What are premium tax credits?

The Affordable Care Act provides families with refundable, advanceable tax credits to purchase health insurance through exchanges. Premium credits cap contributions as a share of income for families with incomes between 100 and 400 percent of the federal poverty level.

ACA TAX CREDITS FOR HEALTH INSURANCE

The Affordable Care Act (ACA) provides families with refundable tax credits to purchase health insurance through both state and federal exchanges—an arrangement confirmed by the Supreme Court. Tax filers can claim premium credits if they (1) have incomes between 100 and 400 percent of the federal poverty level (FPL), (2) are ineligible for adequate and affordable health insurance from other sources, and (3) are legal residents of the United States. Tax filers with incomes between 100 and 138 percent of the FPL are generally ineligible for premium credits if they reside in states that take advantage of the ACA's expansion of Medicaid eligibility.

CALCULATION OF PREMIUM CREDITS

Premium credits effectively cap family contributions as a share of income for those purchasing mid-range "benchmark" plans. In 2014, maximum family contributions ranged from a low of 2.0 percent of income for families at the poverty threshold to 9.5 percent for families between 300 and 400 percent of FPL (table 1). Premium credits equal the difference between gross premiums and maximum family contributions.

TABLE 1

Maximum Premium Contribution (After Credits) for Families of Four

By income level, 2014

Income as percentage of federal poverty level (FPL)	Premium as percentage of income	Income (dollars)	Maximum premium (dollars)
100	2.00	23,850	477
133	3.00	31,721	952
150	4.00	35,775	1,431
200	6.30	47,700	3,005
250	8.05	59,625	4,800
300	9.50	71,550	6,797
399	9.50	95,162	9,040
400	no limit	95,400	no limit

Note: Maximum premium contribution based on purchase of second least expensive Silver plan offered through a health insurance exchange.

For example, consider a family of four with income equal to 200 percent of FPL in 2014 that is purchasing an insurance plan costing $15,000. Multiplying family income (here, $47,700) by the applicable 6.3 percent maximum premium results in a family contribution of $3,005 and thus a premium credit of $11,995 ($15,000–$3,005).

The example above assumes the family purchases the second least expensive (Silver) plan from the menu of Bronze, Silver, Gold, and Platinum health insurance plans offered through exchanges. If the family purchased a more expensive plan, the credit would remain unchanged and the family would pay the full difference in premiums.

ADVANCE PREMIUM CREDITS AND RECONCILIATION

Premium credits are based on a household's income in the tax year premiums are paid. Yet the credits are calculated the following year, when households file their income tax returns. However, most participating households receive their tax credits in advance as a reduction in the insurance premium they would otherwise pay. This reduced premium is based on estimated income, generally from the last tax return filed before enrollment in health insurance. If actual income in the year of enrollment is less than estimated income, families will qualify for larger credits. If actual income is greater than estimated income, families will be required to repay part or all of the advance credit.

Fortunately for most households with large income increases, the maximum reconciliation payment is limited. In tax year 2014, the maximum payment ranged from $600 for married couples with incomes below 200 percent of FPL to $2,500 for couples with incomes of at least 300 but less than 400 percent of FPL (see figure 1). Families whose income equals 400 percent or more of FPL have no limit on reconciliation payments.

While data for the first year of reconciling premium credits are not yet available, research suggests that as many as half of families receiving advanced credits will have to make reconciliation payments. However, analysis of tax refund data suggests that for most lower-income filers, reconciliation payments will reduce tax refunds rather than require additional payments. Still, reconciliation will likely present hardships for some families receiving advanced premium credits, even if they do not have tax payments due, because many low-income households have grown to rely on tax refunds for pressing needs.

TABLE 2

Maximum Reconciliation Payment

By income level, 2014

Household income as a share of federal poverty level (FPL)	Married filing jointly	All other filers
Less than 200%	$600	$300
200–299%	$1,500	$750
300–399%	$2,500	$1,250
400% and over	unlimited	unlimited

FURTHER READING

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