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Advance Premium Tax Credits

One of the most significant goals of the Affordable Care Act (ACA) is to make health insurance more affordable for consumers purchasing insurance in the state or federal marketplace. The ACA, makes private insurance more affordable by allowing eligible consumers to receive Advance Premium Tax Credits (APTCs) that offset their monthly insurance premiums.

(Updated August 2018, applicable to 2019 plan year)

HOW DO APTCs WORK?

When a consumer is determined eligible for APTCs and enrolls in a qualified health plan offered through a marketplace, he will be responsible for paying only a portion of his monthly insurance premium to the insurer. The federal government will apply his tax credit by paying the other portion of the monthly premium directly to the insurer. For example, if a consumer's health insurance premium is \$500/month and his APTC amount is \$300/month, he will pay \$200/month to the insurance company while the federal government will pay the remaining \$300/month directly to the insurance company.

Consumers can choose how much of their tax credit they want to apply to their insurance premium each month. Any unused portion of the credit will be applied to their federal income taxes when they file taxes at the end of the year. When consumers choose to use their tax credit to offset their insurance premiums on a monthly basis throughout the year, it is referred to as an Advance Premium Tax Credit, or APTC. Alternatively, consumers also have the option of applying the tax credit as a lump sum to offset their tax obligations at the end of the year; this is referred to as a Premium Tax Credit, or PTC.

WHO IS ELIGIBLE FOR APTCs?

Consumers qualify for APTCs for any month in which they:

- Have income between 100-400% of the Federal Poverty Level. The APTC award amount is based on a sliding scale that takes into account household size and income. The closer a consumer's income is to 100% of the Federal Poverty Level (FPL), the larger the APTC award amount. Note:

Lawfully present immigrants with incomes below 100% FPL who are ineligible for Medicaid/ CHIP due to their immigration status are eligible for APTCs.

- Are ineligible for Minimum Essential Coverage (MEC) from an employer. Individuals and families with offers of employer-sponsored insurance that meet affordability and minimum value standards are not eligible for APTCs. Under the ACA affordability standard for 2018, an offer of employer-sponsored insurance is considered affordable if the premium to insure the employee only is less than 9.56% of the household income. Note: If the offer of MEC is deemed unaffordable (see below for more about the affordability standard), the consumer may be eligible for APTCs.
- Are ineligible for MEC through a government program. If a consumer has an offer of health insurance through a government program such as Medicare, Medicaid, CHIP, or TRICARE that is considered Minimum Essential Coverage (MEC), she is not eligible for APTCs.
- Are a United States citizen or lawfully present in the United States.
- Meet tax filing requirements. Consumers must file federal income tax returns to receive APTCs. If consumers are married, they must file taxes jointly to be eligible for APTCs or qualify for one of three exceptions to the joint filing requirement: (1) heads of household, (2) victims of domestic violence or spousal abandonment, or (3) persons with decrees of separate maintenance. In addition, a consumer cannot be claimed as a dependent on another consumer's tax return.
- Are not incarcerated.

HOW ARE APTC AWARD AMOUNTS CALCULATED?

An eligible consumer's APTC award amount is based on the amount the individual should be able to pay for premiums. This "expected contribution" is calculated as a percentage of household income, and increases on a sliding scale as the taxpayer's income increases. See the chart below for expected contribution percentages in 2019 for select household income levels. The percentages are updated annually by the Internal Revenue Service (IRS) and are published in the instructions for IRS Form 8962.

Eligibility for Medicaid and CHIP is determined based on the

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Federal Poverty guidelines in place “at the time of application,” and states have flexibility as to when they adopt new guidelines. Most states will have switched to the 2019 FPL by April 2019. Eligibility for APTCs and CSRs for the 2019 coverage year is determined by 2018 Federal Poverty guidelines. APTCs and CSRs for the 2020 coverage year will be based on 2019 Federal Poverty guidelines.

Once the consumer’s expected contribution of household income is determined, the APTC award is calculated using the second-lowest-cost silver plan (SLCSP) in the marketplace. For example, consider a consumer whose household income is

Select FPL Values and Corresponding Expected Contribution along the Sliding Scale		
Household income	Minimum contribution towards premiums in 2018	Maximum contribution towards premiums in 2018
Less than 133% (FPL)	2.08%	2.08%
At least 133%, but less than 150%	3.11%	4.15%
At least 150%, but less than 200%	4.15%	6.54%
At least 200%, but less than 250%	6.54%	8.36%
At least 250%, but less than 300%	8.36%	9.86%
At least 300%, but not more than 400%	9.86%	9.86%

150% of the 2017 FPL (\$18,210/year for an individual). At that income level, she is expected to contribute 4.15% of her income (\$63.00/month) toward her monthly health insurance premium. If the SLCSP in the marketplace is \$300/month, then the consumer’s APTC award amount for the 2019 plan year is \$237.00/month (\$300 - \$63.00 = \$237.00) for an annual total of \$2,844. If the premium for the lowest-cost bronze plan, after taking into account premium tax credits, costs more than 8.05%

of her income, then she is eligible for an affordability exemption from the individual mandate.

APTCs are calculated based on the income projections consumers provide on their applications. If, at the end of the year, a consumer’s actual income differs from what was estimated on the application, she must reconcile her APTCs with the IRS when filing federal income taxes. If her actual income is higher than originally estimated on the application, the consumer will have to pay back some of the APTCs when filing taxes, up to established caps. If her income is lower than originally estimated on the application, the consumer will likely receive a tax refund. For more information, see In the Loop’s [“Reconciliation of Advanced Premium Tax Credits” fact sheet](#).

IMPORTANT: Consumers should always report income changes rather than waiting until tax-filing season. Reporting the change in income will appropriately adjust the APTC so that the consumer is less likely to face repayment when filing taxes.

WHAT IS THE ACA AFFORDABILITY STANDARD

An offer of employer-sponsored insurance for 2018 is considered affordable if the employee’s premium for the lowest cost self-only plan is equal to or less than 9.56%. This means that employees can be eligible for APTCs despite an offer of employer-sponsored insurance if the employee’s premium under the lowest cost self-only option is 9.56% or more of the employee’s household income. This percentage is updated annually by the IRS.

If self-only coverage through an employer is within this affordability threshold, but adding a spouse and/or dependents to the plan would raise the premium above 9.56% of household income, the rest of the family is still considered to have an offer of affordable coverage and will be ineligible for APTCs. This situation is commonly referred to as the “family glitch” because all family members are ineligible for APTCs if the employee

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himself is ineligible, regardless of how much family coverage costs. Consumers in this situation may purchase marketplace plans at full price, which, in some cases, may be more affordable than purchasing coverage through the employer-sponsored plan.

Note that the definition of “affordability” for APTC eligibility is different from the definition of “affordability” for an exemption from the ACA’s individual mandate. (Note - the individual mandate remains in effect for the 2018 tax year. The tax reform law enacted in December, 2017 zeros out the penalty for not having Minimum Essential Coverage beginning in 2019). If the employer-sponsored plan offered to the consumer meets the affordability standard of 9.56% but the employee’s premium for self-only coverage is more than 8.05% of household income, he remains ineligible for APTCs but he can apply for an affordability exemption from the individual mandate.

Unlike the “family glitch,” which leaves all family members ineligible for APTCs if the employee himself is ineligible, the employee’s family could be eligible for an affordability exemption from the individual mandate even if the employee himself is not. This would happen in a situation where self-only coverage for the employee himself is less than 8.05% of household income, but coverage for the rest of the family exceeds 8.05% of household income.

Consumers who do not have an offer of employer-sponsored insurance will be eligible for the exemption if the lowest-cost bronze plan on the marketplace, after accounting for PTCs, costs more than 8.05% of family income.

The definition of “affordability” for APTC eligibility is different from the definition of “affordability” for an exemption from the ACA’s individual mandate.

MORE INFORMATION AND RESOURCES

[26 CFR 1.36B-2](#), Electronic Code of Federal Regulations

[Families USA’s 2018 FPL Chart](#), Families USA

[Reconciliation of Advanced Premium Tax Credits](#), In the Loop Fact Sheet

[ACA and Tax Filing for Married, Separated, and Abandoned Spouses](#), In the Loop Fact Sheet

[Key Facts You Need to Know About: Premium Tax Credits](#), Health Reform: Beyond the Basics, Center on Budget and Policy Priorities

[Navigator Resource Guide, Section 1, Chapter 4: Eligibility for Premium Tax Credits and Cost-Sharing Reductions](#), Georgetown University Center on Health Insurance Reforms

[Webinar Slides: Exemptions and Penalties](#), Health Reform: Beyond the Basics, Center on Budget and Policy Priorities