Chapter 1

INDIVIDUAL SHARED RESPONSIBILITY PAYMENTS AND PREMIUM TAX CREDITS FOR INDIVIDUALS

LEARNING OBJECTIVES

After completing this chapter, you should be able to do the following:

- Identify what insurance qualifies as minimum essential coverage.
- Identify exemptions from individual shared responsibility payments when individuals do not have minimum essential coverage.
- Estimate the individual shared responsibility penalty under different assumptions about income and family size.
- Identify factors affecting eligibility for premium tax credits under the Patient Protection and Affordable Care Act (ACA).
- Estimate premium tax credit under different income levels.
- Calculate amount of premium tax credits that must be reconciled to income tax returns.

Individual Shared-Responsibility Payments

Effective in 2014, the ACA requires most individuals to have health insurance coverage or potentially be subject to an individual shared responsibility payment.[1] Individuals will be required to maintain minimum essential health insurance coverage for themselves and their dependents. For example, those individuals who do not maintain minimum essential coverage will be required to pay the individual shared responsibility payment when filing taxes in 2017 based on their insurance status in 2016. There are, however, exemptions from the individual shared responsibility payments for certain hardships (for example, low income) and other factors, including religious exemptions. The first half of this chapter discusses the individual shared responsibility provisions in greater detail.

The second part of this chapter explores the ACA premium tax credits, which are intended to improve affordability for the purchase of health insurance coverage for low and middle-income taxpayers.

MINIMUM ESSENTIAL COVERAGE

Individuals are required to have minimum essential coverage. The following types of coverage qualify as minimum essential coverage:

- Coverage under a government sponsored plan, including the following:
  - Medicare Part A
  - Medicare Advantage Plans
  - Most Medicaid coverage[2]
  - The State Children's Health Insurance Program (CHIP)
  - Most types of TRICARE
  - Comprehensive health programs offered by The Department of Veterans Affairs
  - Department of Defense Nonappropriated Fund Health Benefits Program
  - Coverage provided to Peace Corps volunteers
  - Refugee Medical Assistance
  - Coverage through a Basic Health Program (BHP) standard plan
- Employer-sponsored coverage, with respect to any employee, including the following:[3]
  - Self-insured plans, COBRA coverage, and retiree coverage
  - Coverage under an expatriate plan for employees and related individuals
  - Group health insurance coverage for employees under
    - a plan or coverage offered in the small or large group market within a state,
    - a plan provided by a governmental employer, such as the Federal Employees Health Benefit Program, or
    - grandfathered health plans offered in the group market[4]

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[1] ACA Section 1501(b) enacted IRC Section 5000A.

[2] Medicaid programs that provide limited benefits generally don't qualify as minimum essential coverage. However, individuals with certain types of limited-benefit Medicaid coverage qualify for a coverage exemption. See Table 1.1 in this chapter.

[3] This coverage requirement is different than other requirements relating to potential employer penalties such as adequacy and affordability or type of benefits required.

[4] A grandfathered health plan refers to an existing plan in which at least one individual has been enrolled since enactment of the ACA (March 23, 2010). To maintain grandfathered status, a plan must avoid certain changes to employer contributions, access to coverage, benefits, and cost-sharing.

- Individual health coverage
  - Health insurance you purchase directly from an insurance company
  - Health insurance you purchase through the marketplace
  - Health insurance provided through a student health plan
  - Catastrophic coverage
  - Coverage under an expatriate health plan for non-employees such as students and missionaries
- Other Coverage
  - Certain foreign coverage
  - Certain coverage for business owners
  - Coverage recognized by the U.S. Department of Health and Human Services (HHS) as minimum essential coverage

Minimum essential coverage does not include health insurance coverage consisting of excepted benefits, such as dental-only coverage. However, the IRS does specify that the existence of limited Medicaid coverage exempts individuals from the individual mandate for months in 2015 in which individuals were covered under certain limited-benefit government-sponsored programs. The specific programs that fall within this category are Medicaid programs that provide the following:

- Optional family planning
- Optional coverage of tuberculosis-related services
- Coverage of pregnancy-related services
- Coverage limited to treatment of emergency medical conditions
- Coverage for medically needy individuals
- Coverage under waivers programs

EXEMPTIONS

Uninsured individuals who meet certain criteria are exempt from the individual shared-responsibility provision and will not have to obtain coverage or make shared-responsibility payments when they file their tax return.

Depending on the type of exemption, it is obtained either through the exchange or through the IRS. All exemptions are to be reported on an individual's tax return, except those automatically exempt from filing a tax return because their income is less than the tax filing threshold (see table 1-1).

Although the exemptions listed in table 1-1 are generally straightforward, a more complicated exemption exists for citizens living abroad and certain noncitizens. This includes exemptions for the following circumstances:

- A U.S. citizen or a resident alien who was physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months
- A U.S. citizen who was a bona fide resident of a foreign country or countries for an uninterrupted period of time that includes the entire tax year
- A bona fide resident of a U.S. territory
- A resident alien who was a citizen or national of a foreign country with which the United States has an income tax treaty with a nondiscrimination clause and who was a bona fide resident of a foreign country for an interrupted period that includes the entire tax year

- Not lawfully present in the United States and not a U.S. citizen or U.S. national (For more information of who is treated as lawfully present in the United States for purposes of this coverage exemption see www.healthcare.gov.)
- A nonresident alien, including (1) a dual-status alien in the first year of U.S. residency or (2) a nonresident alien or dual status alien who elects to file a joint return with a U.S. spouse (This exemption does not apply if you are a nonresident alien for 2016, but met certain presence requirements and elected to be treated as a resident alien.[5])

CLAIMING AN EXEMPTION ON TAX RETURNS

Tax filers can claim or report coverage exemptions on Form 8965, *Health Coverage Exemptions*, and file it with their Form 1040, Form 1040A, or Form 1040EZ. However, if a household's gross income is less than the applicable minimum threshold for filing a federal income tax return, they are exempt from the individual shared responsibility provision and are not required to file a federal income tax return solely to claim the coverage exemption. If you file a return anyway (for example, to claim a refund), you can claim your coverage exemption with your return.

Exemptions granted from the exchange (marketplace) will be sent with a unique exemption certificate number (ECN). Tax preparers will enter the ECN in Part I, *Marketplace-Granted Coverage Exemptions for Individuals*, of Form 8965 in column C.

If the marketplace has not processed an exemption application before a tax return is filed, tax preparers should complete Part I of Form 8965 and enter "pending" in Column C for each person listed. In this case, the tax filer does not need the ECN from the marketplace.

For coverage exemptions issued by the IRS directly, a tax preparer needs only to file Form 8965, there is no need to call the IRS in advance to obtain the exemption.

Part II of Form 8965 entitled: *Coverage Exemptions for Your Household Claimed on Your Return*, is used to claim a coverage exemption if a filer's income is less than the filing threshold and he or she still wishes to file a tax return. However, filing a tax return for this particular exemption is not necessary and only optional.

Other coverage exemptions may be claimed on tax return using Part III, *Coverage Exemptions for Individuals Claimed on Your Return,* of Form 8965. Use a separate line for each individual and exemption type claimed on the return.

[5] For more information see IRS Pub. 519.

Table 1-1 Individual Mandate Exemptions

Exemption	Available Through	Code for Exemptions
Members of certain religious sects	Exchanges	Need ECN
Short coverage gap (<3 consecutive months)	IRS	B
Citizens living abroad and certain noncitizens	IRS	C
Coverage is considered unaffordable (exceeds more than 8.13% of household income)	IRS	A
Coverage is considered unaffordable based on projected household Income	Exchange	Need ECN
Aggregate self-only coverage considered unaffordable (exceed 8.13% of household income)	IRS	G
Household income less than the tax filing threshold	IRS	No code necessary see Part II Form 8965
Member of tax household born or adopted during the year	IRS	H
Member of tax household died during the year	IRS	H
Members of federally recognized Indian tribes	Exchanges or IRS	E
Members of health care sharing ministries	Exchanges or IRS	D
Incarceration	Exchanges or IRS	F
Resident of a state that did not expand Medicaid	Exchanges	G
Certain Medicaid programs not considered minimum essential coverage	Exchanges	Need ECN
Unable to renew existing coverage	Exchanges	Need ECN
Certain Medicaid programs that are not considered minimum essential coverage (for example, benefits targeted toward pregnant woman or spend-down programs)	Exchanges	Need ECN
General hardships and unable to obtain coverage under a qualified health plan	Exchanges	Need ECN

Source: IRS Form 8965 Instructions 2016, https://www.irs.gov/pub/irs-pdf/i8965.pdf

Formula for Determining Individual Shared Responsibility Payments

Individuals who do not receive an exemption and do not have minimum essential coverage may be required to pay a penalty for each month they do not have coverage. The amount of the penalty is the greater of a fixed dollar amount or a percentage of income, but applies only to household income greater than the federal tax filing requirement thresholds.

Household income is based on modified adjusted gross income (MAGI), which equals adjusted gross income from an individual's tax return plus any excludable foreign earned income and tax-exempt interest income received during the taxable year. Household income also includes the income of all dependents who are required to file tax returns. Unlike the premium tax credit MAGI definition, the MAGI calculation used for the individual shared responsibility payment formula does not include non-taxable Social Security benefits.

For 2016, the annual individual shared responsibility payment amount is the greater of

- 2.5 percent of household income (MAGI) that is greater than the tax return filing threshold based on an individual's tax filing status (see table 1-3), or
- a flat dollar amount based on family size, which is $695 per adult age 18 and older, and $347.50 per dependent younger than age 18, limited to a family maximum of $2,085.

Potential individual penalties are capped at the cost of the national average premium for a bronze-level health plan available through the exchanges. In 2016, individual penalties are capped at $2,676 per individual ($223 per month) and $13,830 for a family of five or more members ($1,115 per month).[6]

Knowledge Check

1. A married couple has no health insurance coverage in 2016. Their total MAGI in 2016 was $27,000. Assume they are not eligible for any exemptions. How much will they pay in the individual shared responsibility payments for tax year 2016?

    a. $675.
    b. $1,390.
    c. $157.50.
    d. $650.

Though initial individual penalties are relatively small in the initial year of implementation, they increase significantly in later years and are adjusted for inflation in the longer run. As shown in table 1-2 the share of income rises from 1 percent in 2014 up to as high as 2.5 percent of MAGI adjusted for tax filing thresholds in 2016 and beyond.

[6] IRC Rev. Proc 2015-15.

Table 1-2 Amount of Individual Penalty		
	Greater of	
2014	1% × (Household Income – Tax Filing Threshold)*	$95 per household member older than age 18 + $47.5 per dependent younger than age 18 *Capped at $285 per household*
2015	2% × (Household Income – Tax Filing Threshold)*	$325 per household member older than age 18 + $162.50 per dependent younger than age 18 *Capped at $975 per household*
2016	2.5% × (Household Income – Tax Filing Threshold)*	$695 per household member older than age 18 + $347.50 per dependent younger than age 18 *Capped at $2,085 per household*
2017 and Beyond	2.5% × (Household Income – Tax Filing Threshold)*	$695 (times inflation adjustment) per household member older than age 18 + $347.50 (times inflation adjustment) per dependent younger than age 18 *Capped at 300% of flat dollar amount*

Note: Household income is modified adjusted gross income.
*The total penalty cannot exceed the national average premium for bronze-level plans offered through the exchanges (for the relevant family size). In 2016, this is equal to $2,676 per individual ($223 per month) and $13,380 for a family of five or more members ($1,115 per month).

Proof of Health Insurance Coverage

In tax year 2017 and subsequent years, individuals will have to submit proof of coverage when they file their taxes each year. Both insurers and employers are to report to the IRS and submit statements to individuals showing that they are providing minimum essential coverage on IRS Forms 1095-B and 1095-C to workers and covered individuals. Individuals who receive coverage through the health insurance exchange will receive a Form 1095-A from the exchange.

However, because of continual delays in filing date, the IRS provided additional guidance in late December of 2016 for tax year 2016 individual tax return filings. Because the employer due dates for filing forms 1095-B and 1095-C to individuals were extended to March 2, 2017, individuals will not be required to furnish a copy of form 1095-B to the IRS to document their health insurance coverage but must keep copies for their files.

Table 1-3 2016 Federal Tax Filing Thresholds For "Most" People		
Filing Status	**Age**	**Gross Income** Must Exceed**
Single	Under 65	$10,350
	65 and Older	$11,900
Head of Household	Under 65	$13,350
	65 and older	$14,900
Married Filing Jointly	Under 65 (both spouses)	$20,700
	65 and older (one spouse)	$21,950
	65 and older (both spouses)	$23,200
Married Filing Separately	Any age	$4,050
Qualifying Widow with Dependent Children	Under 65	$16,650
	65 and older	$17,900

Source: IRS, Form 8965 Instructions 2016, https://www.irs.gov/pub/irs-pdf/i8965.pdf

Table Notes: If you were born on January 1, 1952, you are considered to be age 65 at the end of 2016. (If your spouse died in 2016 or if you are preparing a return for someone who died in 2016, see IRS Pub. 501).

**Gross income means all income you received in the form of money, goods, property, and services that isn't exempt from tax, including any income from sources outside the United States. It also includes gains from the sale of your main home even if you can exclude part or all of it. Include only the taxable part of social security benefits (Form 1040, line 20b, Form 1040A, line 14b). Also include gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But in figuring gross income, don't reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.

KNOWLEDGE CHECK

2. In which tax year will individual tax filers first be required to provide 1095-B documentation to the IRS to prove they have health insurance coverage?

   a. 2014.
   b. 2015.
   c. 2016.
   d. 2017.

FAILURE TO PAY INDIVIDUAL SHARED RESPONSIBILITY PAYMENTS

Taxpayers who are required to pay a penalty but fail to do so will receive a notice from the IRS stating that they owe the penalty. If they still do not pay the penalty, the IRS can attempt to collect the funds by reducing the amount of their tax refund in future years. However, individuals who fail to pay the penalty will not be subject to any criminal prosecution or other financial penalty for such failure. The secretary of HHS cannot file notice of lien or file a levy on any property for a taxpayer who does not pay the penalty.

KNOWLEDGE CHECK

3. What is the fine for not paying an individual shared responsibility payment that is owed to the federal government?

    a. 25 percent of amount owed + monthly interest.
    b. Imprisonment.
    c. Lien on property.
    d. No additional fine levied.

MAGI

Determining a tax filing unit's MAGI is an integral part of the following ACA provisions:

- Individual shared responsibility payments
- Eligibility for premium tax credits
- Employer-shared responsibility payments affordability criteria
- Expansion of Medicaid
- Income thresholds for high-income taxes (in other words, additional Medicare tax and net investment income tax)

Yet, income included in or excluded from MAGI across these provisions is not consistent. The main difference is whether non-taxable Social Security benefits are added back to MAGI. When the law was originally written and enacted, MAGI for purposes of premium tax credits did not include non-taxable Social Security benefits. Therefore, early retirees receiving Social Security benefits could more easily qualify for premium tax credits and Medicaid if a portion of their Social Security benefits were not taxed. This was changed subsequently under P.L. 112-56. However, it only affected three of the five ACA provisions relying on MAGI (see table 1-4); it did not affect the others. Non-taxable Social Security benefits are also included in MAGI for determining whether an employer plan is affordable and for determining Medicaid eligibility.

Table 1-4 Definition of MAGI Across ACA Provisions				
	Included in MAGI			
ACA Provisions	**Adjusted Gross Income**	**+ Tax-Exempt Interest**	**+ Foreign Earned Income**	**+ Non-Taxable Social Security Benefits**
Individual Shared Responsibility Formula	Yes	Yes	Yes	No
Premium Tax Credits	Yes	Yes	Yes	Yes
Affordability Criteria for Employer Penalty	Yes	Yes	Yes	Yes
Medicaid Expansion	Yes	Yes	Yes	Yes
Net Investment Income Tax Threshold	Yes	Yes	Yes	No

KNOWLEDGE CHECK

4. Which ACA provision does NOT include non-taxable Social Security benefits in MAGI?

   a. Affordability criteria for employer penalty.
   b. Net investment income tax threshold.
   c. Premium tax credits.
   d. Medicaid expansion.

Premium Tax Credits for Individuals

The ACA provides premium tax credits to individuals (including the self-employed) if their household income is less than certain thresholds, and if they purchase coverage through the individual health insurance exchanges.[7] The lower a household's income level, the larger the value of the credit. Though the maximum income threshold for 2016 enrollment is $47,080 for single filers and $63,720 for married filers residing in the 48 contiguous states, individuals at the higher income thresholds may receive a very small credit. The tax credit is refundable in that an individual can still receive a credit that is greater than his or her taxes owed.

The self-employed face an advantage in qualifying for premium credits because income for eligibility purposes excludes business expenses as well as other self-employed deductions from income, such as contributions to qualified retirement plans.

The following section details the eligibility requirements for the premium credit and the formula for determining the amount of the premium credit and the timing of the credit. Though this information is presented in the context of the self-employed, the premium tax credit is available to any individual who meets the eligibility criteria, regardless of employment status.

Eligibility for Premium Tax Credits

An individual must meet the following criteria to be eligible for premium tax credits:

- Have household income less than specific thresholds
- Purchase health insurance through the state's individual exchange[8]
- Be ineligible for other sources of health insurance coverage
- Cannot file *married filing separately* (unless special circumstances, including victim of spousal abandonment or of domestic violence).

Household Income Thresholds for Eligibility

Individuals must have MAGI within certain thresholds to be eligible for premium tax credits. The MAGI is defined as adjusted gross income plus tax-exempt income and foreign income. The MAGI for purposes of eligibility for premium tax credits also includes the nontaxable portion of Social Security benefits.

There are some tax advantages for the self-employed and other pass-through entities, as income under this definition allows exclusions for certain self-employed expenses such as contributions to qualified retirement plans like Simplified Employee Pensions and SIMPLE plans. Those close to the income limits face an incentive to increase retirement contributions to gain a larger premium tax credit.

The MAGI thresholds for eligibility of premium credits are compared to the federal poverty guidelines (also called federal poverty level). To be eligible for premium credits, an individual's MAGI must be at or greater than 100 percent of the federal poverty level (FPL), but no more than 400 percent of the FPL.

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[7] The ACA, Section 1401(a), enacted IRC Section 36B.

[8] States have the option to either: (1) set up their own state-based exchange, (2) rely on the federal government exchange, or (3) develop a partnership with the federal government.

The federal poverty guidelines published by HHS for the year prior to enrollment are used to determine income eligibility. For example, the 2015 federal poverty guidelines are used to determine the income threshold for the 2016 open enrollment period that began November of the prior year.

Table 1-5 Minimum Income for Premium Credit Eligibility in 2016 (100 Percent of Federal Poverty Level)

	Modified Adjusted Gross Income		
Number of Persons in Family	**48 Contiguous States and DC**	**Alaska**	**Hawaii**
1	$11,770	$14,720	$13, 550
2	$15,930	$19,920	$18,330
3	$20,090	$25,120	$23,110
4	$24,250	$30,320	$27,890
5	$28,410	$35,520	$32,670
6	$32,570	$40,720	$37,450
7	$36,730	$45,920	$42,230
8	$40,890	$51,120	$4,010

Note: Eligibility for 2016 premium tax credits are based on 2015 Federal Poverty Levels.

The FPL varies by family size and whether a household lives in the contiguous states, Alaska, or Hawaii. The minimum income level base is 100 percent of the federal poverty level (see table 1-5). It is important to note that premium credits are not available to individuals who have less than 100 percent of the federal poverty level. The intent was that these individuals would enroll in the new expanded Medicaid program (available up to 138 percent of FPL). But, the Supreme Court ruled that the federal government could not force states to expand Medicaid. Therefore, there is a coverage gap in those states that did not expand Medicaid for individuals with income less than 100 percent of FPL. The one exception to this is that lawfully present immigrants whose household income is less than 100 percent FPL and are not otherwise eligible for Medicaid are eligible for tax subsidies through the marketplace if they meet all other eligibility requirements.

The maximum income level for an individual to qualify for premium credits in 2016 is 400 percent of the FPL, adjusted for the number of persons in the family (table 1-6). This equals $47,080 if single, $63,720 married, or $80,360 with one child and $97,000 with two children residing in one of the 48 contiguous states or DC.

Table 1-6 Maximum Income for Premium Credit Eligibility in 2016 (400 Percent of Federal Poverty Level)			
Modified Adjusted Gross Income			
Number of Persons in Family	**48 Contiguous States and DC**	**Alaska**	**Hawaii**
1	$ 47,080	$ 58,880	$ 54,200
2	$ 63,720	$ 79,680	$ 73,320
3	$ 80,360	$100,480	$ 92,440
4	$ 97,000	$121,280	$111,560
5	$113,640	$142,080	$130,680
6	$130,280	$162,880	$149,800
7	$146,920	$183,680	$168,920
8	$163,560	$204,480	$188,040
Source: Based on HHS 2015 Poverty Guidelines, available at: http://aspe.hhs.gov/poverty/15poverty.cfm.			

KNOWLEDGE CHECK

5. Which income level disqualifies a family of three living in Hawaii for a premium tax credit in 2016?

   a. $54,200.
   b. $95,000.
   c. $80,500.
   d. $73,500.

Purchase Coverage Through an Individual Exchange

Premium tax credits are available to individuals (including the self-employed) only if the health insurance coverage is purchased through the individual exchanges.[9] To be eligible to enroll in an individual exchange, the taxpayer must

1. reside in a state in which an exchange is established;
2. not be incarcerated, except individuals in custody pending the disposition of charges; and[10]
3. be a "lawfully present" resident.[11]

There are generally limits on the time period in which individuals can enroll in the health insurance exchanges. The open enrollment period for the exchanges generally occurs from November until January of the following year. There are, however, exceptions outside of the open enrollment period due to changes in life events such as divorce, loss of job, or the birth of a child. So, if a person becomes self-employed after losing a job, he or she may be able to apply with a special enrollment period. If the person voluntarily left his or her job and lost coverage, he or she does not qualify for the special enrollment period and would have to enroll during the specified open enrollment period.[12]

Eligibility for Other Health Insurance Coverage

In order to be eligible for a premium tax credit, individuals cannot be eligible for other health insurance coverage through public or private sources. This other coverage is referred to as *minimum essential coverage*. The following types of insurance coverage qualify as minimum essential coverage, and if a self-employed individual is eligible for any of these, he or she would not be eligible for premium tax credits:

- Medicare (Part A, Advantage)
- Medicaid
- Tricare
- Tricare for Life (a VA program)
- Federal Employee Health Benefits Program
- An employer-sponsored plan that is *adequate* (60 percent actuarial value) and *affordable* (does not exceed 9.5 percent (as adjusted for inflation) of household income)
- Coverage on the SHOP exchange[13]

Exceptions to Minimum Essential Coverage. The ACA does provide some exceptions to minimum essential coverage whereby individuals who have the following coverage can still be eligible for premium credits if they meet the other criteria:

- An individual who is only eligible to obtain coverage through the individual (non-group) health insurance market
- An individual who is eligible for an employer-sponsored plan that is *not deemed* adequate or affordable
- An individual who is eligible for limited benefits under Medicaid

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[9] Exchanges in this case are the publicly available exchanges and should not be confused with private exchanges offered by employers and other private entities.
[10] Final regulations state that family members of incarcerated individuals may enroll in the exchange and receive premium credits as long as they meet the other eligibility criteria (see 77 FR 30377, May 23, 2012).
[11] Undocumented individuals are prohibited from purchasing coverage in the exchange and therefore cannot receive premium credits.
[12] See https://www.healthcare.gov/glossary/special-enrollment-period/.
[13] This option is not likely for the self-employed with no employees who are not eligible to enroll in the SHOP.

Tax Filing Status

Individuals who file their tax return as *single*, *married filing jointly*, *head of household*, or *qualifying widow/widower* may be eligible for the premium tax credit if they meet all the other criteria. Individuals filing *married filing separately* are not eligible for the premium tax credit with one exception. To qualify for the exception, a taxpayer must live apart from his or her spouse for at least six months of the year, file a separate return, maintain a household that is the residence of a dependent child for more than half the year, and provide more than half the cost of that household for the taxable year. In recent regulations, however, the IRS recognized that victims of domestic violence may not be able to meet this exception; therefore, it provided relief for 2014 and subsequent years for victims of domestic violence who meet the requirements outlined in IRS notice 2014-23 so they can file *married filing separately* and still receive a premium tax credit.[14]

Taxpayers who file a *married filing jointly* return who seek tax credits for only one spouse shall be treated as purchasing self-only coverage as long as they are not claiming a dependent under IRC Section 151.

AMOUNT OF THE CREDIT

The amount of the premium tax credit available is based on an individual's

- modified adjusted gross income,
- family size, and
- benchmark premium within each locality.

Based on one's income level and family size, an individual is required to contribute a certain percent of MAGI toward the premium. This is called the maximum percent premium contributions (see table 1-7). Therefore, the formula used to determine what share of premiums is taken as a tax credit is

$$\textit{Premium Tax Credit} = \textit{Benchmark Premium} - (\textit{MAGI} \times (\textit{maximum allowable percent contribution}))$$

The tax credit subsidizes the remaining share of premiums greater than the maximum percent premium contribution amount. The higher one's MAGI, the higher the percent of his or her income that he or she must contribute to his or her health insurance premiums. For example, in 2016, households are required to contribute 9.66 percent of their MAGI toward premiums if their MAGI exceeds 300 percent (but is less than 400 percent) of the federal poverty level. It is less likely that households in this income level will receive a premium credit unless they have a large family and therefore are allowed a larger income threshold.

[14] Domestic abuse is defined to include physical, psychological, sexual, or emotional abuse, including efforts to control, isolate, humiliate, and intimidate, or to undermine the victim's ability to reason independently. All facts and circumstances are considered in determining whether an individual is abused.

Table 1-7 Maximum Percent Premium Contribution			
Income as a Share of FPL	Share of Household Income Required		
	2015	2016	2017
100%	2.01%	2.03%	2.04%
132.9%	2.01%	2.03%	2.04%
133%	3.02%	3.05%	3.06%
150%	4.02%	4.07%	4.08%
200%	6.34%	6.41%	6.43%
250%	8.10%	8.18%	8.21%
300%	9.56%	9.66%	9.69%
350%	9.56%	9.66%	9.69%
400%	9.56%	9.66%	9.69%

Monthly Calculation

The determination of the premium credit amount is done monthly. A coverage month refers to a month in which the applicable taxpayer paid for coverage offered through the exchange and is not eligible for other minimum essential coverage.

Benchmark Premium

The premium level that is eligible for the credit is based on the second-lowest-cost "silver" plan in a geographic rating area in which the taxpayer resides. A silver plan reimburses, on average, 70 percent of covered health care expenses, with the remaining 30 percent paid out of pocket. Though a silver plan generally has higher premiums and lower copays and deductibles than the lower-tiered bronze plans, it has lower premiums and higher copays and deductibles than the higher-tiered platinum and gold plans. Benchmark premiums vary by state, county, age, gender, and whether an individual smokes.[15]

For illustration purposes, table 1-6 shows some examples of how the premium tax credit works for different income levels. The premium tax credit subsidy declines sharply for those with income more than 200 percent of FPL. For example, married couples with MAGI equal to 200 percent of the FPL receive, on average, tax credits to subsidize 69 percent of total premiums. Married couples with MAGI equal to 300 percent of the FPL receive tax credits to subsidize 30 percent of total premiums.

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[15] See the following link for information about the second lowest cost silver plan https://www.cms.gov/cciio/resources/fact-sheets-and-faqs/downloads/second-lowest-cost-silver-plan-technical-faqs12162016.pdf.

Timing of Tax Credit

The tax credit is filed on a self-employed individual's federal tax return and is *advanceable*, meaning tax filers can choose to get the credit in advance to assist in paying health insurance premiums for the upcoming year. When a self-employed individual files taxes for the year in which he or she purchased health insurance, any differences more than or less than the advanceable amount will be reconciled (see table 1-8).

If an individual chooses not to receive the credit in advance, he or she can pay the premiums out of pocket and claim the full amount of the tax credit when filing the next tax return. This will either increase the refund or lower the balance due. The tax credit is considered "refundable," so that if the credit amount is greater than the individual's tax liability, he or she will receive a refund of this difference.

Table 1-8 Illustration: Share of Premiums Subsidized by Tax Credit by Income Level and Marital Status in 2015

Household Income Relative to Poverty Level	Maximum Premium Contribution Percentage (Relative to Income)	Maximum Monthly Premium Paid by Tax Filer	Monthly Premiums Subsidized by Tax Credit	Share of Premiums Subsidized with Tax Credits
Single				
100%	2.01%	$ 20	$248	93%
133%	3.02%	$ 39	$229	85%
150%	4.02%	$ 59	$209	78%
200%	6.34%	$123	$145	54%
250%	8.10%	$197	$ 71	26%
300%	9.56%	$279	$ 0	0%
350%	9.56%	$325	$ 0	0%
400%	9.56%	$372	$ 0	0%
Married				
100%	2.01%	$ 26	$510	95%
133%	3.02%	$ 53	$483	90%
150%	4.02%	$ 79	$457	85%
200%	6.34%	$166	$370	69%
250%	8.10%	$265	$270	50%
300%	9.56%	$376	$160	30%
350%	9.56%	$439	$ 97	18%
400%	9.56%	$501	$ 35	6%

Source: Estimates by Janemarie Mulvey and reprinted with permission from: *Health Reform: What Small Businesses Need to Know Now!*

Note: Estimates based on U.S. average annual benchmark premium of $3,215 single and $6,431 married in 2015 for 40-year-old non-smokers. Actual benchmark premiums will vary by locality.

KNOWLEDGE CHECK

6. Which variable is NOT part of the calculation of premium tax credit an individual might receive?

    a. Taxable income.
    b. Benchmark premium within each locality.
    c. Family size.
    d. Maximum allowed percent premium contribution.

Reconciliation of Premium Credits

Under the ACA, the amount received in premium credits is based on the prior year's income tax returns. Therefore, premium tax credits are advanceable and paid to the insurer prior to you filing your federal income tax return. These amounts are reconciled when individuals file tax returns for the actual year in which they receive premium credits.

When it is time to file a tax return, tax preparers must complete Form 8962, Premium Tax Credit (PTC), to reconcile advance credit premium tax credit payments with the PTC as calculated on the form. The completed Form 8962 must be filed with the taxpayer's federal income tax return.

If a tax filing unit's income decreases during the tax year, and the filer should have received a larger credit, this additional credit amount will be included in the tax refund for the year. On the other hand, any excess amount that was overpaid in premium credits will have to be repaid to the federal government as a tax payment. However, the ACA imposes limits on the excess amounts to be repaid for households with MAGI less than 400 percent at the time they file their taxes. As shown in table1-10, the law includes specific limits that apply to single versus joint filers.

Individuals who purchased coverage through the Health Insurance Marketplace will receive annually a Form 1095-A, *Health Insurance Marketplace Statement* from their marketplace by early February. This form provides information they will need when completing Form 8962. If they have questions about the information on Form 1095-A for 2016 or about receiving Form 1095-A for 2017, they should contact their Marketplace directly. The IRS will not be able to answers questions about the information on a Form 1095-A or about missing or lost forms.

Table 1-9 Limits on Repayment of Excess Premium Credits

Modified Adjusted Gross Income Relative to FPL	Joint Filer	Single Filer
Less than 200% FPL	$600	$300
200%, but less than 300%, FPL	$1,500	$750
300%, but less than 400%, FPL	$2,500	$1,250

Source: IRS, Form 8962 Instructions at https://www.irs.gov/pub/irs-pdf/i8962.pdf

CHANGE IN CIRCUMSTANCES

Individuals are to report income and family size changes to the marketplace throughout the year. Reporting changes will help make sure they get the proper type and amount of financial assistance that will help them avoid getting too much or too little in advance. Receiving too much or too little in advance can affect their refund or balance due when you file your tax return.

For example, if they do not report income or family size changes to the marketplace when they happen, the advance payments may not match the actual qualified credit amount on the federal tax return. This might result in a smaller refund or a balance due.