

Premium Tax Credits and “Tax Reconciliation”

Fact Sheet

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Summary

You may be one of the millions of people who buy health insurance on their own with the help of premium tax credits. When it is time to file your tax returns, the federal government needs to know if you got the right amount of premium tax credits. This fact sheet explains how the IRS will figure out if you got the right amount of premium tax credits and what you need to do to be sure the process goes smoothly.

What are the tax filing rules?

There are two important things you need to do when filing your federal tax return for 2015:

- Let the IRS know that you had health insurance in 2015 (or file for exemption or pay a penalty if you didn't); and
- If you got tax credits or think you might qualify, file a new Premium Tax Credit form that tells the IRS about your health insurance and any tax credits you already got.

This fact sheet focuses on **tax credit reconciliation, something that impacts people who take their premium tax credit “in advance.”**

TIP: For basic information about premium tax credits and what you have to report at tax time, see Consumers Union's fact sheet, *Health Insurance & Tax Credits: What to do at Tax Time*

What is the tax credit for health insurance?

Starting with tax year 2014, low- and moderate-income people can get a federal tax credit that lowers the cost of buying health insurance.

To qualify, you must:

- Purchase your health plan through your state’s health insurance Marketplace;
- Be income eligible;
- If married, file your taxes jointly; and
- Not be eligible for “minimal essential coverage” from an employer, Medicaid, Medicare or certain other forms of coverage.

TIP: To understand “minimum essential coverage,” [click here:](https://www.healthcare.gov/faq/essential-coverage/) <https://www.healthcare.gov/faq/essential-coverage/>

To provide help right away, the premium tax credit can be taken “in advance.” “In advance” means that the federal government pays part of your monthly premium directly to your health plan. You pay a lower premium, minus the tax credit. For example:

Your monthly premium	=	\$300
Federal tax credit to the health plan	=	\$240
What you pay to the health plan	=	\$ 60

You don’t have to take the premium tax credit in advance. You can wait until you file your tax return to get your premium tax credit. This fact sheet is for people who took the tax credit “in advance.”

My health plan got premium tax credits on my behalf. Is there something more I need to do?

Yes. You have to report the premium tax credits on your federal tax return.

When you applied for health insurance, you had to *estimate* your family’s income for 2015 if you requested tax credits “in advance” to lower your monthly premium.

When you file your tax return, you will have to tell the IRS what your family’s *actual* income was for 2015.

I keep hearing about “tax credit reconciliation.” What does that mean?

By the time federal tax returns are due in April, if you got a premium tax credit in advance, you will have reported your family size and income at least two times:

- When you applied for tax credits during health insurance enrollment, and
- When you fill out your end of year federal tax return forms.

If your family size or income is the same both times, there is little impact on the taxes you owe (or your refund if you don't owe).

But, if your estimated income or family size is different from what's on your federal tax return, your premium tax credits will be recalculated. The recalculation is what is known as “reconciliation.” After the IRS does the reconciliation, you may have to pay back some tax credits. You may also end up owing less in taxes, or even get a larger tax refund.

What happens if I estimated my income would be higher than it actually was?

If you estimated your income would be higher than it actually was for 2015, you probably got less premium tax credit during the year than you were eligible for. That means that when you file your federal tax return, you will be able to use this additional tax credit to lower the amount you owe the IRS. If you don't owe any taxes, you may get a refund from the IRS.

What happens if I estimated my income would be lower than it actually was?

If you estimated your income would be lower than it actually was for 2015, you probably got too much as a premium tax credit during the year. That means that when you file your tax return, you may have to pay the difference back to the IRS. If you are eligible for a tax refund, the amount you owe might be subtracted from your tax refund.

You also should contact your state Marketplace to be sure that the income they have on record for your 2016 premium tax credits is up-to-date. Up-to-date income information will help make sure your 2016 premium tax credit is as accurate as possible.

How much will I owe if I got too much premium tax credit in advance?

The amount you might owe at tax return time depends on how different your income or family size was from what you reported when you applied. You will fill out a Form (8962) when you file your tax return that compares the premium tax credit that you got to the premium tax credit that you were allowed to get, based on your income.

If I owe money back to the IRS, do I have to pay back all of it?

For many people, there is a limit on how much you will have to pay back. The lower your income, the less you will have to pay back.

The chart shows the limit on repayment for different income levels for 2014. This may be different for 2015. “FPL” means “Federal Poverty Level.” It is an amount the IRS uses to separate people’s incomes into different levels.

Annual family income	Repayment limit for a person filing as single	Repayment limit for everyone else
Under 200% of the FPL	\$300	\$600
200% to under 300% of the FPL	\$750	\$1,500
300% to under 400% of the FPL	\$1,250	\$2,500
Over 400% of the FPL	No limit	No limit

For example, imagine that you are single and received too much in tax credits during 2015. You owe \$900 back to the IRS at tax time. If your income when you file your tax return is \$24,000 for the year (just above 200% of the Federal Poverty Level) based on the chart above, you will only have to pay back \$750, not the full \$900.

TIP: Use [this chart](#) for the federal poverty level that applies for Marketplace coverage in 2015.

What if my income is lower than expected and I become eligible for Medicaid?

If your family income ends up being low enough to make you and/or your family eligible for Medicaid, you will not have to pay back any premium tax credits you received during the year. This is also true if you live in a state that did not expand Medicaid but you would have been eligible.

You should report a change in income once you realize the estimate you gave when you applied for insurance was not correct.

What if my income ended up being over 400% of the poverty level?

If your income for 2015 was more than 400% of the Federal Poverty Level, you are ineligible for premium tax credits for that year. At tax time, you will have to pay back all the advance premium tax credits paid to your health plan on your behalf in 2015.

There are exceptions and payment plans available if you end up in this situation.

I qualified for lower payments for my doctor or hospital visits. Will I have to pay those back, too?

If you are eligible for cost-sharing reductions (discounts that lower the amount you have to pay for doctor or hospital visits), you do **not** have to pay those discounts back.

What if I've added new people to my family since I applied?

If at tax time there are more people in your family than when you applied for health insurance (for example, if you had a baby or adopted a child), you might not have received the right amount of premium tax credit during the year. That means when you file your tax return, you may get a bigger premium tax credit. You will be able to use the tax credit to lower the amount you owe the IRS. If you don't owe any taxes, you might get a refund.

It is important to report any changes in family size, income, or where you live to your state Marketplace as soon as they happen during the year. This helps to make sure you get the right amount of premium tax credit and don't owe anything at tax time.

What if I moved during the year?

If you've moved since you applied for health insurance through the Marketplace, the amount of premium tax credit you are eligible for might have changed. Premium tax credits are based, in part, on the cost of health insurance where you live. To avoid having to pay back money at tax time, you should report your move to the Marketplace as soon as possible.

Is there anything I can do to avoid tax repayment?

Not always. You can lower the risk of repayment at tax return time if you tell the Marketplace as soon as possible about any changes. The changes include changes in income or the number of people in your family, a change of address, or new insurance options you have through a job. When you report the changes, the Marketplace will try to adjust your premium tax credit during the year instead of at tax time.

You can also choose to receive your premium tax credit at the end of the year instead of in advance. This means you will get no financial help paying your monthly insurance premiums. You will get all the premium tax credits at one time when you file your tax return.

What if I chose to get some of my premium tax credits at tax time and some during the year?

Some people choose to receive only part of their premium tax credits during the year and save the rest for tax time. If you aren't confident about estimating your family's income for the coming year, taking part of it during the year and the rest later may be a good choice.

Do I *have* to do tax credit reconciliation?

If you receive premium tax credits, you will have to file a federal tax return and report the tax credits you received, even if you usually do not file a federal tax return.

But, if the information you reported when you applied for health insurance is close to what you report when you file your tax return, you may not owe money to the IRS. In other words, the amount of premium tax credits you got during the year was the right amount.

TIP: To learn more about how to report your tax credits at tax time, see Consumers Union’s fact sheet, *Health Insurance & Tax Credits: What to do at Tax Time.*”

These tax-filing requirements are really confusing – where can I get help?

You can get free tax help at a local Volunteer Income Tax Assistance Site (VITA). Low- and moderate-income families, people with disabilities, the elderly, and people with limited English speaking skills can get help from VITA. To find help near you:

- Call: 800-906-9887 or
- Go online at: <http://irs.treasury.gov/freetaxprep>.

You can also get help from your own tax adviser.

What should I do if I think I might owe taxes?

If you are concerned that you might owe taxes, get help early. Tax returns are due April 15. But you can file as soon as you have all your paperwork, sometime after January 31, 2016. If you cannot pay what you owe, you may be able to request a payment plan or a reduction if you follow the filing rules.

Open enrollment for 2016 starts November 1, 2015 and goes through January 31, 2016. If you do your 2015 tax return early, you can use that updated taxable income information to be sure you get an accurate tax credit when you apply for 2016. You can also use your tax refund to help pay your premiums. Even if you’ve already enrolled in new coverage, you can provide your updated income information to your state’s Marketplace.

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