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Repaying Exchange Subsidy Overpayments

The Affordable Care Act (ACA) created health insurance subsidies in the form of premium tax credits and cost-sharing reductions in order to help eligible individuals and families purchase health insurance through an Exchange. The subsidies are designed to make coverage through an Exchange more affordable by reducing your out-of-pocket premium costs. However, because subsidies are based on projected income, you may have received a subsidy overpayment and are wondering what happens next.

How Do Overpayments Occur?

Subsidies are calculated on your tax return using your household income and family size for the taxable year. To make income and subsidy determinations, the Exchange insurance application asked you to provide specific information about your income. If your current income was not steady or if it was expected to change, you were asked to give a projected income on the application. If you did not provide any financial information, the Exchange used your federal income tax return from the previous year to calculate your projected income.

Advance payments of the premium tax credit are made directly to the insurance company on your behalf. At the end of the year, the advance payments are reconciled against the amount of your family's actual premium tax credit, as calculated on your federal income tax return. If your actual income is more than your projected income, you likely have a subsidy overpayment.

How Are Overpayments Fixed?

At the end of each year, your subsidy amount will be recalculated using your household income as reported on your tax return, and any difference in the amounts must be corrected.

If your income has increased from the amount you reported to the Exchange and you received a larger subsidy than you were entitled to, you may have to repay part of your subsidy. This could result in either a smaller tax refund or a tax payment due. However, if, based on your household income, you are owed a greater premium tax credit than you received, you will receive the excess as an income tax refund.

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If you do have to repay a portion of your subsidy, it is important to note that the ACA limits the amount of additional tax that may be imposed on taxpayers whose household incomes are less than 400 percent of the federal poverty level (FPL). The 2014 limits are as follows:

- Less than 200 percent FPL: \$300 individual, \$600 family
- 200-300 percent FPL: \$750 individual, \$1,500 family
- 300-400 percent FPL: \$1,250 individual, \$2,500 family

On Oct. 30, 2014, the IRS announced that these limits **will remain the same in 2015**. For taxable years beginning after 2015, the limits may be adjusted to reflect changes in the consumer price index. If your household income is at or above 400 percent of the FPL, you will have to repay the entire amount of any subsidy overpayment.

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