Questions and Answers on the Premium Tax Credit

The Basics

1. What is the premium tax credit?

The premium tax credit is an advanceable, refundable tax credit designed to help eligible individuals and families with low or moderate income afford health insurance purchased through the Health Insurance Marketplace, also known as the Exchange, beginning in 2014. You can choose to have the credit paid in advance to your insurance company to lower what you pay for your monthly premiums, or you can claim all of the credit when you file your tax return for the year. If you choose to have the credit paid in advance, you will reconcile the amount paid in advance with the actual credit you compute when you file your tax return.

2. What is the Health Insurance Marketplace?

The Health Insurance Marketplace, also known as the Exchange, is the place where you will find information about private health insurance options, purchase health insurance, and obtain help with premiums and out-of-pocket costs if you are eligible. Open enrollment to purchase health insurance for 2014 through the Marketplace begins Oct. 1, 2013, and continues through March 31, 2014. The Department of Health and Human Services (HHS) administers the requirements for the Marketplace and the health plans offered. Learn more about the Marketplace at HealthCare.gov.

3. How do I get the premium tax credit?

When you apply for coverage in the Marketplace, the Marketplace will estimate the amount of the premium tax credit that you may be able to claim for the tax year, using information you provide about your family composition and projected household income. Based upon that estimate, you can decide if you want to have all, some, or none of your estimated credit paid in advance directly to your insurance company to be applied to your monthly premiums. If you choose to have all or some of your credit paid in advance, you will be required to reconcile on your income tax return the amount of advance payments that the government sent on your behalf with the premium tax credit that you may claim based on your actual household income and family size.

If you do not opt for advance credit payments, you may claim the credit when you file your tax return for the year, which will either lower the amount of taxes owed on that return or increase your refund.

4. What happens if my income or family size changes during the year?

The actual premium tax credit for the year will differ from the advance credit amount estimated by the Marketplace if your family size and household income as estimated at the time of enrollment are different from the family size and household income you report on your return. The more your family size or household income differs from the Marketplace estimates used to compute your advance credit payments, the more significant the difference will be between your advance credit payments and your actual credit. If your actual allowable credit on your return is less than your advance credit payments, the difference, subject to certain caps, will be subtracted from your refund or added to your balance due. If your actual allowable credit is more than your advance credit payments, the difference will be added to your refund or subtracted from your balance due.

Notifying the Marketplace about changes in circumstances will allow the Marketplace to update the information used to determine your expected amount of the premium tax credit and adjust your advance payment amount. This adjustment will decrease the likelihood of a significant difference between your advance credit payments and your actual premium tax credit. Changes in circumstances that can affect the amount of your actual premium tax credit include:

- Increases or decreases in your household income.
- Marriage.
- Divorce.
- Birth or adoption of a child.
- Other changes to your household composition.
- Gaining or losing eligibility for government sponsored or employer sponsored health care coverage.

Eligibility

5. Who is eligible for the premium tax credit?

You are eligible for the premium tax credit if you meet all of the following requirements:

- Purchase coverage through the Marketplace.
- Have household income that falls within a certain range (see question 6).
- Are not able to get affordable coverage through an eligible employer plan that provides minimum value (see questions 8 and 9).
- Are not eligible for coverage through a government program, like Medicaid, Medicare, CHIP or TRICARE.
- File a joint return, if married.
- Are not claimed as a dependent by another person.

6. What are the income limits?

In general, individuals and families whose household income for the year is between 100 percent and 400 percent of the federal poverty line for their family size may be eligible for the premium tax credit. An individual who meets these income requirements must also meet the other eligibility criteria described in question 5. Thus, if you have household income between 100 percent and 400 percent of the federal poverty line, but are eligible for coverage through your state's Medicaid program (for example, because your state provides Medicaid to individuals with household income up to 133 percent of the federal poverty line), you are not eligible for the premium tax credit.

For 2013, for residents of one of the 48 contiguous states or Washington, D.C., the following illustrates when household income would be between 100 percent and 400 percent of the federal poverty line:

- $11,490 (100%) up to $45,960 (400%) for one individual.
- $15,510 (100%) up to $62,040 (400%) for a family of two.
- $23,550 (100%) up to $94,200 (400%) for a family of four.

Note: The federal poverty guidelines — sometimes referred to as the "federal poverty line" or FPL — state an income amount considered poverty level for the year, adjusted for family size. HHS determines the federal poverty guideline amounts annually. The government adjusts the income limits annually for inflation. The Federal Register publishes a chart reflecting these amounts at the beginning of each calendar year. You can also find this information on the HHS website. HHS provides three federal poverty guidelines: one for residents of the 48 contiguous states and D.C., one for Alaska residents and one for Hawaii residents. For purposes of the premium tax credit, eligibility for a certain year is based on the most recently published set of poverty guidelines at the time of the first day of the annual open enrollment period. As a result, the tax credit for 2014 will be based on the 2013 guidelines.

7. What is household income?

For purposes of the premium tax credit, your household income is your modified adjusted gross income plus that of every other individual in your family for whom you can properly claim a personal exemption deduction and who is required to file a federal income tax return. Modified adjusted gross income is the adjusted gross income on your federal income tax return plus any excluded foreign income, nontaxable Social Security benefits (including tier 1 railroad retirement benefits), and tax-exempt interest received or accrued during the taxable year. It does not include Supplemental Security Income (SSI).

8. How do I know if the insurance offered by my employer is affordable?

An employer-sponsored plan is affordable if the portion of the annual premium you must pay for self-only coverage does not exceed 9.5 percent of your household income. (See question 7 for what is included in household income.) The affordability test applies only to the portion of the annual premiums for self-only coverage and does not include any additional cost for family coverage. If the employer offers multiple health coverage options, the affordability test applies to the lowest-cost option available to you that also satisfies the minimum value requirement. If your employer offers any wellness programs, the affordability test is based on the premium you would pay if you received the maximum discount for any tobacco cessation programs, and did not receive any other discounts based on wellness programs.

9. How do I know if the insurance offered by my employer provides minimum value?

An employer-sponsored plan provides minimum value if the plan covers at least 60 percent of the expected total allowed costs for covered services. Beginning in 2014, your employer will provide you with a document called a Summary of Benefits and Coverage. That document will give you information about the benefits and coverage under your employer-sponsored plan, including whether the plan provides minimum value. Also, under the Fair Labor Standards Act, most employers will provide employees with a notice about their options in the Marketplace and their potential eligibility for a premium tax credit. This one-time notice will include information about whether the employer has a plan that provides minimum value.

10. Am I eligible for the premium tax credit if I enroll in coverage through an employer?

If you enroll in an employer-sponsored plan, you are not eligible for the premium tax credit even if the plan is unaffordable or fails to provide minimum value.

Reporting and Claiming

11. Will I have to file a federal income tax return to get the premium tax credit?

For any tax year, if you receive advance credit payments in any amount or if you plan to claim the premium tax credit, you must file a federal income tax return for that year. If you receive any advance credit payments, you will use your return to reconcile the difference between the advance credit payments made on your behalf and the actual amount of the credit that you may claim. This filing requirement applies whether or not you would otherwise be required to file a return. If you are married, you must file a joint return to be eligible for the premium tax credit.

12. If I get insurance through the Marketplace, how will I know what to report on my federal tax return?

The Marketplace will send you an information statement showing the amount of your premiums and advance credit payments by January 31 of the year following the year of coverage. For example, you will receive the 2014 information statement by Jan. 31, 2015, and can use this information to compute your premium tax credit on your 2014 tax return and to reconcile the advance credit payments made on your behalf with the amount of the actual premium tax credit.

13. How is the amount of the premium tax credit determined?

The law bases the size of your premium tax credit on a sliding scale. Those who have a lower income get a larger credit to help cover the cost of their insurance. In other words, the higher your income, the lower the amount of your credit.

Additionally, the premium tax credit is a refundable tax credit. This means that if the amount of the credit is more than the amount of your tax liability, you will receive the difference as a refund. If you owe no tax, you can get the full amount of the credit as a refund. However, if you receive advance payments of the credit, you will reconcile the advance payments with the amount of the actual premium tax credit that you calculate on your tax return. If your actual allowable credit on your return is less than your advance credit payments, the difference, subject to certain caps, will be subtracted from your refund or added to your balance due. If your actual allowable credit is more than your advance credit payments, the difference will be added to your refund or subtracted from your balance due. (See question 4 for information on changes in circumstances.)

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