

 Fact Sheet

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Health Coverage Tax Credit

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The federal Health Coverage Tax Credit was created by the Trade Act of 2002 to help certain displaced workers and certain retirees pay for health insurance.

Generally, those eligible to claim the credit fall into one of two categories:

- About half are trade-impacted workers who have lost their jobs because of increased imports or a shift in production to another country and are classified as Trade Adjustment Assistance (TAA) or Alternative Trade Adjustment Assistance (ATAA) eligible.
- The other half are individuals whose pensions are being paid by the Pension Benefit Guaranty Corporation (PBGC), are at least 55 years of age and not entitled to Medicare.

The credit covers 65 percent of the cost of qualified health insurance for eligible individuals and their qualified family members. To receive the HCTC an individual must be enrolled in a qualified health insurance plan. Some individuals may already be enrolled in a form of insurance that is automatically qualified such as COBRA continuation coverage, certain spousal coverage or individual (non-group) health insurance coverage that began at least 30 days prior to separation from employment. Additional qualified individual plans may be available depending on the state where the eligible individual lives. Information about state qualified health plans is available on www.irs.gov, enter keyword HCTC.

To get the advance credit, individuals must register by mailing their form or by calling the HCTC Customer Contact Center to ensure they are eligible and to provide their health plan information (1-866-628-4282 or TDD/TTY 1-866-626-4282). Those successfully registered send 35 percent of the eligible health plan premium to the HCTC program. The HCTC program will then add the remaining 65 percent and submit the full 100 percent to the recipient's health plan on behalf of the individual. Until the HCTC program begins making payments to the insurance plan, individuals should continue to pay 100 percent of their health insurance coverage and claim the credit by filing Form 8885 with their federal income tax return.

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Individuals not receiving the credit in advance for any month in which they are eligible can claim the credit by filing Form 8885 with their federal income tax return. The credit first became available in December 2002.

Some states are working to institute the advance credit payment before the program is operational nationwide in August. A pilot test is underway in Maine to refine and enhance operations, and early registration activities are being conducted in Pennsylvania.

The HCTC is a refundable credit. With a refundable credit, even if the individual pays no tax he or she will receive a payment. However, the individual must either register with the HCTC program for advance payment or claim it on a federal income tax return.

HCTC represents a partnership of federal, state and private industry. For additional information on the Health Coverage Tax Credit, go to www.irs.gov and enter keyword HCTC.

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