

Use Tax Credit to Buy Health Insurance

Tax credits to help low- and moderate-income Americans buy health insurance will become available in January under the health law, when for the first time, most people will be required to have coverage or pay a fine.

***** **IF YOU ARE ELIGIBLE FOR A PREMIUM SUBSIDY** *****

The credits are available to people who don't get what is considered affordable, comprehensive coverage through their jobs, and whose household income is less than 400 percent of the [federal poverty level](#) (FPL), which this year is about \$46,000 for an individual, or about \$78,000 for a family of three.

Most of the 7 million people projected to shop for coverage in new online health insurance marketplaces, also called exchanges, will be [eligible for the subsidies](#), expected to average \$5,290 per enrollee.

People who don't have insurance coverage could face fines, which are \$95 per adult and \$47.50 per child the first year, or 1 percent of family income, whichever is greater. The fines will rise in later years.

The process could be complicated for some consumers, but information about how the system will work may help. Below is an excerpt, edited for length and clarity, of conversation between Cathy Livingston, a partner of Jones Day in Washington, D.C who specializes in tax issues involving the federal health law and Julie Appleby, a Kaiser Health News staff writer.

Q1: The law bases eligibility on household income. What does that include?

A1: It is income, not assets. The value of a house, stocks or bank accounts is not taken into consideration. Household income starts with adjusted gross income -- a number people can find on their tax returns.

Q2: Who determines eligibility?

A2: The exchange. It will have information from an applicant's last filed tax return. So, for example, if a person filed taxes on time in 2012, the exchange this fall would have income information from that year. There will also be other sources of information, such as state wage databases to which employers already report every quarter. The application also asks people to project their income for 2014.

Q3: What happens once a person is deemed eligible for a subsidy?

A3: The exchange will tell applicants the maximum credit they are eligible for. Consumers can decide whether they want to take the maximum or some lesser amount. Those who think their income might increase beyond what they projected might consider taking less so they won't have to pay the government back when the year ends. Once an eligible applicant determines how much he or she wants, the exchange will arrange for the amount to be paid every month directly to the insurance company offering the plan the applicant selects. For example, if the monthly premium is \$600 and the individual is eligible for \$400 [in a subsidy] and opts for that credit, every

month the federal government will send \$400 to the insurer. The consumer would be responsible for sending the remaining \$200.

Q4. How is the maximum premium subsidy amount determined?

A4: There is a complex formula that includes household income, as well as the cost of a benchmark insurance plan, which the law has identified as the second lowest priced silver plan – one of four levels of plans -- offered on that exchange.

The law requires consumers to contribute a specific percentage of income to the premium. It's a sliding scale based on the federal poverty level (FPL). For example, if your household income is at 150 percent of the FPL, you are required to contribute 4 percent of income toward the premium. If your income is at 300 percent of poverty, then you're required to contribute 9.5 percent. The subsidy then makes up the difference between that amount and the cost of the benchmark plan.

Q5. Do people have to buy the silver plan?

A5: No, an individual can choose any plan they like. They might choose a bronze plan with a lower premium or a higher cost gold or platinum plan. The credit is computed against the silver plan. If they choose a bronze plan with a lower premium, it's possible the advance payment will cover the entire premium. But the credit cannot exceed the actual premium.

Q6. Can I decide not to take the credit as an advance payment?

A6. Yes, but you would need to make sure you have the cash to pay the premiums. If you get past 90 days and the premium is not paid in full, the regulations direct the insurer to terminate coverage.

Q7. Do consumers have to file information about the insurance subsidies on their tax returns?

A7. People getting subsidies in 2014 will report them on tax returns they file in April 2015.

Q8. What kind of information will be reported to the IRS?

A8: The exchanges will report the level of coverage chosen by an individual, total premium and the amount of premium credit made to the insurance company.

Q9. Is a worker who gets job-based insurance eligible for a premium subsidy?

A9. Only if the employer coverage is either not affordable or doesn't provide minimum value. Those definitions mean the employee's share of the premium for a policy that covers just the individual (not a family policy) cannot exceed 9.5 percent of household income. And the plan has to cover at least 60 percent of expected medical costs.

Q10. Does the administration's decision to delay by a year the requirement that employers offer coverage or pay a fine affect the subsidies?

A10. It does not affect rules on eligibility. But it may mean that more people are eligible. Employers no longer have the incentive to offer policies or make plans affordable because they are no longer at risk of a penalty.

Q11. What happens if I get advance payment, my income then goes up, and I no longer qualify for that amount?

A11: You will need to reconcile what was paid with the amount you were actually entitled to receive. If you get more than you were entitled to, you will owe it back in the form of additional federal taxes. There are some caps on the amount a person has to pay back, based on their income. If, for example, you are at 300 percent of the FPL, the maximum amount you would have to pay back is \$2,500. If you are under 200 percent, the maximum amount is \$600. If you receive advance payments, but at the end of the year, your income is over 400 percent of the poverty level, there is no cap on the amount you owe.

Q12. What's the biggest challenge for consumers and the exchanges with these subsidies?

A12: The learning curve. Over time, Americans have gotten very used to things like 401(k) accounts, IRAs, penalties for early withdrawal and the kinds of documents they need to keep. But it takes a while because there are a variety of different rules and they are complicated. Keeping records will be important – both for consumers and the new marketplaces – because consumers whose income changes during the year may find they are either owed more in tax credits, or have to pay some back.

To read the entire article, visit <http://www.kaiserhealthnews.org/Stories/2013/July/24/interview-with-cathy-livingston-on-how-to-apply-for-tax-credit-subsidies-for-premiums.aspx>