Premium Tax Credit – 2021 Changes

Prepared for AARP Tax-Aide State Training December 2021
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Background

On 3-11-2021 the American Rescue Plan (ARP) made temporary changes and enhancements to the Premium Tax Credit (PTC). It remains to be seen if these will be extended. These changes and enhancements consisted of three parts:

1. Change to Eligibility (2021 and 2022): It allows PTC to be claimed by people with an income above 400% of the federal poverty line (FPL).
2. Enhancement #1 – Revised Contribution Percentage (2021 and 2022): It increases the allowed PTC by reducing the percentage of annual income that households are required to contribute toward the premium.
3. Enhancement #2 – Enhanced PTC with Unemployment Compensation (2021 only): This applies if a taxpayer in the household received or was approved for unemployment compensation for any week beginning during 2021. This sets the household income at no more than 133% of the FPL for your family size, regardless of actual household income.

In addition, the ARP waived the repayment of any excess Advanced Premium Tax Credit (APTC) for the 2020 tax year ONLY. This applied to all situations including those exceeding the 400% FPL limit in 2020.

Portal Resources

Training Slide 36 – Premium Tax Credit TY21 Rel. 1

2020 Tax Preparation

The ARP was signed on 3-11-2021 and waived the repayment of excess APTC for the 2020 tax year.

On 4-9-2021 TaxSlayer was updated to waive APTC repayments. Form 8962 still calculates/reconciles PTC, but any repayment amount is left blank at bottom of form. TaxSlayer Blog said that the 8962 would <u>not</u> be included in the e-file when APTC repayment applied.

There was a lot of confusion on how to deal with this mid-year tax change. AARP issued interim guidance. District 7 held most returns with APTC repayment between March 11 and April 9 and had the taxpayer return to complete the return and e-file. Starting April 9, the return was correctly e-filed with no APTC repayment.

The IRS issued the following guidance: Returns filed with APTC repayment included in the return will be corrected by the IRS and refunds will be sent. IRS guidance is to NOT file an amended return. A few other items from the IRS website:

- The IRS will reduce the excess APTC repayment amount to zero with no further action needed by you.
- The IRS will reimburse you for the excess APTC you paid on your 2020 tax return.
- Taxpayers who received a letter about a missing Form 8962 and 1095-A, should disregard the letter if they have excess APTC for 2020.
- The IRS will process tax returns without Form 8962 for tax year 2020 by reducing the excess APRC repayment amount to zero.
- If you qualified for NET PTC credit, nothing has changed and you are eligible for the credit. Complete the return and Form 8962 as normal and file the 8962 with your return.

Enhancement #1 – Revised Contribution Percentage (2021 and 2022):

This discussion deals with the mathematical formula used by the ACA to calculate PTC. TaxSlayer has all of this programmed into the software and Form 8962 and this level of knowledge is not necessary. This discussion is provided FYI.

The mathematical formula for the allowed PTC is:

PTC = SLCSP Premium – (Applicable Figure x Household Income)

The amount of PTC cannot be larger than the Enrollment Premium.

The ARP enhancement was to reduce the percentage of annual income that households are required to contribute toward the premium. In the formula above, this is done by reducing the Applicable Figure, which represents household income as a % of the FPL. Thus, increasing the allowed PTC. This enhancement applies to all 2021 monthly calculations.

The following table shows this percentage of annual income (before and after ARP) that households are required to contribute toward the premium and this is what lowered the Applicable Figure. The Applicable Figure is included in PUB 4012, pages H-24 and H-25, and is derived from this table.

Income (% of poverty)	**Affordable Care Act** (before ARP change)	**ARP Relief (current law 2021-2022)**
Under 100%	Not eligible for subsidies*	Not eligible for subsidies**
100% – 138%	2.07%	0.0%
138% – 150%	3.10% – 4.14%	0.0%
150% – 200%	4.14% – 6.52%	0.0% – 2.0%
200% – 250%	6.52% – 8.33%	2.0% – 4.0%
250% – 300%	8.33% – 9.83%	4.0% – 6.0%
300% – 400%	9.83%	6.0% – 8.5%
Over 400%	Not eligible for subsidies	8.5%

Enhancement #2 - Enhanced PTC with Unemployment Compensation (2021 Only)

The ARP also introduced a new provision for Enhanced PTC with Unemployment Compensation and this only applies for 2021. This applies if a taxpayer in the household received or was approved to receive unemployment compensation for at least one week during 2021. This does not apply if only a dependent received the unemployment compensation in 2021. This enhanced PTC was intended to cover the entire premium cost for the Benchmark Marketplace Plan (SLCSP) for the whole household, regardless of the actual household income amount.

Individuals receiving unemployment compensation could have opted for a revised APTC or possibly a different insurance plan, starting July 1, 2021 via their Marketplace. If an affected individual did not opt for the revised APTC, then any additional PTC will be claimed on the 2021 tax return.

If the unemployment compensation enhancement applies, your household income is considered to be no greater than 133% of the federal poverty line for your family size, regardless of the actual household income. Your allowed PTC will then be calculated with this new household income.

This could be a tremendous benefit to affected taxpayers and many are likely not aware of this Enhancement. This could be a very nice surprise on their 2021 tax return.

Continuing the mathematical formula discussion from Enhancement #1, where:

PTC = SLCSP Premium – (Applicable Figure x Household Income)

The Applicable Figure for 133% of FPL is ZERO for 2021. Thus, the allowed PTC is equal to the SLCSP Premium or the Enrollment Premium, whichever is less. Remember the SLCSP represents the Benchmark Marketplace Plan.

2021 Tax Preparation

The suspension of repayment of excess PTC only applied for 2020. The normal rules for repayment, including repayment caps, apply for 2021.

A good practice will be to review the 2020 tax return if PTC applied. If there was a PTC repayment, verify the return was properly filed with the repayment waived or verify the IRS issued a refund if the taxpayer did make a repayment. If this has not been properly resolved, then consider an amended return. Keep in mind the 4-9-2021 date when TaxSlayer was updated to properly file the returns with PTC repayment.

Repayment of excess APTC will apply for 2021. The repayment caps for excess APTC will also apply – see PUB 4012, page H-19. Note that there is no repayment cap for >400% FPL.

We will now see taxpayers eligible for PTC with household incomes above 400% FPL. As household income nears and exceeds 400% FPL, the allowed PTC will be fairly small. If the taxpayer accurately estimated their income for 2021, their reconciled PTC should be similar to that allowed. In these situations, there would be a small amount of excess APTC to be repaid if their actual household income is only slightly larger than estimated.

If a taxpayer estimated their 2021 household income at a lower level and then received additional unexpected income such that their actual household income is >400% FPL, this could cause repayment of a large amount of the APTC without the cap. This could be very significant.

It appears that TaxSlayer is not properly applying the APTC repayment CAP in all cases – may be a carry-over from 2020 waiver of PTC repayment.

Due to ARP Enhancement #1, the allowed amount of APTC was automatically recalculated by the Marketplace in March or April 2021. Generally, this resulted in a higher allowed APTC. This change will be detailed on the 2021 Form 1095-A. Expect to see a step change for APTC on the 1095-A in March or April for most taxpayers.

The revised Applicable Figure for Enhancement #1 have been programed into TaxSlayer.

Due to ARP Enhancement #2, an individual could have a recalculated APTC or a different insurance plan starting in July 2021. Again, these changes will be detailed on the 1095-A.

TaxSlayer has been revised to account for Enhancement #2 as follows:

- If there is a 1099-G entered for unemployment compensation, then TaxSlayer automatically sets the Form 8962 Household Income at 133% of the FPL. In this case, the new unemployment question in the next step does not appear.
- If there is not a 1099-G entered, then TaxSlayer has the following revised input screen and ask if "were you eligible to receive unemployment compensation for any week in 2021?" If you answer YES, then TaxSlayer sets the Form 8962 Household Income at 133% of the FPL.

Advanced Premium Tax Credit (1095-A)

BACK CONTINUE

Were you eligible to receive unemployment compensation for any week in 2021?

(•) Yes

( ) No

Are you required to repay all of the APTC received? In most cases, the answer is NO. ONLY answer YES if you were not considered lawfully present in the U.S. or you meet the Health Coverage Tax Credit criteria. Note: We will automatically calculate a full repayment of APTC when MAGI is greater than 400 percent of Federal Poverty Line.

(•) Yes

( ) No

Do all Forms 1095-A include coverage for January through December, with no changes in monthly amounts?

( ) Yes

(•) No

You will enter the 1095-A into TaxSlayer the same as always paying attention for possible monthly changes throughout the year.

If Enhancement #2 applies, the Form 8962 will look like the following:

Form **8962** — Department of the Treasury, Internal Revenue Service

Premium Tax Credit (PTC)

► Attach to Form 1040, 1040-SR, or 1040-NR.
► Go to *www.irs.gov/Form8962* for instructions and the latest information.

OMB No. 1545-0074 — **2021** — Attachment Sequence No. **73**

Name shown on your return	Your social security number
SAM PTCEXAMPLE	XXX-XX-7777

A. If you received, or were eligible to receive, unemployment compensation for any week in 2021, check the box. See instructions . . . ► ☒

B. You cannot take the PTC if your filing status is married filing separately unless you qualify for an exception. See instructions. If you qualify, check the box ► ☐

Part I Annual and Monthly Contribution Amount

1	Tax family size. Enter your tax family size. See instructions			1	1
2a	Modified AGI. Enter your modified AGI. See instructions	2a	80000		
b	Enter the total of your dependents' modified AGI. See instructions	2b			
3	Household income. Add the amounts on lines 2a and 2b. See instructions			3	80000
4	Federal poverty line. Enter the federal poverty line amount from Table 1-1, 1-2, or 1-3. See instructions. Check the appropriate box for the federal poverty table used. a ☐ Alaska b ☐ Hawaii c ☒ Other 48 states and DC			4	12760
5	Household income as a percentage of federal poverty line (see instructions)			5	133 %
6	Reserved for future use				
7	Applicable figure. Using your line 5 percentage, locate your "applicable figure" on the table in the instructions			7	0.0000
8a	Annual contribution amount. Multiply line 3 by line 7. Round to nearest whole dollar amount	8a			
b	Monthly contribution amount. Divide line 8a by 12. Round to nearest whole dollar amount			8b	

Part II Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Are you allocating policy amounts with another taxpayer or do you want to use the alternative calculation for year of marriage? See instructions.
☐ **Yes.** Skip to Part IV, Allocation of Policy Amounts, or Part V, Alternative Calculation for Year of Marriage. ☒ **No.** Continue to line 10.

10 See the instructions to determine if you can use line 11 or must complete lines 12 through 23.
☒ **Yes.** Continue to line 11. Compute your annual PTC. Then skip lines 12–23 and continue to line 24. ☐ **No.** Continue to lines 12–23. Compute your monthly PTC and continue to line 24.

Annual Calculation	(a) Annual enrollment premiums (Form(s) 1095-A, line 33A)	(b) Annual applicable SLCSP premium (Form(s) 1095-A, line 33B)	(c) Annual contribution amount (line 8a)	(d) Annual maximum premium assistance (subtract (c) from (b); if zero or less, enter -0-)	(e) Annual premium tax credit allowed (smaller of (a) or (d))	(f) Annual advance payment of PTC (Form(s) 1095-A, line 33C)
11 Annual Totals	6000	6800		6800	6000	4000
			(c) Monthly			

In this example, the actual Household Income is >400%FPL (4 x 12,760). Since the Block A is checked yes for the unemployment compensation, the Household Income on Line 6 is automatically set to 133% of FPL. The Line 7 Applicable Figure is 0.0000, as expected. The net result is that the allowed PTC will be equivalent to the SLCSP Premium or the Enrollment Premium, whichever is less.

8962 Instructions: Household income. For purposes of the PTC, household income is the modified adjusted gross income (modified AGI) of you and your spouse (if filing a joint return) (see *Line 2a*, later) plus the modified AGI of each individual whom you claim as a dependent and who is required to file an income tax return because his or her income meets the income tax return filing threshold (see *Line 2b*, later). Household income does not include the modified AGI of those individuals whom you claim as dependents and who are filing a 2021 return only to claim a refund of withheld income tax or estimated tax.

If you, or your spouse (if filing a joint return), received, or were approved to receive, unemployment compensation for any week beginning during 2021, your household income is considered to be no greater than 133% of the federal poverty line for your family size.

8962 Instructions: Unemployment compensation. Check the box on line A, above Part I of Form 8962, if you, or your spouse (if filing a joint return), received, or were approved to receive, unemployment compensation for any week beginning during 2021. By checking this box, you are certifying that you, or your spouse (if filing a joint return), received, or were approved to receive, unemployment compensation for any week beginning during 2021. Keep any supporting documentation with your tax return records. For more information, see Pub. 974.

Additional Discussion on the 2021 and 2022 Changes to PTC

As an additional FYI, there were political driven changes such that certain parts of the ACA were defunded for 2018 to 2020. In order to cover these defunded parts, insurance companies significantly increased the affected silver-level insurance plan premiums. As a somewhat ironic result, the SLCSP Premiums were significantly increased in 2018 to 2020 and this resulted in a relatively higher allowed PTC for those years. Starting in 2021, these parts of ACA were once again funded. For 2021 and 2022, the SLCSP Premiums are significantly lower and this will result in relatively lower allowed PTC. The ARP Enhancement #1 will increase allowed PTC for 2020 and 2021, but the lowered SLCSP Premiums will off-set much of this and many will find their PTC lower than expected for both 2021 and 2022.