# State Health Reform Assistance Network

Charting the Road to Coverage

**ISSUE BRIEF**
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# Advanced Premium Tax Credit Reconciliation Questions and Answers

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Individuals seeking health insurance coverage through a Marketplace are assessed for eligibility for an advance payment of the premium tax credit (APTC) based on their projected annual income. When eligible individuals file their federal income taxes at the end of the year, the Internal Revenue Service (IRS) will reconcile the premium tax credit they received based on estimated annual income with what they should have received based on their actual income. For many individuals, their projected annual income will differ from their actual income at year-end, resulting in a refundable credit or the need to pay back excess premium tax credits. The purpose of this brief is to address questions raised by states about the federal requirements that apply to premium tax credit eligibility when actual income at year-end differs from projected annual income.

**Question 1: An individual who appears eligible for a premium tax credit based on a projected annual income enrolls in tax credits, but ends up having income in the Medicaid eligibility range upon reconciliation at year-end. Will this person face recoupment of tax credits? Can this person get a tax credit based on the lower than projected earnings?**

## Response:

***This person will not be required to repay the tax credits.***

For purposes of premium tax credits, individuals may only be considered eligible for Medicaid—and, thus, ineligible for a premium tax credit—if the State Medicaid Agency determines them eligible for Medicaid. If an individual applies for coverage and is determined eligible for a Qualified Health Plan (QHP) with a premium tax credit, it means they were determined ineligible for Medicaid.[1] At the end of the year when APTC reconciliation occurs, the IRS will not assess an individual's eligibility for or enrollment in Medicaid. The IRS has no authority or ability to find an individual eligible for Medicaid, even if his/her annual income (as reported on the tax form) suggests the individual might have been.

Whether this person may receive a tax credit based on the lower than projected income depends on the individual's income level and, for lower income individuals, whether an Advanced Premium Tax Credit was received during the coverage year.

[1] 26 CFR §1.36B–2 Eligibility for premium tax credit: (c)(2)(v) Determination of Medicaid or Children's Health Insurance Program (CHIP) ineligibility. An individual is treated as not eligible for Medicaid, CHIP, or a similar program for a period of coverage under a Qualified Health Plan if, when the individual enrolls in the Qualified Health Plan, an Exchange determines or considers (within the meaning of 45 CFR 155.302(b)) the individual to be not eligible for Medicaid or CHIP.

**ABOUT STATE NETWORK**
State Health Reform Assistance Network, a program of the Robert Wood Johnson Foundation, provides in-depth technical support to states to maximize coverage gains as they implement key provisions of the Affordable Care Act. The program is managed by the Woodrow Wilson School of Public and International Affairs at Princeton University. For more information, visit *www.statenetwork.org*.

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This is described further below.

***If this person has an annual <u>income above 100 percent of the federal poverty level (FPL)</u>, he/she would be eligible for a premium tax credit based on the lower than projected earnings.***

Because the individual's actual annual income is between 100 and 400 percent FPL, and because this person has not been determined eligible for Medicaid,[2] the individual would meet the criteria for eligibility for a premium tax credit.

***If this person has an annual <u>income below 100 percent FPL</u> AND <u>a premium tax credit was authorized and paid</u> for one or more months during the coverage year, this person may receive a tax credit based on the lower than projected earnings.***

A safe harbor provision exists in the APTC final rule related to APTC reconciliation for individuals who had projected annual income between 100 and 400 percent FPL when they apply for coverage, but whose actual income at year-end is below 100 percent FPL <u>AND</u> for whom a premium tax credit was authorized and paid for one or more months during the coverage year. In this situation, the individual's premium tax credit will be reconciled at the end of the year based on the individual's actual income.[3] For example, if an individual expects his/her annual income to be 120 percent FPL but at year-end it is 90 percent FPL, the final premium tax credit the individual qualifies for is calculated based on his/her income of 90 percent FPL. Thus, the individual would receive an additional premium tax credit at year-end.

***If this person has an annual <u>income below 100 percent FPL</u> AND <u>a premium tax credit was NOT paid</u> for one or more months during the coverage year (i.e., the person declined the opportunity to take any part of the tax credit in advance), this person may NOT receive a tax credit based on the lower than projected earnings.*** Because a premium tax credit was not authorized and paid to the individual for one or more months during the coverage year,[4] the individual would NOT be eligible for a premium tax credit at the end of the year.

**Question 2: An individual applies for health coverage with financial assistance and is determined eligible for Medicaid. However, the individual does not want Medicaid, and files a new non-financial assistance application to get a full-cost QHP. Would this individual qualify for a premium tax credit at year-end?**

## Response:

Individuals are ineligible for a premium tax credit for any month during which they are eligible for Medicaid. As a result, the individual described above is ineligible for a premium tax credit. Note, however, that it is not clear how the IRS would identify such an individual as ineligible for a premium tax credit at tax filing time. At this point, Marketplaces are required to provide the IRS with information on individuals who were enrolled in a QHP during the year (regardless of whether they received an APTC). However, they are not required to send the IRS information about Medicaid eligibility determinations. As a result, the IRS is unlikely to know that the person should have been eligible for Medicaid, and therefore, may give the individual a premium tax credit at year-end based on actual income.

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[2] Id.

[3] 26 CFR § 1.36B–2 Eligibility for premium tax credit:

(b) Applicable taxpayer

(6) Special rule for taxpayers with household income below 100 percent of the federal poverty line for the taxable year. A taxpayer (other than a taxpayer described in paragraph (b)(5) of this section) whose household income for a taxable year is less than 100 percent of the federal poverty line for the taxpayer's family size is treated as an applicable taxpayer if:

(i) The taxpayer or a family member enrolls in a qualified health plan through an Exchange;

(ii) An Exchange estimates at the time of enrollment that the taxpayer's household income will be between 100 and 400 percent of the federal poverty line for the taxable year;

(iii) Advance credit payments are authorized and paid for one or more months during the taxable year; and

(iv) The taxpayer would be an applicable taxpayer if the taxpayer's household income for the taxable year was between 100 and 400 percent of the federal poverty line for the taxpayer's family size.

(7) Computation of premium assistance amounts for taxpayers with household income below 100 percent of the federal poverty line. If a taxpayer is treated as an applicable taxpayer under paragraph (b)(5) or (b)(6) of this section, the taxpayer's actual household income for the taxable year is used to compute the premium assistance amounts under § 1.36B-3(d).

[4] Id. At 26 CFR § 1.36B–2(b)(6)(iii)