



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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OFFICE OF THE CHIEF COUNSEL

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Dear _____ :

I am writing to you in response to your email correspondence concerning repayments of the advance payments of the premium tax credit made on your behalf. You took a distribution from a retirement account in _____ and the income from the distribution requires you to repay on your _____ tax return all of the advance credit payments made on your behalf in _____.

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 through a Health Insurance Marketplace, and is intended to help with the cost of the insurance. Taxpayers claim the premium tax credit by filing Form 8962, Premium Tax Credit (PTC), with their federal income tax return.

The amount of a taxpayer's premium tax credit for a year depends on the amount of the taxpayer's household income and his or her family size for the year. For example, a qualifying family of 2 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. Taxpayers with household income over 400 percent of the federal poverty line for their family size are not allowed 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 of the taxpayer's dependents 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 that is not subject to tax, specifically foreign earned income, tax-exempt interest, and the portion of social security benefits that is not taxable. Distributions from a retirement

account are generally required to be included in a taxpayer's modified AGI and household income.

The law allows qualifying taxpayers who enroll in health insurance through a Marketplace to receive the benefit of advance payments of the premium tax credit. 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 determination of eligibility for advance credit payments when the taxpayer enrolls or enrolls a family member in Marketplace health insurance. The Marketplace estimates the amount of premium tax credit a taxpayer will be allowed 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 advance credit payments for which he or she is eligible paid to the insurance provider.

Taxpayers who get the benefit of advance credit payments must, when they file their tax return for the year, compare the actual premium tax credit they are allowed to their advance credit payments. If a taxpayer's advance credit payments are more than his or her premium tax credit, the taxpayer must repay the excess advance credit payments, although 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. Because the amount of a taxpayer's advance credit payments are based on estimates, it is important for taxpayers to promptly inform the Marketplace of any changes in circumstances, such as changes to the amount of estimated household income used by the Marketplace to compute advance credit payments, that would cause a difference between the advance credit payments and the actual premium tax credit allowed.

You state that you took a distribution from a retirement account in . Unfortunately, it appears that the distribution was not included in the estimated household income used to compute your advance credit payments. Thus, because the household income did not include your retirement distribution, your advance credit payments in were more than the premium tax credit you are allowed for .

You also wrote that you are ineligible to claim a premium tax credit for , and must repay the advance credit payments made on your behalf. Although I do not have independent knowledge of the facts of your case, it would seem that you were ineligible to claim a premium tax credit for because your household income was more than 400 percent of the federal poverty line for your family size. The law requires taxpayers to use the household income reported on their tax return to determine whether a premium tax credit is allowed and, if so, the amount of the credit. The estimated household income used to compute advance credit payments is not used to determine a taxpayer's premium tax credit.

If your household income for _____ is more than 400 percent of the federal poverty line for your family size, you are not allowed a premium tax credit for _____ and must repay the advance credit payments made on your behalf. As stated above, a repayment limitation is available only to taxpayers with household income of less than 400 percent of the Federal poverty line for their family size.

Helpful information concerning paying your tax bill, including information on payment plans for taxpayers who cannot pay all of their taxes by the due date, is provided on the IRS website, www.irs.gov. You can access this information by going to the website and clicking on the link "Deadline", which you can find in the middle of the webpage.

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

Sincerely,

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