deductible than a silver plan, while a platinum plan will likely have a lower deductible than a silver plan. People can purchase any of the four types of plans. But, cost-sharing subsidies (which are available to people with incomes up to 250 percent of the poverty line) that lower deductibles and the total out-of-pocket costs under the plan, are only available to people who purchase a silver plan. (Marketplaces will also offer a catastrophic plan that is less comprehensive than bronze plans but it is only available to young people and those without any other affordable insurance option. Premium tax credits cannot be used to buy these plans.)

How Much Help Will People Get?

To calculate the premium tax credit, the marketplace will start by identifying the second-lowest cost silver plan that is available to each member of the household, called the “benchmark plan.” The amount of the credit is equal to the total cost of the benchmark plan (or plans) that would cover the family minus the individual or family’s expected contribution for coverage.

The individual or family is expected to contribute a share of their income toward the cost of coverage. That share is based on a sliding scale. Those who earn less have a smaller expected contribution and those who make more have a larger expected contribution as shown in Table 1. For example:

- John is 24 years old and has an annual income of \$22,980, which equals 200 percent of the poverty line. His expected contribution is 6.3 percent of his income, or \$1,448 a year. The benchmark plan available to John is priced at \$5,000; John would be eligible for a credit amount of \$3,552 (\$5,000 minus \$1,448).
- Peter, Mary and their two children have an annual income of \$52,988, which translates to 225 percent of the federal poverty line. At this income level, the family’s expected contribution is 7.18 percent of their income, or \$3,802 a year. In the area where Peter and Mary live, the total premiums for the benchmark plan that would cover all members of the family is \$15,000. The credit amount that the family would be eligible for is \$11,198, which is \$933 a



Table 1

Premium Credits by Income Under Health Reform¹

Income		Expected Premium Contribution Remaining After Premium Credit	
Percentage of poverty line	Annual dollar amount (2013 \$)	Premium contribution as percentage of income	Monthly premium contribution
Family of four			
100 - 133%	\$23,550 - \$31,322	2%	\$39 - \$52
133 - 150%	\$31,322 - \$35,325	3 - 4%	\$78 - \$118
150 - 200%	\$35,325 - \$47,100	4 - 6.3%	\$118 - \$247
200 - 250%	\$47,100 - \$58,875	6.3 - 8.1%	\$247 - \$395
250 - 300%	\$58,875 - \$70,650	8.1 - 9.5%	\$395 - \$559
300 - 350%	\$70,650 - \$82,425	9.5%	\$559 - \$652
350 - 400%	\$82,425 - \$94,200	9.5%	\$652 - \$745
Individual			
100 - 133%	\$11,490 - \$15,282	2%	\$19 - \$25
133 - 150%	\$15,282 - \$17,235	3 - 4%	\$38 - \$57
150 - 200%	\$17,235 - \$22,980	4 - 6.3%	\$57 - \$121
200 - 250%	\$22,980 - \$28,725	6.3 - 8.1%	\$121 - \$193
250 - 300%	\$28,725 - \$34,470	8.1 - 9.5%	\$193 - \$272
300 - 350%	\$34,470 - \$40,215	9.5%	\$272 - \$318
350 - 400%	\$40,215 - \$45,960	9.5%	\$318 - \$364

month. (\$15,000 minus their expected premium contribution of \$3,802). An advance payment of \$933 a month will be paid directly to the insurer offering the health plan that the family selects; the family would be responsible for paying the remaining premium to the insurer.

How Will the Marketplace Determine the Applicable Benchmark Plan?

The benchmark plan is the second lowest silver plan that is available to each member of the household. In many cases, such as for single individuals or for parents and their dependent children, coverage can be obtained through a single policy. In cases where there may not be

¹ These amounts assume the premium credits were in effect in 2013.



a silver plan offered through the Marketplace that covers every single member of the household who is eligible for premium credits (for example, because of the relationships of the individuals in the household), the benchmark may be based on the second lowest cost silver option for one or more policies.

The following example illustrates how the Marketplace would determine the applicable benchmark plan in some different situations:

- **Example 1: Single individual obtaining self-only coverage.** John is eligible for a premium credit, with an expected contribution of 6.3 percent of his income, or \$1,448 a year. The three lowest cost silver plans providing self-only coverage in John's area are Plans A, B, and C, priced at \$4,800, \$5,000, and \$5,200, respectively. Plan B, which is the second lowest cost silver plan, will be used as the benchmark.
- **Example 2: Parents and two children obtaining family coverage.** Peter, Mary, and their two children have income at 225 percent of the federal poverty line, qualifying them for premium tax credits with an expected contribution of 7.18 percent of income, or \$3,802. The benchmark plan in this case is the second lowest cost silver plan that covers the entire family. In the area where the family lives, the three lowest cost silver plans that cover the entire family are Plans A, B, and C, which cost \$14,800, \$15,000, and \$15,200, respectively. Plan B, which is the second lowest cost silver plan, will be used as the benchmark.
- **Example 3: Parents and two children obtaining coverage only for the parents.** The circumstances are the same as in Example 2, except that the family now lives in a state that has a higher income eligibility level for CHIP coverage so that the two children are ineligible for premium credits because they qualify for CHIP. Peter and Mary's household income would be the same at 225 percent of the poverty line, and their expected annual contribution would stay at \$3,802. The applicable benchmark in this case is the second lowest silver plan that covers *just* Peter and Mary. The three lowest cost silver plans that cover Peter and Mary are Plans A, B, and C, which cost \$9,800, \$10,000, and \$10,200, respectively. Plan B, which is the second lowest cost silver plan, will be used as the benchmark in calculating the premium tax credit amount.
- **Example 4: Members of a tax household residing in different locations.** The circumstances are the same as in Example 2, except that one child is attending college in a different part of the state where services are considered out of network and would not be covered by Peter and Mary's plan. As a result, the family has to purchase a separate plan where the child attends college and resides for most of the year. The three lowest cost silver plans that would cover Peter, Mary, and the younger child are Plans A, B, and C, which cost \$12,300, \$12,500, and \$12,700, respectively. The three lowest cost silver plans that would cover the child in college are Plans D, E, and F, which cost \$2,400, \$2,500, and \$2,600,



respectively. In this case, the Marketplace will add the premiums for Plans B and E to get the benchmark premium that will be used to calculate the premium credit amount for the family.

Will the Premium Tax Credit Take into Account Differences in the Price of Plans Based on Age, Location, and Other Factors?

The amount of the premium credit that an individual or family receives will take into account family size, geographic area, and age. For example, older people will get larger premium credits than younger people, and an individual who lives in a high cost state would receive a larger premium credit than an individual with the same characteristics who lives in a low cost state. However, the premium credit *will not* cover the portion of the premium that is due to a tobacco surcharge. The following examples illustrate how age and tobacco use will affect the amount of the premium credits:

- John is 64 years old and has an annual income of \$22,980, or 200 percent of the poverty line, which qualifies him for a premium tax credit. His expected contribution is 6.3 percent of his income, or \$1,448 a year. Because he is 64 years old, John's premium could be as much as three times the cost of the premium for someone who is 24 years old. Assuming John's premium is \$15,000, his expected contribution would still be \$1,448 a year,

the same as the expected contribution for a 24-year old, and his premium credit would be much larger, \$13,352 in this example (\$15,000 minus \$1,448).

- As in our original example, John is 24 years old. As a non-smoker, the benchmark plan available to John is priced at \$5,000; John would be thus eligible for a credit amount of \$3,552 (\$5,000 minus \$1,448). If John was a smoker, however, in most states insurers could charge him as much as one and a half times the usual premium. This would raise the cost of the second lowest cost silver plan to \$7,500. However, John's premium credit amount would not be adjusted to account for the additional \$2,500 in premiums he would be charged because he is a tobacco user. As a result, even with a premium tax credit, it would cost it would cost him an additional \$2,500 to purchase the benchmark plan.

Will People Who Receive Premium Tax Credits Ever Have to Pay More Than Their Expected Contribution?

How much people will have to pay for coverage depends on the plan they choose. People can use the premium tax credit to buy a bronze, silver, gold, or platinum plan. The amount of the premium tax credit generally stays the same, regardless of which plan a person selects.

Gold and platinum plans will have higher premiums than the silver benchmark plan used



to calculate the premium tax credit amount, so people will have to pay more than their expected contribution towards the premiums for these plans.

Bronze plans will cost less than the benchmark plan. So, if an individual or family chooses a bronze plan, their share of the premium costs will be lower and possibly even zero. (If the plan costs less than the amount of the premium credit, the credit would be no greater than the cost of the plan.)

People must purchase a silver plan in order to get help with their cost-sharing expenses in addition to the premium tax credits. So, purchasing a bronze plan may not be the lowest-cost option for an individual or family when all their out-of-pocket health care costs are considered.

Here's how it would work, using the earlier example of John, a single individual:

- John is 24 years old and his annual income is equal to 200 percent of the poverty line. He is eligible for a credit amount of \$3,552 for the year. The benchmark plan for John costs \$5,000 per year. There is also a bronze plan available that would cost \$3,500 per year and a cheaper silver plan that costs \$4,500.

If John purchases the benchmark plan, he will have to contribute \$1,448 for the year (the \$5,000 premium minus the \$3,552 premium credit) but he will also be eligible for the cost-sharing subsidies that will lower how much he will pay in deductibles and other out-of-pocket costs. If John purchases

the cheapest silver plan which cost \$4,500 a year, his contribution would go down to \$948 for the year.

If John purchases the bronze plan that costs \$3,500 a year, he would not have to pay any premiums because the premium tax credit would cover the cost of the entire premium. He would *not* be able to receive cost-sharing subsidies. This means that while John's premium payments will be zero under the bronze plan, he will have larger deductibles and co-payments when he needs health care services. His overall out-of-pocket health care costs (premiums and cost-sharing charges) could end up being higher under the bronze plan than under the silver plan, depending on how much health care he uses.

How Do People Qualify for the Premium Tax Credit?

People will apply through the insurance marketplace online, by mail, or in person. They will need to provide information on their income, the people in their household, how they file their taxes, and whether they have an offer of health coverage through their job. Based on the information provided in the application, the marketplace will determine whether members of the household are eligible for premium tax credits or other health care programs like Medicaid and the Children's Health Insurance Program (CHIP).

Will People Need to Wait Until They File Taxes to Receive the Premium Tax Credit?



No. People can choose to receive the credits in advance. Many people won't be able to afford paying all of their premiums upfront and waiting until they file taxes to get reimbursed. Getting the premium tax credits in advance will allow them to pay their monthly insurance premiums and enroll in coverage purchased through the marketplaces. This is how it would work:

- John is eligible for a premium tax credit of \$3,552 a year. During the open enrollment period in the fall, he chooses to purchase the second-lowest cost silver plan (the benchmark plan) for the upcoming year, which has an annual cost of \$5,000. He decides to take the premium tax credit in advance, which means that the IRS will send a monthly payment of \$296 (\$3,552 divided by 12) directly to his health insurer. This brings down John's portion of the health insurance premium from \$417 to \$121 per month, which he will pay the insurer.

People who receive advance payments of the premium tax credit will need to file taxes for the year in which they receive them. For example, someone who received advance payments of the credit for the 2014 calendar year will need to file a tax return for 2014 before the April 2015 deadline. Also, married couples who receive advance payments will need to file a joint return to qualify for the premium tax credit.

What if Someone Has Not Filed a Tax Return in the Past?

People who did not file a tax return in years prior to 2014 can still qualify for a premium tax credit if they are otherwise eligible, but they will have to file a return for years they receive advance payments of the premium tax credit to qualify in future years. In other words, someone who receives advance payments of the tax credit in 2014 must file a tax return for 2014. Failure to file in 2014 would disqualify an individual from receiving credits in subsequent years.

Do People Have to Take the Premium Tax Credit in Advance?

No. Most people likely will want to get the credit in advance because they wouldn't be able to pay their entire monthly health insurance premiums without help, but if they choose, people can wait and receive the credit when they file their taxes. However, the credit is only available for months in which people are enrolled in a health plan offered in their state's marketplace.

People can also take a lower advance payment than the amount that is calculated based on their estimated income for the year and receive any remaining credit they are due at tax time.

What Happens When People Who Get a Credit in Advance File Their Taxes?

The amount of the advance premium tax credits that people receive is based on an *estimate* of the income the household expects for the year. The *final* amount of the credit is based on their



Table 2

Cap on the Amount of Advance Credits That Individuals and Families Must Pay Back

Income as percentage of poverty line	Annual income for an individual (2013 \$)	Single taxpayers	Annual income for a family of four (2013 \$)	Married taxpayers filing jointly
Under 200%	Under \$22,980	\$300	Under \$47,100	\$600
At least 200% but less than 300%	\$22,980 - \$34,470	\$750	\$47,100 - \$70,650	\$1,500
At least 300% but less than 400%	\$34,470 - \$45,960	\$1,250	\$70,650 - \$94,200	\$2,500
400% and above	\$45,960 and higher	Full amount	\$94,200 and higher	Full amount

actual income as reported on the tax return for the year the advance payment was received.

People who receive advance payments of the credit will have to “reconcile” the amount that they received based on their estimated income with the amount that is determined based on their actual income as reported on their tax return. This means that people whose income for the year is higher than they previously estimated could have to pay back some or even all of the advance payments they received. On the other hand, people whose income ends up lower than estimated could get a refund when they file their taxes. For example:

- Peter, Mary, and their two children estimate that their income in 2014 will be \$52,988. The marketplace determines that they are eligible for a premium tax credit of \$11,198 for the year. Peter and Mary decide to take the credit in advance, and the credit is sent directly to the insurer.

When Peter and Mary file their 2014 taxes in February 2015, it turns out that their

income was a little bit higher than they estimated because Peter received a \$2,000 bonus at the end of the year. The family’s final credit amount is \$223 less than the advance payments they received – \$10,975 compared to \$11,198. This means that at tax time, if the family was due to receive a refund, the refund would be reduced

by \$223. If they were not getting a refund, they would have to pay \$223 to the IRS.

On the other hand, if Peter and Mary’s actual income for 2014 was \$2,000 lower than they estimated, their final credit amount would be \$11,503. This means the family received \$305 less in advance payments than they were eligible for. At tax time, the family would either receive an additional \$305 in refunds, or if they owed taxes the amount they owe would be reduced by \$305.

One special rule is that if the advance payments received by people are greater than the final credit amount for which they are eligible, the amount they would have to repay would be capped if their income is less than 400 percent of the poverty level. Table 2 shows the amount of the caps. Note that if income for the year exceeds 400 percent of the poverty line, the individual or family would have to repay the



entire amount of the advance payments they received:

What Happens If People’s Income or Circumstances Change During the Year? How Will That Affect Their Eligibility for Premium Tax Credits?

People who experience changes in income and household size over the course of the year should report these changes to the marketplace when they happen because those changes can affect the amount of their premium tax credits. People whose incomes go down may be able to get a higher advance payment of the premium tax credit for the rest of the year, which would lower their monthly premium payments. (They also may receive more help with their cost-sharing.) People whose incomes increase should report the change to have their credits for the rest of the year lowered to avoid having to pay back excess advance payments when they file their taxes. Household changes, which affect family income as a percent of the federal poverty level, such as having a baby or having a child leave the home, will also affect the amount of the credit and should be reported.

Another way people — especially those with income that fluctuates from year to year and those who anticipate substantial changes to occur — can avoid having to pay back advance payments at tax time is to take less than the amount calculated based on their estimated income.

People who receive advance payments of the premium tax credit and who, partway through the year, receive an offer of employer coverage that is considered affordable and adequate should also report this change to the health insurance marketplace, as should those who become eligible for other coverage, such as Medicare or Medicaid. Having other “minimum essential coverage” would make people ineligible for premium credits for the rest of the year.

Will People Who Don’t Have to Pay Federal Income Taxes Be Able to Take Advantage of the Premium Tax Credits?

Yes. The premium tax credit is refundable, so people whose income taxes are lower than their premium tax credit can still take advantage of the credit. People eligible for the credit will be entitled to the full credit amount whether they take it in advance or wait until they file their taxes. For example:

- With an annual income of \$22,980 for 2014, John is eligible for a premium tax credit of \$3,552 for the year. John enrolls in a silver plan. In February 2015, when John files his 2014 tax return, John’s federal tax is \$1,500. He will receive the full premium tax credit amount of \$3,552 even though the amount of the credit is larger than his federal income tax liability.