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## Reconciliation of Advanced Premium Tax Credits

Under the Affordable Care Act (ACA), eligible consumers receive financial assistance for health insurance premiums in the form of tax credits which can be paid in advance, called Advanced Premium Tax Credits (APTCs). These APTCs make private insurance more affordable by offsetting a portion of the monthly insurance premium. When they file their federal income taxes, consumers who receive tax credits paid in advance must reconcile the amounts they received with the actual amount they are eligible for.

*(Updated March 2018)*

### WHAT IS RECONCILIATION?

Reconciliation is the process the Internal Revenue Service (IRS) uses to make sure consumers receive the correct amount of tax credits to help pay for their monthly health insurance premiums.

A consumer's APTCs are calculated based on *projected* income when applying for coverage and applied to monthly health insurance premiums for a Qualified Health Plan (QHP) purchased in the marketplace. At the end of the year, the consumer's final Premium Tax Credit (PTC) amount is calculated based on his *actual* income. The APTC paid must be reconciled with the final PTC amount the consumer was eligible for. Consumers determine their final PTC eligibility amount and complete the reconciliation process when filing their federal income tax returns for the coverage year (e.g., 2017 APTC reconciliation occurs in 2018 when consumers file 2017 income tax returns).

**Note:** Cost-Sharing Reductions (CSRs) are not reconciled. If a consumer received higher or lower CSRs than she was actually eligible for, she will neither owe taxes nor receive credit for CSR amounts.

### WHY MIGHT A CONSUMER'S ACTUAL PTC AND APTC DIFFER?

A consumer's APTC amount may differ from his actual PTC eligibility due to a variety of factors. APTCs are based on a consumer's projected income and household size. If a consumer has a change in circumstances mid-year and does not report the change, it is more likely that the consumer's APTC amount will differ from his PTC amount and affect his tax liability or refund. A consumer must report changes in circumstances to the marketplace.

Some common eligibility changes that could result in different APTC and PTC amounts include:

Reasons	Examples
<b>Change in income</b>	If a consumer changes jobs or gets a raise, her actual income could differ from the income she projected.
<b>Change in household size</b>	A change in household size, from events such as divorce, birth, or death, can affect a consumer's PTC calculations
<b>Eligibility for an employer's health plan</b>	A consumer might become newly eligible for insurance through his employer and therefore become ineligible for PTCs.

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## HOW DOES A CONSUMER RECONCILE APTCs AT TAX TIME?

When filing taxes, consumers must report the amount of APTC received, along with information about their health coverage and income. The marketplace and the IRS provide forms to help consumers calculate their actual PTCs and reconcile that amount with their APTCs.

Reconciliation is done by subtracting the total APTCs a consumer used from the PTC amount he was eligible for, based on year-end household size and income.

If a consumer used *more* APTCs than he was eligible for, the consumer must pay the difference at tax time. For example, if a consumer used \$250 in APTCs to pay his insurance premium each month for a total of \$3,000 during the year, but was eligible for only \$2,500 according to his actual income, he will subtract \$3,000 from \$2,500 to determine his liability amount.

$$\mathbf{\$2,500 - \$3,000 = -\$500 \text{ (consumer's liability)}}$$

The consumer will have to pay the IRS the difference of \$500 in addition to any other taxes he might owe. If the consumer is getting a tax refund, the IRS will subtract \$500 from his refund.

If a consumer used *less* APTCs than he was eligible for, the IRS will refund the difference (or subtract it from other taxes he owes). For example, if a consumer used \$2,500 in APTCs, but he was actually eligible to receive \$3,000, he will subtract \$2,500 from \$3,000 to determine his refund amount.

$$\mathbf{\$3,000 - \$2,500 = \$500 \text{ (consumer's refund)}}$$

The consumer will receive a \$500 refund from the IRS if he owes nothing else at tax time. If the consumer owes the IRS at tax time, the \$500 refund will be subtracted from whatever else he owes.

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If a consumer used *more* APTCs than he was eligible for, the consumer must pay the difference at tax time.

If a consumer turns out to be eligible for more APTC than he received, the difference will be added to the refund he receives or lower the amount of tax owed.

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## ARE THERE LIMITATIONS ON HOW MUCH A CONSUMER MUST REPAY?

When consumers with incomes below 400% of the Federal Poverty Line (FPL) use more APTCs than they are eligible for, the IRS limits how much they must repay. These limitations are called “repayment caps” and increase by income level, as follows:

Household Income as FPL %	Cap for an Individual	Cap for a Family
Under 200%	\$300	\$600
200% to less than 300%	\$750	\$1,500
300% to less than 400%	\$1,250	\$2,500
Above 400%	No Cap	No Cap

For example, an individual whose income is 200% FPL will have to pay no more than \$750 in reconciliation, even if she used \$900 more in APTCs than she was eligible for.

## WHAT HAPPENS IF A CONSUMER FAILS TO RECONCILE?

Health care consumers who received APTCs but fail to file federal income taxes and reconcile could lose their PTCs in the future. The IRS and HealthCare.gov will send letters notifying these consumers of their obligation to file and reconcile.

### INTERNAL REVENUE SERVICE FORMS:

[IRS Form 1095-A](#) - This form issued by the marketplace shows coverage months and PTCs paid. Use the information to fill reconcile APTCs.

[IRS Form 1095-B](#) - This form reports Minimum Essential Coverage (MEC) including Medicaid, CHIP, and employer sponsored coverage.

[IRS Form 1095-C](#) - This form reports offers of coverage and coverage months from large employers.

[IRS Form 8962](#) - Use this form to claim PTCs and reconcile APTCs.

[IRS Form 8965](#) - Use this form to claim exemptions.

### MORE INFORMATION AND RESOURCES:

[Questions and Answers on the Premium Tax Credit](#), IRS

[Webinar: Reconciliation of APTCs](#), State Health Reform Assistance Network

[Affordable Care Act Tax Provisions](#), IRS

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

[In the Loop Tax Hub](#)

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