



DEPARTMENT OF THE TREASURY
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OFFICE OF THE CHIEF COUNSEL

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The Honorable Robert E. Latta
Member, U.S. House of Representatives
101 Clinton Street, Suite 1200
Defiance, OH 43512

Attention:

Dear Congressman Latta:

I am responding to your letter dated March 9, 2014, on behalf of your constituent, . He wrote that he must repay nearly all of the advance payments of premium tax credit made on his behalf in 20 . He also asked about the Health Insurance Marketplace's (Marketplace) calculation of his advance credit payments for 2015.

The premium tax credit is a refundable tax credit for certain individuals who enroll, or who have a family member who enrolls, in a health insurance plan offered through a Marketplace and is intended to subsidize the cost of the insurance. The amount of a taxpayer's premium tax credit depends on the amount of the taxpayer's household income and his or her family size. For example, a qualifying family of four with household income at 150 percent of the federal poverty line for the taxpayer's family size will get a larger premium tax credit than a similarly situated family with household income at 350 percent of the federal poverty line.

Household income is the modified adjusted gross income (modified AGI) of the taxpayer and the taxpayer's spouse if filing a joint return, plus the modified AGI of the taxpayer's dependents who are required to file a tax return. Modified AGI is the taxpayer's adjusted gross income, plus his or her foreign earned income, tax-exempt interest, and untaxed social security payments. In general, a married taxpayer must file a joint income tax return to claim the premium tax credit.

The law allows qualifying taxpayers who enroll in Marketplace health insurance to receive the benefit of advance payments of the premium tax credit. Advance credit

payments are made directly to the taxpayer's health insurance company and reduce the taxpayer's share of the monthly premiums. When a taxpayer enrolls or enrolls a family member in Marketplace health insurance, the Marketplace uses an estimation of the taxpayer's household income and family size for the year, along with other factors, to compute the taxpayer's maximum amount of advance credit payments. The taxpayer then chooses to have all, some or none of this maximum amount paid on his or her behalf during the coverage year.

Taxpayers who get the benefit of advance credit payments must, when they file their tax return for the year, reconcile or compare the actual premium tax credit they are allowed to their advance credit payments. If a taxpayer's advance credit payments are more than the premium tax credit the taxpayer is allowed, the taxpayer must repay all or a portion of the excess when filing a tax return for the year. The amount of the repayment may be limited for taxpayers with household income of less than 400 percent of the federal poverty line for their family size.

From his letter, it appears that when [redacted] enrolled in Marketplace coverage and requested advance credit payments, his wife's income was erroneously omitted in determining 2014 household income. When he supplied his wife's income information to the Marketplace in June of 2014, no adjustment was made to his advance credit payments. Consequently, his advance payments of the premium tax credit in 2014 are significantly more than the premium tax credit he is allowed for 2014, and he must repay \$2,500.

Under the law, household income includes the income of [redacted] spouse and will affect the amount of his premium tax credit. Furthermore, because the household income reported on his tax return is significantly more than the household income used to compute his advance credit payments, [redacted] has a repayment liability that will either reduce the refund he otherwise would have received for 2014, or increase the amount of tax he must pay by April 15, 2015. His repayment amount is limited to \$2,500 if his household income is at least 300 percent and less than 400 percent of the poverty line for his family size.

[redacted] also asked about his advance credit payments for 2014. There are at least two actions [redacted] can take to reduce the likelihood he will have a large repayment liability when he files his 2014 tax return in 2015. First, he should be sure the projected household income used to compute his 2014 advance credit payments is accurate and includes his and his wife's income items, including untaxed social security payments. In addition, he could choose to take less than the maximum amount of advance credit payments the Marketplace computed for him for 2014.

I am sorry for the frustration experienced with this process, but I hope this information is helpful. If you need further assistance, please contact me, , or at .

Sincerely,

Michael J. Montemurro
Chief, Branch 4,
Office of Associate Chief Counsel
(Income Tax and Accounting)