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Reconciliation of Advanced Premium Tax Credits

Under the Affordable Care Act (ACA), new federal tax credits, called Advanced Premium Tax Credits (APTCs), make private insurance more affordable for eligible consumers by offsetting a portion of the monthly insurance premium. Consumers who receive tax credits throughout the year to help pay for health insurance must reconcile the amounts they received with the actual amount they are eligible for when they file their federal income tax return.

WHAT IS RECONCILIATION?

Reconciliation is the process the Internal Revenue Service (IRS) uses to make sure consumers receive the correct amount of tax credits to help pay for their monthly health insurance premiums.

A consumer's APTCs are calculated based on projected income when applying for coverage and applied to monthly health insurance premiums for a Qualified Health Plan (QHP) purchased in the marketplace. At the end of the year, the consumer's final Premium Tax Credit (PTC) amount is calculated based on his actual income. The APTC used must be reconciled with the final PTC amount the consumer was eligible for. Consumers determine their final PTC eligibility amount and complete the reconciliation process when filing their federal income tax returns for the coverage year (e.g., 2015 APTC reconciliation occurs in 2016 when consumers file 2015 income tax returns).

Reconciliation is the process the Internal Revenue Service (IRS) uses to make sure consumers receive the correct amount of tax credits to help pay for their monthly health insurance premiums.

Note: Cost-Sharing Reductions (CSRs) are not reconciled. If a consumer received higher or lower CSRs than she was actually eligible for, she will neither owe taxes nor receive credit for CSR amounts.

WHY MIGHT A CONSUMER'S ACTUAL PTC AND APTC DIFFER?

A consumer's APTC amount may differ from his actual PTC eligibility due to a variety of factors. APTCs are based on a consumer's projected income and household size. If a consumer has a change in circumstances mid-year and does not report

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the change, it is more likely that the consumer's APTC amount will differ from his PTC amount and affect his tax liability or refund. A consumer must report changes in circumstances to the marketplace.

Some common eligibility changes that could result in different APTC and PTC amounts include:

Reasons	Examples
Change in income	If a consumer changes jobs or gets a raise, her actual income could differ from the income she projected.
Change in household size	A change in household size, from events such as divorce, birth, or death, can affect a consumer's PTC calculations.
Eligibility for an employer's health plan	A consumer might become newly eligible for insurance through his employer and therefore become ineligible for PTCs.

HOW DOES A CONSUMER RECONCILE APTCs AT TAX TIME?

When filing taxes, consumers must report the amount of APTC received along with information about their health coverage and income. The marketplace and the IRS provide forms to help consumers calculate their actual PTCs and reconcile that amount with their APTCs.

Reconciliation is done by subtracting the total APTCs a consumer used from the PTC amount he was eligible for based on year-end household size and income.

If a consumer used more APTCs than he was eligible for, the consumer must pay the difference at tax time. For example, if a consumer used $250 in APTCs to pay his insurance premium each month for a total of $3,000 during the year, but was eligible for only $2,500 according to his actual income, he will subtract $3,000 from $2,500 to determine his liability amount.

$2,500 - $3,000 = -$500 (consumer's liability)

The consumer will have to pay the IRS the difference of $500, in addition to any other taxes he might owe. If the consumer is getting a tax refund, the IRS will subtract $500 from his refund.

If a consumer used less APTCs than he was eligible for, the IRS will refund the difference (or subtract it from other taxes he owes). For example, if a consumer used $2,500 in APTCs, but he was actually eligible to receive $3,000, he will subtract $2,500 from $3,000 to determine his refund amount.

$3,000 - $2,500 = $500 (consumer's refund)

The consumer will receive a $500 refund from the IRS if he owes nothing else at tax time. If the consumer owes other taxes, the IRS will subtract the $500 refund from whatever else he owes.

ARE THERE LIMITATIONS ON HOW MUCH A CONSUMER MUST REPAY?

When consumers with incomes below 400% of the Federal Poverty Line (FPL) use more APTCs than they are eligible for, the IRS limits how much they must repay. These limitations are called "repayment caps" and increase by income level. For the 2014 tax year, the caps were set as follows:

Household Income as FPL %	Cap for an Individual	Cap for a Family
Under 200%	$300	$600
200% - under 300%	$750	$1,500
300% - under 400%	$1,250	$2,500
400% and above	No Cap	No Cap

(Note: In future years, the IRS may adjust these caps to reflect changes in the consumer price index.) For example, an individual whose income is 200% FPL will have to pay no more than $750 in reconciliation, even if she used $900 more in APTCs than she was eligible for.

MORE INFORMATION AND RESOURCES ABOUT APTC RECONCILIATION:

Advanced Premium Tax Credits, ***In the Loop*** Fact Sheet

Renewals, Reconciliation, and Exemptions, Center on Budget and Policy Priorities, Health Reform: Beyond the Basics

Webinar: Reconciliation of Advanced Premium Tax Credits, State Health Reform Assistance Network

Affordable Care Act Tax Provisions, Internal Revenue Service