

Key Elements of the U.S. Tax System

TAXES AND HEALTH CARE

What are premium tax credits?

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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 2020, maximum family contributions ranged from 2.06 percent of income for families at the poverty threshold to 9.78 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 2020 who are purchasing an insurance plan costing \$15,000. Multiplying family income (here, \$51,500) by the applicable 6.49 percent maximum premium results in a family contribution of \$3,342 and thus a premium credit of \$11,658 (\$15,000–\$3,342).

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.

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TABLE 1

Maximum Premium Contribution (after Credits) for Families of Four by Income Level, 2020



Income as Percentage of Federal Poverty Level	Premium as Percentage of Income	Income	Maximum Premium Contribution
100%	2.06%	\$25,750	\$530
133%	3.09%	\$34,248	\$1,058
150%	4.12%	\$38,625	\$1,591
200%	6.49%	\$51,500	\$3,342
250%	8.29%	\$64,375	\$5,337
300%	9.78%	\$77,250	\$7,555
399%	9.78%	\$102,743	\$10,048
400%	N/A	\$103,000	N/A

Source: Tax Policy Center computations based on ACF HHS 2019 Poverty Guidelines and IRS Rev. Proc. 2019-29.

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

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 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 2019, the maximum payment ranged from \$600 for married couples with incomes below 200 percent of FPL to \$2,650 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 2017, 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.

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TABLE 2

Maximum Reconciliation Payment
by income level, 2019

Household Income as Percentage of Federal Poverty Level	Married Filing Jointly	All Other Filers
Under 200%	\$600	\$300
200–299%	\$1,600	\$800
300–399%	\$2,650	\$1,325
400% and above	Unlimited	Unlimited

Source: IRS Publication 974 (2019).

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Data Sources and Further Reading

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