



CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

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Dear _____ :

I am responding to your letter dated February 17, 2021. You wrote about repaying the advance payments of the premium tax credit made on your behalf in 2019. I apologize for the delayed response.

In your letter, you explain you took a taxable distribution from your retirement account in 2019. Because this distribution was included in gross income on your 2019 federal income tax return, you were required to repay the advance premium tax credit payments made on your behalf in 2019.

Although I do not have independent knowledge of the facts of your case, it seems the retirement account distribution increased your 2019 household income above \$65,840. If so, you were ineligible to claim a premium tax credit for 2019. Unfortunately, a household income that high also makes you ineligible for relief from repaying the advance credit payments you received.

Although you don't qualify for repayment relief, you may qualify for a payment plan or an offer in compromise. You can find information on your payment options in [IRS Publication 594](#) which is available at www.irs.gov.

Premium tax credit eligibility

The premium tax credit is a refundable tax credit for certain eligible individuals who enroll, or who have a family member who enrolls in a health insurance plan through a Health Insurance Marketplace (Marketplace). It is intended to help with the insurance cost. Taxpayers claim the premium tax credit by filing Form 8962, Premium Tax Credit (PTC), with their federal income tax return.

Generally, a taxpayer's premium tax credit amount depends on the taxpayer's household income and his or her family size for the year. Taxpayers with household income over 400 percent of the federal poverty line for their family size are not allowed a premium tax credit. In 2019, a family of 2 living in _____ with household income of more than \$65,840 was not eligible for a premium tax credit.

Household income is the modified adjusted gross income (AGI) of the taxpayer and the taxpayer's spouse, if filing a joint return, plus the modified AGI of each dependent required to file a tax return. For purposes of the premium tax credit, modified AGI is the adjusted gross income on the tax return, plus certain income not subject to income tax (for example, tax-exempt interest and the non-taxable portion of social security benefits). Taxable distributions from a retirement account must generally be included in a taxpayer's modified AGI and household income.

Advanced payments of premium tax credit

Qualifying taxpayers who enroll in health insurance through a Marketplace can receive advance payments of the premium tax credit. These advance credit payments are made directly to the health insurance company and reduce the out-of-pocket cost of the taxpayer's premiums. The Marketplace makes the advance credit payment eligibility determination when a taxpayer and/or a taxpayer's family members enroll in Marketplace health insurance. The Marketplace estimates the amount of allowable premium tax credit using the taxpayer's projected household income. The estimated premium tax credit is the maximum amount of advance credit payments for which the taxpayer is eligible. The taxpayer then chooses to have all, some, or none of the allowable advance credit payments paid to the insurance provider.

Taxpayers who receive advance credit payments must compare the total advance credit payments received with the allowed premium tax credit shown on their federal income tax return. If a taxpayer's advance credit payments are more than the allowable premium tax credit, the taxpayer must repay the excess advance credit payments. The repayment amount may be limited for taxpayers with household income of less than 400 percent of the federal poverty line for their family size.

As explained above, the Marketplace uses a taxpayer's projected household income to determine eligibility for and the amount of the advance premium tax credit payments. Based on the information you provided, it appears your retirement account distribution was not included in your projected household income for 2019. Since the Marketplace used a projected household income that did not include your retirement distribution, your advance credit payments in 2019 were more than the premium tax credit you were allowed for 2019.

I hope this information is helpful. If you have additional questions, please contact me or
at .

Sincerely,

Angella L. Warren
Chief, Branch 4
Office of Associate Chief Counsel
(Income Tax and Accounting)