

# Key Elements of the U.S. Tax System

What are premium tax credits?

TAXES AND HEALTH CARE

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## Q. What are premium tax credits?

**A. 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 Marketplaces. 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 Medicaid-eligibility expansion.

### CALCULATION OF PREMIUM CREDITS

Premium credits effectively cap family contributions as a share of income for those purchasing midrange “benchmark” plans. In 2018, maximum family contributions ranged from 2.01 percent of income for families at the poverty threshold to 9.56 percent for families between 300 and 400 percent of FPL (table 1). Premium credits equal the difference between gross premiums and maximum family contributions.

For example, consider a family of four with income equal to 200 percent of FPL in 2018 who are purchasing an insurance plan costing \$15,000. Multiplying family income (here, \$49,200) by the applicable 6.34 percent maximum premium results in a family contribution of \$3,119 and thus a premium credit of \$11,881 (\$15,000–\$3,119).

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 Marketplaces. 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, the Treasury usually sends advance payment of premium credits directly to the insurance company, and the household pays a

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reduced premium. The advance payment of credits 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 qualify for additional credit amounts when filing their returns. If actual income is greater than estimated income, families must 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 2017, the maximum payment ranged from \$600 for married couples with incomes below 200 percent of FPL to \$2,550 for couples with incomes of at least 300 but less than 400 percent of FPL (table 2). Families whose income equals 400 percent or more of FPL have no limit on reconciliation payments.

For tax year 2016, 56 percent of families receiving advanced credits had 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 1**

### Maximum Premium Contribution (after Credits) for Families of Four by Income Level, 2018



Income as Percentage of Federal Poverty Level	Premium as Percentage of Income	Income	Maximum Premium
100%	2.01%	\$24,600	\$494
133%	3.02%	\$32,718	\$988
150%	4.03%	\$36,900	\$1,487
200%	6.34%	\$49,200	\$3,119
250%	8.10%	\$61,500	\$4,982
300%	9.56%	\$73,800	\$7,055
399%	9.56%	\$98,154	\$9,384
400%	N/A	\$98,400	N/A

**Source:** Tax Policy Center computations based on ACF HHS 2018 Poverty Guidelines and IRS Rev. Proc. 2017-36.

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

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**TABLE 2**

### Maximum Reconciliation Payment by income level, 2017



Household Income as Percentage of Federal Poverty Level	Married Filing Jointly	All Other Filers
Under 200%	\$600	\$300
200–299%	\$1,500	\$750
300–399%	\$2,550	\$1,275
400% and above	Unlimited	Unlimited

#### Further Reading

Burman, Leonard E., Gordon B. Mermin, and Elena Ramirez. 2015. "[Tax Refunds and Affordable Care Act Reconciliation](#)." Washington, DC: Urban-Brookings Tax Policy Center.

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Jacobs, Ken, Dave Graham-Squire, Elise Gould, and Dylan Roby. 2013. "[Large Repayments of Premium Subsidies May Be Owed to the IRS If Family Income Changes Are Not Promptly Reported](#)." *Health Affairs* 32 (9): 1538–45.