PREMIUM TAX CREDITS

This summary provides an overview of the premium tax credits that may be available to some AVMA members to purchase coverage through the American Health Benefit Exchanges ("Exchanges").

What are the premium tax credits?

Premium tax credits are credits available to certain individuals to help offset the cost of coverage when enrolling in a qualified health plan ("QHP") through the Exchanges. Premium tax credits are not available to individuals enrolling in coverage through a private exchange, such as the AVMA-GHLIT private exchange. For more information on QHPs, Exchanges, or the AVMA-GHLIT private exchange, please refer to the previous summary on the Exchanges. Unlike other tax credits, the premium tax credits are payable in advance to provide immediate assistance in paying for the cost of coverage.

Who is eligible for the premium tax credits?

An individual who meets the following qualifications may be eligible for premium tax credits:

- Household income between 100-400% of the federal poverty line;
- Not eligible for minimum essential coverage (except for individual policies);
- Not claimed as a deduction for another taxpayer (i.e., not a dependent);
- Files an income tax return; if married, must file a joint return;
- Enroll in a QHP through the Exchanges. Premium tax credits are available for coverage purchased through any Exchange, regardless of whether the Exchange is run by a state or by the federal government.

For 2013, 100% of the federal poverty line is $11,490 per year for an individual and $23,550 per year for a family of four; 400% of the federal poverty line is $45,960 per year for an individual and $94,200 per year for a family of four.

What is minimum essential coverage?

Minimum essential coverage means any of the following types of coverage:

- Government sponsored programs. For example, Medicare, Medicaid, Children’s Health Insurance Program ("CHIP"), or TRICARE.
- Employer-sponsored plans. Any coverage provided by an individual's employer.
- Plans in the individual market. Individual policies available for purchase, through the Exchange or otherwise.
• Grandfathered health plans. Any health plan (for example, an employer-sponsored plan) that has retained its grandfathered status for purposes of complying with the Patient Protection and Affordable Care Act.

What does it mean to be "eligible" for minimum essential coverage?

Government Sponsored Programs. Individuals who are eligible for a government sponsored program are not eligible for a premium tax credit, even if they choose not to enroll in the program. However, for these purposes, an individual will be considered "eligible" for a veterans' health program only if the individual is actually enrolled in the program.

Employer Sponsored Plans. An employee and the employee's dependents who satisfy the eligibility requirements (for example, satisfying a waiting period) of the employer-sponsored plan are considered eligible for minimum essential coverage for any month if the employer's plan is affordable and provides minimum value. The employee and dependents are considered eligible for the employer-sponsored plan if they could have enrolled for coverage during an open enrollment period or special enrollment period, even if they fail to enroll. In contrast, for purposes of continuation coverage under COBRA or state continuation coverage, employees and dependents are considered eligible for coverage only for months in which they are actually enrolled.

If the employee and dependents are actually enrolled in the employer-sponsored plan, the employee and dependents are considered "eligible" for minimum essential coverage even if the plan is not affordable or fails to provide minimum value. If, however, an employee or dependent is automatically enrolled in employer-sponsored coverage, the employee or dependent will not be treated as enrolled or "eligible" if the employee or dependent terminates coverage before the later of the first day of the second month of the plan year or the last day of any permissible opt-out period.

Individuals who may enroll in employer-sponsored coverage because of their relationship to the employee, but for whom the employee does not claim a personal exemption deduction (for example, a domestic partner), are treated as eligible for employer-sponsored coverage only for the months in which they are actually enrolled.

What is "affordable" coverage that provides "minimum value"?

Coverage under an employer-sponsored plan is considered "affordable" if the annual premium an employee must pay for self-only coverage does not exceed 9.5% of the employee's household income. Coverage for family coverage is likewise considered "affordable" if the portion of the annual premium the employee must pay for self-only coverage does not exceed 9.5% of the employee's household income. If an individual enrolls in a QHP and the Exchange determines the individual's employer-sponsored plan is not affordable, the employer-sponsored plan will be considered not affordable for the entire plan year unless the individual provided incorrect information with reckless disregard for facts.

An employer-sponsored plan is considered to provide "minimum value" if the plan pays at least 60% of the total allowed costs of benefits.
If an employer offers a health savings account or health reimbursement arrangement, amounts contributed by the employer may be counted toward the health plan's affordability or minimum value. If an employer offers a wellness program, wellness incentives are not counted toward the health plan's affordability or minimum value unless the wellness program is for tobacco use cessation. That is, the employer will assume that the employee fails to meet the wellness program requirements when determining whether the coverage is affordable or provides minimum value (unless the wellness program is for tobacco use cessation).

**How much is the credit?**

The amount an individual can receive for a premium tax credit is the lesser of:

- the premium for the month for the QHP in which the individual and his or her family are enrolled or
- the excess of the adjusted monthly premium for the second lowest cost silver plan offered through the Exchange in the state where the individual resides (the "Applicable Benchmark Plan") over 1/12 of the individual's household income times the applicable percentage. A "silver plan" is more fully described in the previous summary on the Exchanges, but is generally a plan that pays 70% of the cost of coverage.

The "adjusted monthly premium" is the premium that the QHP issuer of the Applicable Benchmark Plan would charge to cover the individual and his or her family, adjusted only for age.

The applicable percentage is a sliding scale depending upon where the individual's household income falls in comparison to the federal poverty level:

<table>
<thead>
<tr>
<th>Household income percentage of federal poverty line</th>
<th>Applicable Percentage Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% - 133%</td>
<td>2%</td>
</tr>
<tr>
<td>133% - 150%</td>
<td>3% - 4%</td>
</tr>
<tr>
<td>150% - 200%</td>
<td>4% - 6.3%</td>
</tr>
<tr>
<td>200% - 250%</td>
<td>6.3% - 8.05%</td>
</tr>
<tr>
<td>250% - 300%</td>
<td>8.05% - 9.5%</td>
</tr>
<tr>
<td>300% - 400%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

For example, if an individual's household income is 200% of the federal poverty line, the applicable percentage would be 6.3%. If an individual's household income is 250% of the federal poverty line, the applicable percentage would be 8.05%.
Do I receive the advance payments?

No. Advance payments of the premium tax credit will be provided directly to the QHP issuer. The advance payments will be reflected on the premium statement issued by the QHPs in which the individual and his or her family are enrolled.

What happens when I file my taxes?

Each year an individual must reconcile the amount of the premium tax credit allowed under the Internal Revenue Code with the advance payment of the credits on his or her tax return:

- If the premium tax credit exceeds the amount of advance payments, the individual may receive the excess as a refund.

- If the advance payments exceeds the premium tax credit allowed, the individual will owe the excess as a tax liability. However, this tax liability that may be owed is capped:

<table>
<thead>
<tr>
<th>Household income percentage of federal poverty line</th>
<th>Cap for single filers</th>
<th>Cap for all other individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 200%</td>
<td>$300</td>
<td>$600</td>
</tr>
<tr>
<td>200% - 300%</td>
<td>$750</td>
<td>$1,500</td>
</tr>
<tr>
<td>300% - 400%</td>
<td>$1,250</td>
<td>$2,500</td>
</tr>
</tbody>
</table>

If an individual gets married during a year, there is a special alternative rule that can be used for determining any tax liability. If a couple gets divorced during a year, the credit will generally be allocated between the two individuals, in any proportion they choose or 50% to each if they cannot agree on a proportion.