CHAPTER 5: ADVANCE PREMIUM TAX CREDIT RECONCILIATION

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CHAPTER 5: ADVANCE PREMIUM TAX CREDIT RECONCILIATION

A. Advance Premium Tax Credit (APTC) Reconciliation Overview

As discussed in detail in Chapter 4, households with low and moderate incomes may be eligible to receive a premium tax credit from the federal government to help lower the cost of buying a Qualified Health Plan (QHP) through HealthSource RI.[1] Tax credits are subsidies provided by the federal government directly to health insurance companies to help individuals and families pay for QHP premiums. Though HealthSource RI determines eligibility for APTCs, HealthSource RI does not administer federal tax credits directly, nor does HealthSource RI control the amount of APTCs that an individual or family may take. Recipients of tax credits are responsible for the amount of APTCs they choose to take in advance.

Eligible individuals can receive the premium tax credit monthly (called advance premium tax credit or APTC), at the end of the tax year when filing their federal income taxes, or monthly during tax season. Customers may take some of the credit in advance and receive the remainder when they file their taxes (a "combination approach").

If an individual receives APTCs, the Internal Revenue Service (IRS) conducts a reconciliation process to ensure that the individual received the appropriate amount of tax credit.[2] The IRS compares the premium tax credit the individual received in advance with the amount of the premium tax credit the individual was actually eligible to receive based on his or her income.

This reconciliation is required by law[3] and is designed to ensure that any tax credits received in advance, which are based on <u>estimated</u> income, align with the customer's final tax credit eligibility, which is determined by the IRS at the end of the tax year using <u>actual</u> income generated that calendar year. If a customer's actual income is higher than his or her estimated income, the customer may have to pay back some of those tax credits to the federal government; if a customer's actual income is lower than his or her estimated income, the customer may receive additional federal tax credits at tax time

Individuals and families are obligated to report any changes that could cause the amount of their APTC to change. For example, customers must alert HealthSource RI if they change jobs, have a baby, get married, divorced, or go through any number of other changes. However, some individuals may not always report changes in a timely manner and, even if they do, it may not always be possible to avoid reconciliation of tax credits at the end of the tax year. If HealthSource RI is unaware of a change in a household's circumstances, it cannot take action to recalculate their APTCs, increasing the risk that the household will be obligated to owe money to the IRS at the end of the tax year

Cost Sharing Reductions (CSRs) are not subject to reconciliation for individuals and are not discussed in this Chapter.

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[1] 26 CFR § 1.36B-2(a)
[2] 26 CFR § 1.36B-4(a)(1)(i)-(ii)
[3] 26 CFR § 1.36B-4(a)(i)

B. Option to Receive Premium Tax Credit in Advance

Individuals who qualify for a premium tax credit may choose to receive the premium tax credit in one of three ways:

- ***APTC (Advanced Premium Tax Credits): Customers receive these tax credits*** *In advance when they purchases a QHP, and each month as a premium payment is due*. For individuals who choose to receive the premium tax credit in advance, the tax credit is sent directly from the IRS to the health insurance company. This approach allows individuals to receive assistance each month instead of at the end of the year when they file their taxes. When individuals receive an APTC, their tax credit amount is based on their estimated income for the taxable year. Individuals and families can choose to reduce the amount of tax credits they receive in advance to limit the risk that they will need to pay back some of those credits at the end of the year.[4]

- ***Premium Tax Credit: Customers receive their tax credits*** *at the end of the taxable year when they file their federal income taxes*. In this instance, the amount of the premium tax credit is calculated based on the tax filer's actual income, making it unnecessary to conduct a reconciliation process.

- ***Combination Approach: In this case,*** *Individuals choose to receive some of their premium tax credit upfront in the form of APTCs and the remainder, if any, at tax filing time.* During the online enrollment process, enrollees have the opportunity to utilize a sliding scale to select, within their maximum eligibility, the amount of tax credits they will receive on a monthly basis. Enrollees who select a tax credit amount below their maximum eligibility will receive any remaining tax credits at the end of the tax year.

Example: Bob submits an application for health coverage and estimates that his annual income will be 200% FPL. HealthSource RI finds that Bob is eligible for $3,752.50 in tax credits.

Bob has three options at the point of application:

(1) Receive $3,752 in advance ($313 each month); or
(2) Receive some amount in advance, for example $1,876 in advance ($156 each month), and the other $1,876, at the end of the tax year; or
(3) Receive all $3,752 at the end of the tax year.

If Bob's actual annual income at tax filing time is different than he anticipated, the size of his premium tax credit will be adjusted accordingly. If he choses to receive all or some of his anticipated credit in advance, his tax return will be subject to reconciliation meaning he will pay back some of the tax credit paid out on his behalf.

1) Reconciling Advance Premium Tax Credits at End of Year

Taxpayers must reconcile all premium tax credits they receive in advance, including credits they receive on behalf of members of their family.[6] The final premium tax credit amount is calculated based on actual

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[4] 45 CFR 155.310(d)(2)
[5] All examples in this Chapter are used for illustrative purposes only. Numbers may not add due to rounding. All of the examples use a benchmark premium of $5,200.

income reported when individuals file their federal income taxes.[7] The IRS compares the amount of APTCs the individuals received to the premium tax credit they are eligible for based on their actual income as reported on their federal income taxes.

If APTCs received during the year are less than the amount of the premium tax credit for which an individual qualifies when taxes are filed, the individual will receive the difference in the form of a refundable tax credit.

If the advance premium tax credit for the year is more than the amount of the premium tax credit for which an individual qualifies when taxes are filed, the individual must repay the excess advance payments with their tax return filing.

Example: Sally applies for health coverage and estimates that her annual income will be $35,000. Sally is eligible for a premium tax credit in the amount of $2,000. Sally chooses to receive all of the $2,000 premium tax credit in advance ($166.66 each month) and it reduces the amount she must pay in monthly premiums.

At the end of the year when Sally files federal income taxes, her actual annual income is $28,000. Based on her actual annual income, Sally is eligible for a $2,500 tax credit. Because the premium tax credit Sally received in advance was $2,000 and she actually qualifies for a $2,500 tax credit, Sally will receive a tax refund of $500 when she files her federal income taxes.

Example: Richard applies for health coverage and estimates that his annual income will be $28,725 (250% FPL). Richard is eligible for a premium tax credit in the amount of $2,888. Richard receives all of the $2,888 premium tax credit in advance ($240.64 each month) and it reduces his monthly premium throughout the year. At the end of the year when Richard files federal income taxes, his actual annual income is $34,585 (301% FPL). Based on his actual annual income, Richard is eligible for a $1,914 premium tax credit. Because the premium tax credit Richard received in advance is $2,888 and the premium tax credit he is eligible for at the end of the year is $1,914, Richard must repay the $974 of excess premium tax credits he received in advance.

a) Reconciliation Process & Applicable IRS Forms

HealthSource RI will mail IRS Form 1095-A, *Health Insurance Marketplace Statement* to all customers in early February of the following year.[8] Once the form is mailed, HealthSource RI will also post a PDF copy in each customer's online account, where it can be downloaded and printed. Customers should keep their Form 1095-A with all their tax records so they can use it as a reference tool when they are ready to file taxes.

Form 1095-A provides information needed to complete IRS Form 8962. For any tax year, individuals or families receiving advance credit payments in any amount (or who plan to claim the premium tax credit), must file a Form 8962, *Premium Tax Credit (PTC)*, and attach it to their federal income tax return for that year.[9]

[6] See generally 26 CFR 1.36B-4
[7] 26 CFR 1.36B-4(2)

[8] See Chapter 5 Appendix for a sample IRS Form 1095-A.
[9] See Chapter 5 Appendix for a sample IRS Form 8962.

Customers receiving APTCs will use their federal tax return to reconcile the difference between the advance credit payments made on their behalf and the actual amount of the credit that they are entitled to claim. This filing requirement applies whether or not an individual would otherwise be required to file a return.

If customers are enrolled in health insurance through HealthSource RI and chose to receive a tax credit in advance to help pay their monthly premiums, the IRS will use Form 8962, along with other information in their tax filing (like information on income and family size), to make sure they received the right amount of tax credit. If they receive more in tax credits than is owed to them, the difference will be added to their final tax due or subtracted from their refund. If customers enrolled in health insurance through HealthSource RI without a tax credit (meaning they paid the full monthly premium), they may use Form 8962 to determine if they are eligible for a tax credit when they submit their tax filing.

B) What is Form 1095-A?

Form 1095-A is a form customers use to fill out their taxes. They should keep it with their tax records so they can use it when they are ready to file. Form 1095-A is produced each year by HealthSource RI for any individual or family who enrolled in health insurance for any period of time. It has information about the health insurance individuals and families received through HealthSource RI.

Form 1095-A has three parts. Part I provides basic information about customers and their health insurance start and end dates. Part II provides information about each member of the "coverage household" – those members of the family also covered under the same policy. Part III provides information for every month of the year about:

- (1) The monthly premium amount of the health plan the customer selected
- (2) The premium amount of the Second Lowest Cost Silver Plan (SLCSP) available on the exchange
- (3) The advance payment of the premium tax credit paid on the customer's behalf to the health insurance company that offers his or her plan.

If a customer or member of his or her tax household is enrolled in more than one health plan, **the customer will receive a Form 1095-A for each plan.** Customers should use all of the 1095-A forms they receive where they are listed as a "Covered Individual" (in Part II) to fill out Form 8962.

Form 1095-A will be sent to the person identified as the tax filer. HealthSource RI will not send the form to anyone except the tax flier.

If a member of a customer's household was enrolled in Medicaid coverage, even only for one month, the customer will also receive a **1095-B.** 1095-Bs are governed by Medicaid. For additional information regarding your 1095-B please refer to http://www.eohhs.ri.gov/ or for tax related questions https://www.irs.gov/uac/about-form-1095-b

b) Tax Repayment is Capped for Individuals With Actual Income Less Than 400% of the FPL

Individuals who receive an advance premium tax credit that is more than the amount of the premium tax credit for which they qualify at the end of the year must repay the excess when they file taxes.[10] However, for individuals with household income below 400% of the FPL at the end of the year, the amount that must be repaid is capped based on income according to the IRS. Additional information is available at: https://www.irs.gov/affordable-care-act/individuals-and-families/questions-and-answers-on-the-premium-tax-credit

c) No Cap on Repayment Obligations for Individuals with Actual Income Above 400% FPL

Individuals with taxable income above 400% of the FPL are not eligible for a premium tax credit. If individuals receive APTCs based on an estimate that their income will be below 400% of the FPL, they must return all advance premium tax credits they received during the year if their actual year-end taxable income is above 400% of FPL. There is no cap on the repayment obligation for individuals and families in this income bracket.[11] Please see IRS Publication 974 for additional information.

> **Example:** When Alice applies for coverage, she anticipates having annual household income of 250% FPL. Alice receives an advance premium tax credit in the amount of $2,888 ($241 per month). At the end of the year when Alice files her federal income taxes, her household income is 410% FPL. Alice must pay back the $2,888 when she files her federal income taxes at the end of the year.

d) Rule for Individuals with Annual Household Income Below 100% FPL at End of Year

In general, individuals with income below 100% of the FPL are not eligible for a premium tax credit (see Chapter 4).[12,13] However, if an individual anticipates that his or her annual income will qualify him or her for a premium tax credit, but at the end of the year the individual's actual taxable income falls below 100% of the FPL, the individual is not required to repay the APTC. The individual is eligible for the premium tax credit and, for reconciliation purposes, the amount of tax credit is calculated based on actual income as reflected on the tax return.[14] Please see IRS Publication 974 for additional information.

> **Example:** When Robert applies for coverage, he anticipates having annual household income of 150% FPL. Robert is eligible for a premium tax credit in the amount of $4,511 ($376 per month) and he chooses to receive it all in advance. At the end of the year when Robert files his federal income taxes, his household income is 90% FPL, so Robert's household income is below 100% FPL. Robert is not required to pay back the premium tax credit he received in advance.

e) Treatment of APTCs Received During a Grace Period

Under federal regulations, individuals receiving APTCs who have made an initial premium payment but subsequently fail to pay a monthly premium are given a three-month grace period.[15] Where individuals have

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[10] 26 CFR 1.36B-4(a)(3)
[11] 26 CFR 1.36B-4(a)(3)(ii)
[12] 26 CFR 1.36B-2(b)(6)
[13] Lawfully present immigrants who are ineligible for Medicaid based on immigration status and whose household income falls below 100% of the FPL still may be eligible for a premium tax credit. Such individuals must be lawfully present and must meet all of the other premium tax credit eligibility criteria that apply to individuals with income at or above 100% of the FPL. See Chapter 4 on APTC eligibility.
[14] 26 CFR 1.36B-2(b)(7)
[15] 26 CFR 1.36B-4(a)(iii); 45 CFR 156.270 (d)

not repaid their premiums by the end of the three months, their coverage may be terminated retroactive to the end of the first of those three months. The individuals must pay back the tax credits paid on their behalf for the first month of the grace period if they do not pay for their share of the premium that month. Note that the grace period issue applies only to individuals who are enrolled in coverage but fail to make premium payments.

C. Implications of Mid-Year Changes for APTC Reconciliation

Customers are obligated to report to HealthSource RI any changes that may impact APTC eligibility that occur during the year, such as changes in income, family size, access to minimum essential coverage, or tax filing status. Changes must be reported within 30 days of when they occur.[16] When HealthSource RI is notified of a change or identifies a change through periodic data matching with external data sources, it must recalculate the household's income and adjust the APTCs in accordance with IRS requirements. By doing so, HealthSource RI reduces the risk that customers will face a repayment obligation at the end of the tax year.[17] When taxpayers marry or divorce, they face some special reconciliation rules, described in Section C-2 below.

1) General Rule for Adjusting APTCs to Reflect Mid-Year Changes

When an individual applies for health coverage, he or she provides information on the amount of income his or her household anticipates it will earn for the entire year. During the course of the year, a household's income or size may increase (e.g., due to a new job, drop in household size when a child leaves home), or decrease (e.g., due to loss of a job, or increase in household size after a birth). When such changes occur, HealthSource RI must recalculate income and adjust a household's APTCs.[18] Specifically, it must recalculate the APTC to reflect: 1) the household's new projected annual income for the taxable year, and 2) any "overpayments" or "underpayments" in the amount of APTCs received to date.

Below is a non-exhaustive list of changes reported by a household that necessitate HealthSource RI to recalculate a household's APTCs:

- An increase or decrease in income;
- Someone in the household gives birth or adopts a child;
- A dependent who was not expected to be required to file taxes now appears likely to need to;
- A marriage;
- A divorce; or
- A change in access to minimum essential coverage (MEC).

2) HealthSource Data Quality Assurance

HealthSource RI conducts periodic data quality checks to ensure the correct coverage plan, premium, and tax credits are being applied to all QHP customers. This is part of our commitment to ensure customers are subject to as little reconciliation as possible. If an error is found impacting one or more of the billing, enrollment, and carrier systems, HSRI will make the adjustment to customer accounts to minimize any potential for disruption to coverage. This may result in an update to a customer's eligibility, with the

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[16] 45 CFR 155.330(b)
[17] 45 CFR 155.330(g)
[18] 45 CFR 155.330(e)(1)

potential for an increase or decreased bill. When an update happens to a customer's account, they will receive updated notice(s) informing them of any change in eligibility or plan cost which may have occurred. Customers have the right to appeal these decisions if they disagree, as described in Chapter 9.

3) Special Rule for Newly-Married Couples

A marriage often results in an increase in income due to the family gaining multiple sources of income. However, even if the individuals accurately projected their own incomes while still single and promptly reported their marriage, they may nevertheless face an APTC repayment obligation at the end of the tax year. To mitigate this risk, the IRS allows newly married couples to rely on an alternative computation of their premium tax credit for reconciliation purposes, if the alternative computation works to their benefit. [19] Please see IRS Publication 974 for additional information.

4) Special Rule for Newly-Divorced Couples

When couples divorce over the course of a year and become single, they must decide how to allocate key elements of the APTC calculation and reconciliation process. [20] For example, if they received too much APTC, they must allocate the repayment obligation between the two of them. Similarly, for purposes of reconciliation, they must allocate the premium for the applicable benchmark plan and the premium for the plan in which they were enrolled (as discussed in Chapter 4, these two factors are a key component of the formula that determines the size of premium tax credits). Please see IRS publication 974 for additional information.

[19] 26 CFR 1.36B-4(b)(2)
[20] 26 CFR 1.36B-4(b)(3)

D. Appendix

Sample IRS Form 1095-A

Form **1095-A**

Department of the Treasury
Internal Revenue Service

Health Insurance Marketplace Statement

▶ **Information about Form 1095-A and its separate instructions is at *www.irs.gov/form1095a.***

☐ CORRECTED

OMB No. 1545-2232

2014

Part I Recipient Information

1 Marketplace identifier	**2** Marketplace-assigned policy number	**3** Policy issuer's name	
4 Recipient's name		**5** Recipient's SSN	**6** Recipient's date of birth
7 Recipient's spouse's name		**8** Recipient's spouse's SSN	**9** Recipient's spouse's date of birth
10 Policy start date	**11** Policy termination date	**12** Street address (including apartment no.)	
13 City or town	**14** State or province	**15** Country and ZIP or foreign postal code	

Part II Coverage Household

	A. Covered Individual Name	**B.** Covered Individual SSN	**C.** Covered Individual Date of Birth	**D.** Covered Individual Start Date	**E.** Covered Individual Termination Date
16					
17					
18					
19					
20					

Part III Household Information

Month	**A.** Monthly Premium Amount	**B.** Monthly Premium Amount of Second Lowest Cost Silver Plan (SLCSP)	**C.** Monthly Advance Payment of Premium Tax Credit
21 January			
22 February			
23 March			
24 April			
25 May			
26 June			
27 July			
28 August			
29 September			
30 October			
31 November			
32 December			
33 **Annual Totals**			

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 60703Q Form **1095-A** (2014)

2. Sample IRS Form 8962

Form **8962**

Department of the Treasury
Internal Revenue Service

Premium Tax Credit (PTC)

► **Attach to Form 1040, 1040A, or 1040NR.**

► **Information about Form 8962 and its separate instructions is at *www.irs.gov/form8962*.**

OMB No. 1545-0074

2014

Attachment Sequence No. **73**

Name shown on your return	Your social security number	Relief (see instructions) ☐

Part 1: Annual and Monthly Contribution Amount

1 Family Size: Enter the number of exemptions from Form 1040 or Form 1040A, line 6d, or Form 1040NR, line 7d . . . **1** ______

2a Modified AGI: Enter your modified AGI (see instructions) . . . . . **2a** ______ **b** Enter total of your dependents' modified AGI (see instructions) . . . . **2b** ______

3 Household Income: Add the amounts on lines 2a and 2b . . . . **3** ______

4 Federal Poverty Line: Enter the federal poverty amount as determined by the family size on line 1 and the federal poverty table for your state of residence during the tax year (see instructions). Check the appropriate box for the federal poverty table used. **a** ☐ Alaska **b** ☐ Hawaii **c** ☐ Other 48 states and DC **4** ______

5 Household Income as a Percentage of Federal Poverty Line: Divide line 3 by line 4. Enter the result rounded to a whole percentage. (For example, for 1.542 enter the result as 154, for 1.549 enter as 155.) (See instructions for special rules.) **5** ______ %

6 Is the result entered on line 5 less than or equal to 400%? (See instructions if the result is less than 100%.)

☐ **Yes. Continue to line 7.**

☐ **No.** You are not eligible to receive PTC. If you received advance payment of PTC, see the instructions for how to report your Excess Advance PTC Repayment amount.

7 Applicable Figure: Using your line 5 percentage, locate your "applicable figure" on the table in the instructions . . **7** ______

8a Annual Contribution for Health Care: Multiply line 3 by line 7 . . . . . **8a** ______ **b** Monthly Contribution for Health Care: Divide line 8a by 12. Round to whole dollar amount **8b** ______

Part 2: Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Did you share a policy with another taxpayer or get married during the year and want to use the alternative calculation? (see instructions)

☐ **Yes.** Skip to Part 4, Shared Policy Allocation, or Part 5, Alternative Calculation for Year of Marriage. ☐ **No. Continue to line 10.**

10 Do all Forms 1095-A for your tax household include coverage for January through December with no changes in monthly amounts shown on lines 21–32, columns A and B?

☐ **Yes. Continue to line 11.** Compute your annual PTC. Skip lines 12–23 and continue to line 24. ☐ **No. Continue to lines 12–23.** Compute your monthly PTC and continue to line 24.

Annual Calculation	**A.** Premium Amount (Form(s) 1095-A, line 33A)	**B.** Annual Premium Amount of SLCSP (Form(s) 1095-A, line 33B)	**C.** Annual Contribution Amount (Line 8a)	**D.** Annual Maximum Premium Assistance (Subtract C from B)	**E.** Annual Premium Tax Credit Allowed (Smaller of A or D)	**F.** Annual Advance Payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals						
Monthly Calculation	**A.** Monthly Premium Amount (Form(s) 1095-A, lines 21–32, column A)	**B.** Monthly Premium Amount of SLCSP (Form(s) 1095-A, lines 21–32, column B)	**C.** Monthly Contribution Amount (Amount from line 8b or alternative marriage monthly contribution)	**D.** Monthly Maximum Premium Assistance (Subtract C from B)	**E.** Monthly Premium Tax Credit Allowed (Smaller of A or D)	**F.** Monthly Advance Payment of PTC (Form(s) 1095-A, lines 21–32, column C)
12 January						
13 February						
14 March						
15 April						
16 May						
17 June						
18 July						
19 August						
20 September						
21 October						
22 November						
23 December						

24 Total Premium Tax Credit: Enter the amount from line 11E or add lines 12E through 23E and enter the total here . **24** ______

25 Advance Payment of PTC: Enter the amount from line 11F or add lines 12F through 23F and enter the total here . **25** ______

26 Net Premium Tax Credit: If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Form 1040, line 69; Form 1040A, line 45; or Form 1040NR, line 65. If you elected the alternative calculation for marriage, enter zero. If line 24 equals line 25, enter zero. Stop here. If line 25 is greater than line 24, leave this line blank and continue to line 27 . **26** ______

Part 3: Repayment of Excess Advance Payment of the Premium Tax Credit

27 Excess Advance Payment of PTC: If line 25 is greater than line 24, subtract line 24 from line 25. Enter the difference here **27** ______

28 Repayment Limitation: Using the percentage on line 5 and your filing status, locate the repayment limitation amount in the instructions. Enter the amount here . . . . **28** ______

29 Excess Advance Premium Tax Credit Repayment: Enter the smaller of line 27 or line 28 here and on Form 1040, line 46; Form 1040A, line 29; or Form 1040NR, line 44 . . . . **29** ______

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37784Z Form **8962** (2014)