Reconciliation of Advanced Premium Tax Credits:

A Primer for Assisters

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State Health Reform Assistance Network
Charting the Road to Coverage

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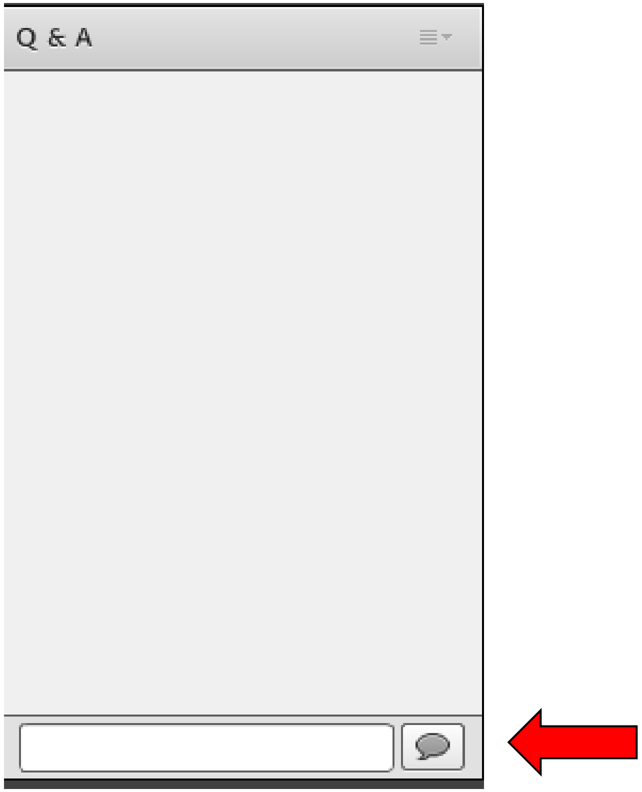

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RECONCILIATION OF ADVANCED PREMIUM TAX CREDITS:
General Rules and Strategies to Minimize Repayment

A Primer for Assisters

October 2013

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Outline

- Overview
- Option to Take Premium Tax Credit in Advance
- End of Year Reconciliation
- Key Strategies to Minimize APTC Repayment Obligation

Overview

- A premium tax credit:
  - Is a new federal tax credit that will help subsidize the cost of purchasing a Qualified Health Plan through the Marketplace
  - Reduces the cost of a plan's premium
  - Can be used to help purchase any metal level plan
  - Is available in advance and/or at tax filing time
  - Is sent directly from the IRS to the health insurance issuer
- If you receive a premium tax credit in advance, when you file your taxes the IRS reconciles what you received based on estimated income with what you should have received based on actual income.
- This presentation explains how APTC reconciliation works and strategies that can be used to help people avoid an APTC repayment obligation.

Option to Take Premium Tax Credit in Advance

Premium Tax Credit Available in 3 Ways

1 In Advance

- You can choose to receive a premium credit in advance to receive assistance each month in paying premiums without having to wait until you file taxes. The premium tax credit is sent directly from the IRS to your health plan each month, lowering your monthly premium cost.
- This is known as advance premium tax credit ("APTC").
- APTC is based on your estimated income for the taxable year. You can choose to receive less than the full amount for which you qualify to reduce the risk that you will face a repayment obligation.

2 At Year End

- You can choose to receive the premium tax credit at the end of the year when you file taxes.
- This is known as a "premium tax credit."
- Amount of credit is calculated based on the tax filer's actual income, making a reconciliation process unnecessary.

3 Combination Approach

- You can choose to receive some premium tax credit upfront and some when you file taxes.

Example: Options to Receive Premium Tax Credit

Bob

Bob applies for coverage and is approved for a premium tax credit. He has three options for how to receive the premium tax credit.

Situation at Point of Application

Estimated Annual Income = $22,980 (200% FPL)

Eligible Premium Tax Credit = $3,752 ($313/mo.)

3 Options for Receiving Premium Tax Credit

1. Take $3,752 in advance ($313/mo.)

OR

2. Take some amount in advance , e.g. $1,876 ($156/mo.), leaving $1,876 at year end

OR

3. Take $3,752 at year end

If Bob's actual income at tax filing time differs from his estimated annual income, his premium tax credit will be reconciled accordingly if he received all or some premium tax credit in advance.

Note: This example is for illustrative purposes only. Numbers may not add due to rounding.
The example uses a benchmark premium of $5,200.

End of Year APTC Reconciliation

End of Year Reconciliation

- If you are a taxpayer, all premium tax credits you receive in advance for yourself and for members of your family will be reconciled at the end of the year.
- Your final premium tax credit amount is calculated based on your actual income reported when you file federal income taxes.
- IRS compares the amount of premium tax credit you and your family members qualify for at the end of the year with the premium tax credit you chose to receive in advance:
  - If APTC is **less** than amount of premium tax credit, you will receive difference as refundable credit.
  - If APTC is **more** than amount of premium tax credit, you must repay excess APTC with tax return.

How to Calculate the Premium Tax Credit

Advance Premium Tax Credit = **Cost of a Benchmark Plan** − **Expected Family Contribution**

The **Advance Premium Tax Credit** "fills the gap" between what a family is expected to contribute to health insurance and the cost of a benchmark plan.

The **cost of the benchmark plan** is the cost of the second lowest cost Silver plan adjusted to reflect selected characteristics of the family, such as age and size.

The family's **expected contribution** is set on a sliding scale based on income.

It varies from 2% of income at 100% FPL to 9.5% at 400% FPL.

The expected contribution is not adjusted to reflect any additional costs a family might have for buying other insurance, such as employer-based coverage or CHIP.

Example 1: End of Year Reconciliation of APTC

Sally

Sally applies for coverage and is approved for a premium tax credit. She decides to receive the entire premium tax credit in advance.

Situation at Point of Application

Estimated Annual Income = $34,585 (301% FPL)

Eligible Premium Tax Credit = $1,914 ($160/mo.)

Situation at Tax Filing Time

Actual Annual Income = $28,725 (250% FPL)

Eligible Premium Tax Credit = $2,888 ($241/mo.)

Reconciliation by IRS

$2,888	Actual Credit
− $1,914	Amount Received in Advance
$974	Tax Refund

Sally will receive a tax refund of $974

Note: This example is for illustrative purposes only. Numbers may not add due to rounding.
The example uses a benchmark premium of $5,200.

Example 2: End of Year Reconciliation of APTC

Richard

Richard applies for coverage and is approved for a premium tax credit. He decides to receive the entire premium tax credit in advance.

Situation at Point of Application

Estimated Annual Income = $28,725 (250% FPL)

Eligible Premium Tax Credit = $2,888 ($241/mo.)

Situation at Tax Filing Time

Actual Annual Income = $34,585 (301% FPL)

Eligible Premium Tax Credit = $1,914 ($160/mo.)

Reconciliation by IRS

$1,914	Actual Credit
− $2,888	Amount Received in Advance
-$974	Excess Advance Payment

Richard must repay $974 to the IRS.

Note: This example is for illustrative purposes only. Numbers may not add due to rounding.
The example uses a benchmark premium of $5,200.

Tax Repayment is Capped for Individuals with Income Less Than 400% FPL

- If the amount of premium tax credit you received in advance is **more than** the premium tax credit you should have gotten for the year, you owe additional taxes.
- The amount of the premium tax credit you must repay is capped if your annual household income is less than 400% FPL when you file taxes.

Household income % of FPL	Maximum Repayment for a Single Person	Maximum Repayment for a Family*
< 200% FPL	$300	$600
200% FPL – 300% FPL	$750	$1,500
300% FPL – 400% FPL	$1,250	$2,500

*Maximum repayment is the same for any family size.

Example: Tax Repayment is Capped for Individuals with Income Less Than 400% FPL

Rachel

Rachel applies for coverage and is approved for a premium tax credit. She decides to receive the entire premium tax credit in advance.

Situation at Point of Application

Estimated Annual Income = $28,725 (250% FPL)

Eligible Premium Tax Credit = $2,888 ($241/mo.)

Situation at Tax Filing Time

Actual Annual Income = $44,811 (390% FPL)

Eligible Premium Tax Credit = $943 ($79/mo.)

Reconciliation by IRS

	$943	Actual Credit
–	$2,888	Amount Received in Advance
	-$1,945	Excess Advance Payments

Rachel must repay the IRS $1,250.

Because Rachel's annual household income is 300-400% FPL, her repayment amount is capped at $1,250. for the year

Note: This example is for illustrative purposes only. Numbers may not add due to rounding.
The example uses a benchmark premium of $5,200.

No Cap on Repayment Obligations for Individuals with Income More Than 400% FPL

If your taxable income is more than 400% FPL you are **not** eligible for a premium tax credit.

- If you received an APTC based on an estimate that annual income would be less than 400% FPL, you must return **ALL** APTC if actual income is more than 400% FPL at the end of the year.

- There is no cap on repayment obligation if your actual income is above 400% FPL.

Example: No Cap on Repayment Obligations for Individuals with Income More Than 400% FPL

Alice

Alice applies for coverage and is approved for a premium tax credit. She decides to receive the entire premium tax credit in advance.

Situation at Point of Application

Estimated Annual Income = $28,725 (250% FPL)

Eligible Premium Tax Credit = $2,888 ($241/mo.)

Situation at Tax Filing Time

Actual Annual Income = $47,109 (410% FPL)

Eligible Premium Tax Credit = $0

Reconciliation by IRS

	$0	Actual Credit
–	$2,888	Amount Received in Advance
	-$2,888	Excess Advance Payments

Alice must repay $2,888 to the IRS.

No cap for people >400% FPL

Note: This example is for illustrative purposes only. Numbers may not add due to rounding.
The example uses a benchmark premium of $5,200.

Rules for Individuals with Annual Household Income Below 100% FPL

Generally, if your income is less than 100% FPL, you are not eligible for a premium tax credit.

Exception:

- You anticipate annual income will allow you to qualify for a premium tax credit (i.e., you estimate income above 100% FPL) and receive APTC for the year.
- However, at year end, if your income is less than 100% FPL, you are **not** required to repay APTC. Instead, your premium tax credit will be calculated based on your actual annual income.

Example:

Robert applies for health coverage

Estimates income 150% FPL

Receives APTC of $376/mo.

At year end, Robert files taxes

Actual income 90% FPL

Should receive APTC of $416/mo.

<100% FPL so not eligible for premium tax credits

Robert will receive an additional $483/yr. premium tax credit.

Note: Lawfully present immigrants who are ineligible for Medicaid based on immigration status and whose household income falls below 100% of the FPL may be eligible for a premium tax credit if they meet all other eligibility criteria.

Key Strategies to Minimize APTC Repayment Obligation

Strategies

- When you help people apply for coverage, there are some strategies you can suggest to minimize the risk a consumer will have to pay back money at the end of the year.

- There are 3 major strategies consumers can use:

  1. Provide Accurate Projections of Household Size and Income
  2. Choose to Receive Less Premium Tax Credit in Advance
  3. Report Household and Income Changes Promptly During Year

1) Provide Accurate Projections

- When applying for coverage, encourage applicants to do their best to accurately project their household size and income at the end of the year when they file taxes.
- For example, they may want to consider whether they routinely pick up an extra job or overtime work during the holidays.

Example

Rebecca has worked at a clothing store for 5 years.

Over the holidays she always works longer hours and gets paid overtime.

When applying for coverage, Rebecca should make sure to add the amount of overtime pay she routinely receives to her estimated annual income.

2) Choose to Receive Less Premium Tax Credit in Advance

- Consumers have the option to take less premium tax credit in advance than they are qualified for based on their income.
- If they can afford their monthly premium without choosing to receive the full advance premium tax credit, it will reduce the likelihood they will have to repay money when they file taxes.

Example

Suzie qualifies for a premium tax credit of $1,200 ($100 per month).

She chooses to receive only half of what she qualifies for as an advance premium tax credit, or $50 per month.

When she files taxes, her actual income is what she estimated when she applied for coverage. As a result, she also receives a tax refund of $600 .

This strategy helps protect her against the risk that she will owe money to the IRS at the end of the year if she underestimated her annual income.

3) Report Changes Promptly During Year

- If consumers promptly report household and income changes to the Marketplace, their premium tax credit will be recalculated based on their new situation. The new premium tax credit will be adjusted to reflect the size of the premium tax credit the consumer already received in advance.
  - If their income increases, recalculating the premium tax credit will reduce the chance they will have to pay back any advanced premium tax credit.
  - If their income decreases, they can immediately get a higher advance premium tax credit.
- If the Marketplace is unaware that their circumstances changed, it cannot take action to recalculate their APTC. This may increase the chance they will face a repayment obligation.

Examples of Changes that Should be Reported

Job Change	**Income Increases** (new job, overtime, bonuses, tips)	**Income Decreases** (new job, less overtime, lower bonus, fewer tips)	**Tax dependent earns enough income to be required to file taxes**	**Marriage**
Divorce	**Have a baby**	**Household member has baby**	**Young adult moves out and is no longer a tax dependent**	**Gain eligibility for other minimum essential coverage**

Example: Adjusting APTC to Reflect Mid-Year Changes

Example

Molly applies for coverage and is approved for a $2,888 ($241/month) premium tax credit based on her estimated annual income of 250% FPL. She chooses to receive all of it in advance. On July 1st she starts a new job making less money, 200% FPL, and reports the change to the Marketplace.

1) Based on her new annual income, Molly is eligible for an annual premium tax credit of $3,752 ($313/month).
2) However, we must subtract the premium tax credit Molly has already received for the first 6 months: $3,752 – 1,446= $2,306
3) We divide the total remaining premium tax credit she is eligible for by six months to figure out her APTC per month: $2,306/6 = $384/mo.

January – June: Molly receives a premium tax credit of $1,446 ($241/month)

July – December: Molly receives a premium tax credit of $2,306 ($384/month)

Note: This example is for illustrative purposes only. Numbers may not add up due to rounding.
The example uses a benchmark premium of $5,200.

Example continued…

Molly

Molly applies for coverage and is approved for a premium tax credit. She decides to receive the entire premium tax credit in advance. Mid-year, her income changes and her premium tax credit is recalculated and is adjusted for the premium tax credit she already received in advance.

Situation at Initial Point of Application

Estimated Annual Income = $28,725 (250% FPL)

Eligible Premium Tax Credit = $2,888/yr. ($241/mo.)

From January-June, Molly receives $1446 ($241 x 6)

New Situation After Reports Change

Estimated Annual Income = $22,980 (200% FPL)

Eligible Premium Tax Credit = $3,752/yr. ($313/mo.)

Actual APTC, Adjusted for Prior APTC Payment

Premium tax credit amount for entire year based on new income: **$3,752**

Subtract APTC already received for first 6 months: **$3,752-$1446= $2,306**

Eligible Premium Tax Credit = $2,306 for last 6 months ($384/mo.)

January – June: Molly receives a premium tax credit of 1,446 ($241/month)

July – December: Molly receives a premium tax credit of $2,306 ($384/month)

Note: This example is for illustrative purposes only. Numbers may not add up due to rounding.
The example uses a benchmark premium of $5,200.

Special Rules for Newly-Married and Newly- Divorced Couples

These rules are applied by the IRS when it conducts reconciliation, but it may be helpful for consumers to be aware of them.

Newly-Married Couples

- When consumers marry, their household income is often higher because there are multiple sources of income.
- If advantageous to the consumer, the IRS allows the consumer's premium tax credit to be calculated under an alternative formula that mitigates the risk of a marriage repayment penalty.

Newly-Divorced Couples

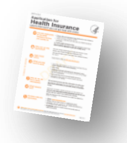
- There are complex rules for couples who get divorced.
- If consumers divorce and have to pay back premium tax credits they received in advance during the time they were married, they will have a choice regarding how to figure out what each person in the couple owes.
- They might want to get help from a tax professional to figure this out.

Step-by-Step to Obtain & Reconcile an APTC

1 APPLIES FOR HEALTH INSURANCE

- Sheena is 34 yeas old.
- Makes $22,000 a year (~200% FPL)
- Applies for health coverage online.

2 PROVIDES INFORMATION



- Application asks for projected income, household size, and other information.

3 MARKETPLACE DETERMINES ELIGIBILITY FOR FINANCIAL ASSISTANCE

- The Marketplace checks applicant information to see if she qualifies for an insurance affordability program.
- Alerts her that she qualifies for a premium tax credit.

4 CHOOSES A HEALTH PLAN

- She decides to apply her entire premium tax credit in advance and picks a plan. The IRS sends the premium tax credit to the health insurance plan issuer.
- The APTC helps pay for the cost of her plan's premiums.

5 REPORTS CHANGES

- During the year, Sheena must tell the Marketplace if she experiences a change in her circumstances, like if she has a baby or loses a job.

6 FILES TAXES; RECONCILES AMOUNT OF TAX CREDIT

- When Sheena files her taxes at the end of the year, the IRS compares the income information she provided on her application to her actual income.
- It gives her an additional tax credit if her income was lower than expected OR charges her overpayments if it was higher than expected.

Question and Answer

Submitting Questions

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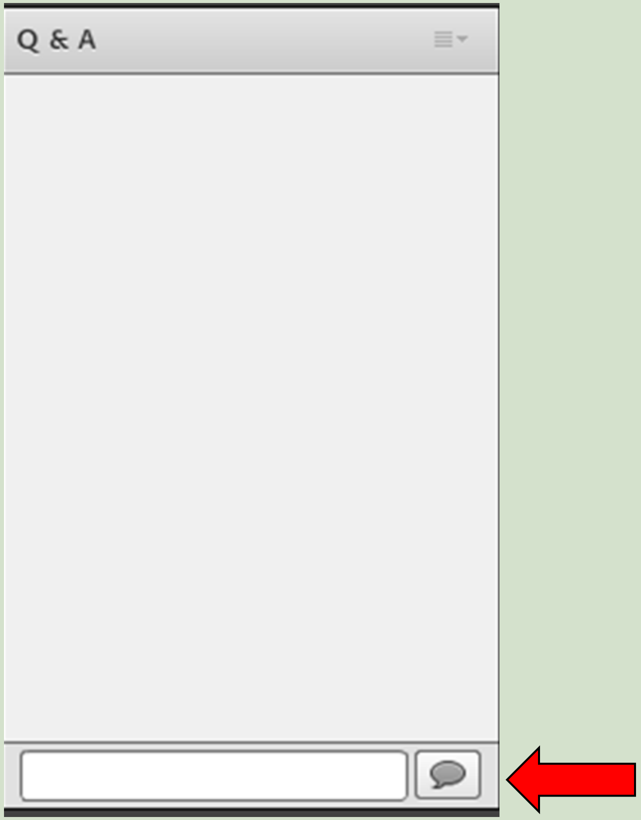

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Thank you!

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