TREASURY LAYS THE FOUNDATION TO DELIVER TAX CREDITS TO HELP MAKE HEALTH INSURANCE AFFORDABLE FOR MIDDLE-CLASS AMERICANS

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We are well on the way to implementing health reform and establishing Affordable Insurance Exchanges – one-stop marketplaces where consumers can choose a private health insurance plan that fits their health needs and have the same kind of insurance choices as members of Congress. Today, the Treasury Department issued proposed regulations implementing the premium tax credit that gives middle-class Americans unprecedented tax benefits to make it easier for them to purchase affordable health insurance.

[26 CFR 1 & 602]

The Premium Tax Credit:

- ***Makes Coverage Affordable.*** *Millions of Americans will be given help to purchase private health coverage through an Affordable Insurance Exchange. To assist in making coverage affordable, the level of support is tailored to individuals' needs.*
- ***Provides a Substantial Benefit.*** *The Congressional Budget Office estimates that, when the Affordable Care Act is fully phased in, individuals receiving premium tax credits will get an average subsidy of over $5,000 per year.*
- ***Builds on What is Best in the Existing Health Care System.*** *The Affordable Care Act includes crucial safeguards to ensure that the coverage purchased on an Affordable Insurance Exchange with the premium tax credits will supplement – not supersede – existing employer- and government-sponsored health programs (including TRICARE). This allows Americans to keep the coverage they have.*

Key Facts about the Premium Tax Credit:

- **Broad Middle-Class Eligibility**. The premium tax credit is generally available to individuals and families with incomes between 100% and 400% of the federal poverty level ($22,350 – $89,400 for a family of four in 2011), providing a crucial safety net for the middle class. The Congressional Budget Office estimates that, when the Affordable Care Act is fully phased in, the premium tax credit will help 20 million Americans afford health insurance.
- **Larger Tax Credits for Older Americans who Face Higher Premiums**. The amount of the premium tax credit is tied to the amount of the premium, so that older Americans who face higher premiums will receive a greater credit.
- **Controls Health Care Costs by Incentivizing Families to Choose More Cost-Effective Coverage.** The amount of the premium tax credit is generally fixed based on a benchmark plan (which may be age-adjusted within Affordable Care Act limitations), so families that choose to purchase coverage that is less expensive than the benchmark plan will pay less towards the cost of that coverage.
- **Credit Is Refundable So Even Families with Modest Incomes Can Benefit**. The premium tax credit is fully refundable, so even moderate-income families who may have little federal income tax liability (but who may pay a higher share of their income towards payroll taxes and other taxes) can receive the full benefit of the credit.

- **Credit Is Advanceable to Help Families with Limited Cash-Flow**. Since many moderate-income families may not have sufficient cash on hand to pay the full premium upfront, an advance payment of the premium tax credit will be made by the Department of the Treasury directly to the insurance company. This advance payment will assist families to purchase the health insurance they need. Later, the advance payment will be reconciled against the amount of the family's actual premium tax credit, as calculated on the family's federal income tax return.

How the Premium Tax Credit Works

Eligibility

- *Household income must be between 100% and 400% of the federal poverty level.*
- *Covered individuals must be enrolled in a "qualified health plan" through an Affordable Insurance Exchange.*
- *Covered individuals must be legally present in the United States and not incarcerated.*
- *Covered individuals must not be eligible for other qualifying coverage, such as Medicare, Medicaid, or affordable employer-sponsored coverage.*

Credit Amount

- *The credit amount is generally equal to the difference between the premium for the "benchmark plan" and the taxpayer's "expected contribution."*
- *The expected contribution is a specified percentage of the taxpayer's household income. The percentage increases as income increases, from 2% of income for families at 100% of the federal poverty level (FPL) to 9.5% of income for families at 400% of FPL. (The actual amount a family pays for coverage will be less than the expected contribution if the family chooses a plan that is less expensive than the benchmark plan.)*
- *The benchmark plan is the second-lowest-cost plan that would cover the family at the "silver" level of coverage.*
- *The credit is capped at the premium for the plan the family chooses (so no one receives a credit that is larger than the amount they actually pay for their plan).*

Special Rules

- *The credit is advanceable, with advance payments made directly to the insurance company on the family's behalf. The advance payments are then reconciled against the amount of the family's actual premium tax credit, as calculated on the family's federal income tax return. Any repayment due from the taxpayer is subject to a cap for taxpayers with incomes under 400% of FPL. The caps range from $600 for married taxpayers ($300 for single taxpayers) with household income under 200% of FPL to $2,500 for married taxpayers ($1,250 for single taxpayers) with household income above 300% but less than 400% of FPL.*
- *The proposed regulation provides that a taxpayer is not required to repay any portion of the advance payment if a family ends the year with household income below 100% of FPL after having received advance payments based on an initial Exchange determination of ineligibility for Medicaid.*

- *Tax credits are available to qualified individuals offered (but not enrolled in) employer-sponsored insurance if (a) it is "unaffordable" (meaning that the self-only premium exceeds 9.5% of household income); or (b) it does not provide a minimum value (meaning it fails to cover 60% of total allowed costs). We anticipate that future regulations will define minimum value in a way that preserves the existing system of employer-sponsored coverage, but that does not permit employers to avoid the statutory responsibility standards. We also are contemplating whether to provide appropriate transition relief with respect to the minimum value requirement for employers currently offering health care coverage. Future guidance will define minimum value in a way that preserves the existing system of employer-sponsored arrangements, which does not require employers to provide a specific package of health benefits, but that does not permit the employers to avoid responsibility standards. We are also contemplating whether to provide appropriate transition relief with respect to the minimum value requirement for employers currently offering health care coverage.*
- *Solely for purposes of applying the employer responsibility provisions, we anticipate that future guidance will provide a safe harbor permitting employers to base the affordability calculation on the wages they pay their employees instead of employees' household income.*

Premium Tax Credit Calculation: *Three Examples*

Example 1: Family of Four with Income of $50,000, Purchases Benchmark Plan

The premium tax credit is generally set based on the benchmark plan. The family's expected contribution is a percentage of the family's household income.

- Income as a Percentage of FPL 224%
- Expected Family Contribution: $3,570
- Premium for Benchmark Plan: $9,000
- Premium Tax Credit: $5,430 ($9,000 - $3,570)
- Premium for Plan Family Chooses: $9,000
- Actual Family Contribution: $3,570

Example 2: Family of Four with Income of $50,000, Purchases Less Expensive Plan

If a family chooses a plan that is less expensive than the benchmark plan, the family will generally pay less, thereby creating an incentive to choose a less costly plan and reducing overall health care costs.

- Income as a Percentage of FPL 224%
- Expected Family Contribution: $3,570
- Premium for Benchmark Plan: $9,000
- Premium Tax Credit: $5,430 ($9,000 - $3,570)
- Premium for Plan Family Chooses: $7,500
- Actual Family Contribution: $2,070 ($7,500 - $5,430)

Example 3: Family of Four with Income of $50,000, Parents are between the ages of 55 and 64

Because premiums are generally higher for older individuals, the premium tax credit also is higher for these individuals.

- Income as a Percentage of FPL 224%
- Expected Family Contribution: $3,570
- Premium for Benchmark Plan: $14,000
- Premium Tax Credit: $10,430 ($14,000 - $3,570)
- Premium for Plan Family Chooses: $14,000
- Actual Family Contribution: $3,570