



Health Reform in Translation

What Is the Premium Tax Credit?

Premium tax credits (PTC) are a new mechanism that will be available beginning in January 2014 to help people purchase health insurance in Covered California under the federal Affordable Care Act (ACA). Premium tax credits will be determined on a sliding scale based on income, and will operate as an offset against federal income taxes. Unlike many tax credits, the PTC will be available as soon as a consumer enrolls in an insurance plan — they won't have to wait until tax filing to claim the benefit. The PTC can be paid directly to the health insurance carrier to be applied against the premium.

Premium Tax Credit and the Affordable Care Act

Who is eligible?

To receive credits, consumers must:

- ▶ Purchase health insurance through the marketplace
- ▶ Have income between 100% and 400% of the federal poverty level (\$23,550 - \$94,200 for a family of four)
- ▶ Be US citizens or lawfully present in the US

- ▶ Not be eligible for affordable employer-sponsored coverage, Medicare, or Medi-Cal.

How much are the premium tax credits?

The expected premium contribution is determined on a sliding scale linked to family income. Expected contributions for a single consumer are detailed below.

How can consumers use the credit?

Consumers can choose to apply the tax credit when they file their taxes, or they can receive the credit in advance (*advanced premium tax credit*), to help them pay their monthly insurance premiums. They

Premium tax credits (PTC) are the mechanism by which the federal government will help subsidize consumers' premiums in Covered California and other health insurance marketplaces under the federal Affordable Care Act (ACA).

INCOME		CONSUMER'S EXPECTED PREMIUM CONTRIBUTION AFTER PREMIUM CREDIT*	
Percentage of federal poverty line	Annual dollar amount (2013 \$)	Premium contribution as a percentage of income	Monthly premium contribution
100 – 138%**	\$11,490 – \$15,856	2.0%	\$19 – \$26
138 – 150%	\$15,856 – \$17,235	3.0 – 4.0%	\$39 – \$57
150 – 200%	\$17,235 – \$22,980	4.0 – 6.3%	\$57 – \$121
200 – 250%	\$22,980 – \$28,725	6.3 – 8.05%	\$121 – \$193
250 – 300%	\$28,725 – \$34,470	8.05% – 9.5%	\$193 – \$273
300 – 350%	\$34,470 – \$40,215	9.5%	\$273 – \$318
350 – 400%	\$40,215 – \$45,960	9.5%	\$318 – \$364

* Actual premiums in Covered California may be lower, depending on age, geography, and/or plan choice.

** Most consumers in this income bracket will be eligible for Medi-Cal.

can also choose a combination approach, taking part of their credit in advance, and receiving the rest at tax time.

For people who choose to apply all or part of their PTC in advance, the IRS will send a monthly payment of the amount directly to the health insurance carrier. The consumer won't actually see the money; his or her premium bill from the health insurance carrier will be reduced.

What happens if consumers' circumstances change?

People who receive advance payments of the tax credit will have to reconcile the amount that they received with the amount they're determined to owe, based on actual annual income as reported on their tax return, typically filed the following spring. As a result, people who end up with income for the year that is higher than they anticipated could have to pay back some of the advance payments. People whose income turns out to be lower than they expected could get a refund.

There are caps, varying by income, on the amount that consumers would be required to repay, in the event that their final income exceeds their estimated income and they have received an overpayment of the advanced PTC.

Income as percentage of federal poverty line	Annual income for an individual (2013 \$)	Maximum year-end repayment for a single taxpayer
Under 200%	Under \$22,980	\$300
At least 200%, but less than 300%	\$22,980 – \$34,470	\$750
At least 300%, but less than 400%	\$34,470 – \$45,960	\$1,250
400% and above	\$45,960 and higher	Full amount

Premium Tax Credits in California

Most of the policy around premium tax credits is spelled out in federal law. However, Covered California, as the entity that will determine eligibility for PTC in California, does have important decisions to make on this issue, particularly around mechanisms to avoid overpayment and underpayment of the advanced premium tax credit.

Consumers' responsibilities will include:

- ▶ Reporting income and household size changes during the course of the year to Covered California.
- ▶ Reporting any offers of affordable employer-sponsored coverage that occur during the year, since these might make the consumer ineligible for PTC.

Covered California's responsibilities will include:

- ▶ Informing consumers about how the advanced premium tax credit works and how to avoid risks of overpayment (i.e., by taking less than the full amount of available PTC in advance).
- ▶ Training enrollment assisters on how to help consumers understand these issues.
- ▶ Developing calculators to help consumers and assisters understand options.

- ▶ Developing easy mechanisms by which consumers can update their status during the course of the year.

Covered California might also explore development of policies such as an early warning system, based on state employment or tax record data, to initiate changes to PTC amounts.

In Context

Premium tax credits offer significant potential to support enrollment among low- to moderate-income consumers. It will be important to present tax credits' benefits and risks clearly and directly to enable consumers to exercise this option with confidence and avail themselves of this affordability tool.

Additional Resources

Premium Tax Credits: Answers to Frequently Asked Questions, Center on Budget and Policy Priorities, www.cbpp.org/files/QA-on-Premium-Credits.pdf

Premium tax credit brochures, Consumers Union <https://sites.google.com/a/consumer.org/tax-credit-brochure/>

"Premium Tax Credits. Low-and-middle-income individuals and families will be eligible for federal subsidies to purchase insurance through the new exchanges." Health Affairs Health Policy Brief, August 1, 2013. http://healthaffairs.org/healthpolicybriefs/brief_pdfs/healthpolicybrief_97.pdf

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