RECONCILING THE PREMIUM TAX CREDIT: MORE TAX COMPLEXITY FOR LOWER AND MIDDLE-INCOME AMERICANS

Francine J. Lipman, William S. Boyd School of Law, University of Nevada, Las Vegas, 4505 South Maryland Parkway, Las Vegas, Nevada, 89154, Francine.Lipman@unlv.edu

James E. Williamson, School of Accountancy, San Diego State University, 5500 Campanile Drive, San Diego, California 92115, James.Williamson@sdsu.edu

ABSTRACT

The provisions of the Affordable Care Act (ACA) make available to certain individuals with low and moderate incomes a refundable Premium Tax Credit (PTC) designed to help them pay the premiums on their qualified health care plans. The amount of the PTC that each of these individuals may claim is based upon her Modified Adjusted Gross Income (MAGI) for the year in which she is entitled to claim the credit. Therefore, the amount of the PTC an individual is entitled to for any given year cannot be determined until she has completed her federal income tax return for that year. For example, the amount of an individual's PTC for 2014, the first year the credit is available, will be determined by the MAGI as shown on her 2014 federal income tax return, which will not be prepared until early 2015.

Through the ACA, Congress provides qualifying individuals with the option of a monthly Advance Premium Tax Credit (APTC) paid directly to the qualified insurance provider in payment of part of the premium based upon the insured's income estimates. Eligible individuals have the option of applying the APTC to their monthly insurance premiums as they become due or waiting until they file their federal income tax return and, after applying the PTC against any other tax that they might owe, and receive a refund of any balance. If the taxpayer owes no other taxes, the government will refund the PTC in full.

Alternatively, if individuals elect to use the APTC to help pay monthly premiums to their qualified insurance providers in advance of the final determination of their actual PTC they are entitled to claim for that year, the amount of the APTC will be based on estimates of MAGI and family status. Most likely, the estimated APTC used for these payments will differ from the actual PTC as finally determined when the tax return is prepared. If the actual PTC is less than the APTC the individual will have to pay the difference when they file their tax return, which would increase the amount otherwise owed or decrease the amount otherwise to be refunded. If the actual PTC is greater than the APTC, the difference will be refunded or applied against other taxes that might be owed. The PTC is a fully refundable tax credit.

This paper will explain in detail the complexity of the PTC and the requisite reconciliation process. Given the pending implementation of this reconciliation of the credit for taxpayers in early 2015 there is a dearth of literature on this topic. Despite its enactment in 2010, scholars have neither presented nor analyzed this meaningful refundable tax credit for lower-income taxpayers. This paper will fill this void, by describing the details of the credit using a variety of examples to expose the significant complexities inherent in this meaningful health care subsidy.

This deconstruction of the PTC and its requisite reconciliation will serve as a platform for subsequent scholarship that will serve to enhance the PTC to better achieve Congress' goal of providing access to affordable health care for Americans.