

[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 9590]

RIN 1545-BJ82

Health Insurance Premium Tax Credit

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the health insurance premium tax credit enacted by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, as amended by the Medicare and Medicaid Extenders Act of 2010, the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011, the Department of Defense and Full-Year Continuing Appropriations Act, 2011, and the 3% Withholding Repeal and Job Creation Act. These final regulations provide guidance to individuals who enroll in qualified health plans through Affordable Insurance Exchanges (Exchanges) and claim the premium tax credit, and to Exchanges that make qualified health plans available to individuals and employers.

DATES: Effective Date: These regulations are effective on **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

Comment date: Comments will be accepted until **[INSERT DATE 90 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

Applicability Date: For date of applicability, see §1.36B-1(o).

ADDRESSES: Comments should be submitted to Internal Revenue Service, CC:PA:LPD:PR (REG-131491-10), Room 5203, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044, or electronically to www.regulations.gov (IRS REG-131491-10). Alternatively, comments may be hand delivered between the hours of 8:00 a.m. and 4:00 p.m. Monday to Friday to CC:PA:LPD:PR (REG-131491-10), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, D.C. All comments will be available for public inspection and copying.

FOR FURTHER INFORMATION CONTACT: Shareen S. Pflanz, (202) 622-4920, or Andrew S. Braden, (202) 622-4960 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork and Reduction Act (44 U.S.C. 3507(d)) under control number 1545-2232.

The collection of information in these final regulations is in §1.36B-5. The information will help the IRS properly reconcile the amount of the premium tax credit with advance credit payments made under section 1412 of the Patient Protection and Affordable Care Act (42 U.S.C. 18082). The collection of information is required to comply with the provisions of section 36B(f)(3) of the Internal Revenue Code (Code). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number assigned by the Office of Management and Budget.

The estimated total annual reporting burden is 250,000 hours. The estimated annual burden per respondent is 5,000 hours. The estimated number of respondents is 50.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, SE:W:CAR:MP:T:T:SP, Washington, DC 20224, and to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and return information are confidential, as required by 26 U.S.C. 6103.

Background

This document contains final regulations that amend the Income Tax Regulations (26 CFR part 1) under section 36B relating to the premium tax credit. Section 36B was enacted by the Patient Protection and Affordable Care Act, Public Law 111-148 (124 Stat. 119 (2010)), and the Health Care and Education Reconciliation Act of 2010, Public Law 111-152 (124 Stat. 1029 (2010)) (collectively, the Affordable Care Act). On August 17, 2011, a notice of proposed rulemaking (REG-131491-10) was published in the **Federal Register** (76 FR 50931). Written comments responding to the notice of proposed rulemaking were received. The comments are available for public inspection at www.regulations.gov or on request. A public hearing was held on November 17, 2011. After consideration of all the comments, the proposed regulations are adopted as

amended by this Treasury decision. The comments and revisions are discussed in the preamble.

Explanation of Provisions and Summary of Comments

1. Premium Tax Credit Definitions

a. Family size

The proposed regulations define a taxpayer's family as the individuals for whom a taxpayer claims a deduction for a personal exemption under section 151 for the taxable year, which may include the taxpayer, the taxpayer's spouse, and dependents. The proposed regulations also clarify that the family includes individuals who are not applicable individuals under section 5000A(d) and thus are not subject to the penalty for failing to maintain minimum essential coverage.

Commentators recommended clarifying that the family also includes individuals who are exempt under section 5000A(e) from the requirement to maintain minimum essential coverage. Accordingly, the final regulations clarify that a family may include all individuals not subject to the section 5000A penalty.

Some commentators disagreed with the rule in the proposed regulations that a taxpayer's family includes a child only if the taxpayer is allowed a dependency exemption deduction for the child. Commentators suggested that taxpayers should be able to compute a premium tax credit based on premiums for a child for whom the person is not allowed a dependency exemption deduction. Section 36B(d)(1) defines the family as the individuals for whom the taxpayer is allowed a personal exemption deduction under section 151. Accordingly, the final regulations do not adopt these

comments. We note however, that the non-dependent child may be able to claim a premium tax credit if otherwise eligible. See §1.36B-3(h).

b. Requirement to file a return for purposes of household income

Under section 36B, household income includes the modified adjusted gross income of a dependent who is required to file a return of tax imposed by section 1. The final regulations conform to this statutory language, thus clarifying that household income does not include the modified adjusted gross income of a family member who is required to file a tax return solely to report tax imposed under Code sections other than section 1 (for example, the early distribution penalty imposed under section 72(q) or self-employment tax under section 1401).

c. Modified adjusted gross income

Under the proposed regulations, modified adjusted gross income is adjusted gross income increased by amounts excluded from gross income under section 911 and tax-exempt interest a taxpayer receives or accrues during the taxable year. The 3% Withholding Repeal and Job Creation Act, Public Law 112-56 (125 Stat. 711 (2011)), which was enacted after the proposed regulations were published, amended the definition of modified adjusted gross income to include Social Security benefits (as defined in section 86(d)) not included in gross income under section 86. The final regulations reflect this amendment.

d. Lawfully present

Under section 36B(c)(1)(B) and the proposed regulations, a taxpayer who is an individual lawfully present in the United States may be treated as an applicable taxpayer if the taxpayer's household income is under 100 percent of the Federal poverty line

(FPL) and the taxpayer is not eligible for Medicaid. Under section 1321(f)(3) of the Affordable Care Act, an individual who is not lawfully present in the United States may not enroll in a qualified health plan through an Exchange. The proposed regulations define lawfully present by referencing 45 CFR 152.2, which also is referenced in defining lawfully present in proposed regulations on Exchanges under 45 CFR 155.20 issued by the Department of Health and Human Services (HHS).

Commentators requested that the final regulations expand the definition of lawfully present to include the categories of immigrants described in the Children's Health Insurance Program Reauthorization Act. One commentator stated that the final regulations should allow States to use existing administrative mechanisms to determine eligibility if those mechanisms are not more restrictive than Federal law.

To maintain consistency with the HHS Exchange final regulations, the final regulations define lawfully present by referencing 45 CFR 155.20, the definition in the HHS Exchange final regulations.

e. Federal poverty line

The proposed regulations define federal poverty line by reference to the Federal poverty guidelines published annually by HHS. The Federal poverty guidelines for Alaska and Hawaii differ from the guidelines for the 48 contiguous states and the District of Columbia. The final regulations clarify that, if married taxpayers reside in separate States with different Federal poverty guidelines, or if a taxpayer resides in States with different Federal poverty guidelines during the year, the Federal poverty line that applies for purposes of section 36B and the associated regulations is the higher Federal poverty

line (resulting in a lower percentage of the Federal poverty line for the taxpayers' household income and family size).

f. Federally-facilitated Exchange

Under the proposed regulations, the term Exchange has the same meaning as in 45 CFR 155.20, which provides that the term Exchange refers to a State Exchange, regional Exchange, subsidiary Exchange, and Federally-facilitated Exchange.

Commentators disagreed on whether the language in section 36B(b)(2)(A) limits the availability of the premium tax credit only to taxpayers who enroll in qualified health plans on State Exchanges.

The statutory language of section 36B and other provisions of the Affordable Care Act support the interpretation that credits are available to taxpayers who obtain coverage through a State Exchange, regional Exchange, subsidiary Exchange, and the Federally-facilitated Exchange. Moreover, the relevant legislative history does not demonstrate that Congress intended to limit the premium tax credit to State Exchanges. Accordingly, the final regulations maintain the rule in the proposed regulations because it is consistent with the language, purpose, and structure of section 36B and the Affordable Care Act as a whole.

g. Rating area

The proposed regulations define rating area as an Exchange service area, as described in 45 CFR 155.20. Commentators suggested that an Exchange service area is different than a rating area as that term is used in section 36B(b)(3) for determining the applicable benchmark plan. The final regulations reserve the definition of rating area.

2. Eligibility for the Premium Tax Credit

a. Applicable taxpayer

Under section 36B(c)(1) and the proposed regulations, in general a taxpayer is an applicable taxpayer for a taxable year only if the taxpayer's household income for the taxable year is at least 100 percent but not more than 400 percent of the FPL for the taxpayer's family size. Commentators requested that the final regulations treat a taxpayer whose household income exceeds 400 percent of the FPL for the taxpayer's family size as an applicable taxpayer if, at enrollment, the Exchange estimates that the taxpayer's household income will be between 100 and 400 percent of the FPL for the taxpayer's family size and approves advance credit payments. Other commentators advocated allowing taxpayers with household income above 400 percent of the FPL for their family size to be treated as eligible for a premium tax credit for the months before a change in circumstances affecting household income occurs or for the months for which the taxpayer receives advance payments.

The final regulations do not adopt these comments because they are contrary to the language of section 36B limiting the premium tax credit to taxpayers with household income for the taxable year at or below 400 percent of the FPL for the taxpayer's family size.

Commentators requested that the final regulations clarify that a taxpayer who has household income between 100 percent and 133 percent of the FPL but is not eligible for Medicaid qualifies for the premium tax credit. Under section 36B(c)(1)(A) and the proposed regulations, an applicable taxpayer who may claim the premium tax credit is a taxpayer with household income between 100 and 400 percent of the FPL for the family

size. Thus, it is clear that a taxpayer with household income between 100 percent and 133 percent of the FPL for the taxpayer's family size may be an applicable taxpayer.

Commentators requested that the final regulations allow an individual who may be claimed as a dependent by another taxpayer to qualify as an applicable taxpayer for a taxable year if, for the taxable year, another taxpayer does not claim the individual as a dependent. The final regulations do not adopt this comment because it is inconsistent with section 36B(c)(1)(D), which provides that a premium tax credit is not allowed to any individual for whom a deduction under section 151 is "allowable to another taxpayer" for the taxable year.

b. Incarceration

Under section 1312(f) of the Affordable Care Act, individuals who are incarcerated (other than pending disposition of charges) may not enroll in a qualified health plan through an Exchange. The proposed regulations provide, however, that an individual who is incarcerated may be allowed a premium tax credit if a family member is enrolled in a qualified health plan.

A commentator suggested that the rules relating to incarcerated individuals should apply to individuals incarcerated pending disposition of charges, as is the case under the Medicaid program. The comment addresses an issue beyond the scope of the premium tax credit regulations. Standards for enrollment in a qualified health plan fall under rules within the jurisdiction of HHS.

c. Minimum essential coverage

i. Government-Sponsored Coverage

A. Time of eligibility

The proposed regulations provide that an individual generally is treated as eligible for a government-sponsored program on the first day of the first full month in which the individual may receive benefits under the program. The proposed regulations further provide that an individual who fails to complete the requirements necessary to receive benefits available under a government-sponsored program (other than a veteran's health care program) reasonably promptly is treated as eligible for the coverage on the first day of the second calendar month following the event that establishes eligibility.

Commentators asked that the final regulations allow individuals a certain amount of time to complete the requirements (such as submitting an application) necessary to obtain government-sponsored minimum essential coverage. Some commentators suggested that the final regulations could provide this period by defining "reasonably promptly" as 90 days after the event that establishes eligibility. Commentators requested that the final regulations allow exemptions from the 90-day period, however, when additional delay in receiving benefits occurs despite the good faith efforts of the taxpayer, for example as a result of inaction of a government agency or official.

To provide greater clarity, the final regulations delete the language "reasonably promptly" and extend this time period. Under the final regulations, an individual who fails to complete the requirements necessary to receive benefits available under a government-sponsored program by the last day of the third full calendar month following the event that establishes eligibility is treated as eligible for the coverage on the first day of the fourth calendar month. Because an individual who timely completes the necessary requirements is treated as eligible for government-sponsored minimum

essential coverage no earlier than the first month that the individual may receive benefits, this 3-month time period does not include the time needed for a government agency to process an application.

The proposed regulations request comments on whether rules should provide flexibility if operational challenges prevent timely transition from coverage under a qualified health plan to coverage under a government-sponsored program. Commentators stated that the final regulations should provide that an individual transitioning from a qualified health plan to coverage under a government-sponsored program should not be treated as eligible for government-sponsored minimum essential coverage until the individual is able to effectively terminate his or her qualified health plan coverage. They expressed concern that an individual may be unable to discontinue advance credit payments by the beginning of a month for which the individual is eligible for government-sponsored coverage and could be responsible for an excess advance payment for that month.

The concerns expressed in these comments are addressed in the HHS final regulations on Exchanges. Under 45 CFR 155.430, an Exchange must permit an enrollee to terminate coverage in a qualified health plan no later than 14 days after the enrollee requests termination. For an enrollee who is newly eligible for Medicaid or the Children's Health Insurance Program (CHIP), 45 CFR 155.430(d)(2)(iv) provides that qualified health plan coverage terminates on the last day before Medicaid or CHIP coverage begins. These termination rules enable individuals transitioning to coverage under a government-sponsored program to effectively terminate qualified health plan

coverage (and liability for advance credit payments) before they are eligible for government-sponsored minimum essential coverage.

B. Definition of “eligible”

The proposed regulations provide that an individual is eligible for government-sponsored minimum essential coverage when an individual meets the requirements for coverage under the program. For administrative convenience, however, because the standards for eligibility in veterans’ programs do not allow Exchanges to identify everyone who may be eligible for veterans’ coverage at the time he or she is seeking an eligibility determination for advance payments of the premium tax credit, the proposed regulations provide that an individual is eligible for minimum essential coverage under the veteran’s health care program authorized under chapter 17 or 18 of Title 38, U.S.C. only if the individual is enrolled in a veteran’s health care program identified as minimum essential coverage in regulations issued under section 5000A.

The final regulations conform the rules to amendments to section 5000A that delete the word “veteran’s” in describing health care programs under chapter 17 or 18 of Title 38. Thus, the special rule for veterans’ coverage may apply to individuals who are not veterans but are eligible for the Civilian Health and Medical Program of the Department of Veterans Affairs (VA) or the VA’s spina bifida program.

Commentators requested that the final regulations define eligibility for government-sponsored programs as actual enrollment for individuals suffering from end stage renal disease who become eligible for Medicare as a result of their diagnosis. Other commentators requested this treatment for any individual suffering from an acute illness who becomes eligible for a government-sponsored program. The commentators

asserted that these seriously-ill individuals should be able to choose to remain enrolled in a qualified health plan with the benefit of a premium tax credit to maintain continuity of medical care, which may be disrupted if the individual loses eligibility for the premium tax credit and is required to move to a government-sponsored program in which the individual's medical provider does not participate.

Section 36B(c)(2)(B) establishes a clear structure under which eligibility for government-sponsored minimum essential coverage in a given month precludes including an individual in a taxpayer's coverage family for purposes of computing the premium assistance amount for that month. In keeping with the statutory scheme, the final regulations do not adopt these comments. However, the IRS and the Treasury Department expect to publish additional guidance, see §601.601(d)(2), clarifying when or if an individual becomes "eligible for government-sponsored minimum essential coverage" when the eligibility for that coverage is a result of a particular illness or condition. For example, as the preamble to the proposed regulations notes, the additional guidance would clarify the rules in the case of eligibility for Medicaid on the basis of blindness or disability.

C. Eligibility for limited benefits

Commentators requested that the final regulations address whether eligibility for benefits with a limited scope under government programs (for example, eligibility only for family planning services under Medicaid) constitutes eligibility for minimum essential coverage. The final regulations do not address these comments because minimum essential coverage is defined in section 5000A(f). It is anticipated that regulations under

section 5000A will provide that government-sponsored health benefit programs that offer only very limited benefits are not minimum essential coverage.

D. Medicare eligibility

A commentator noted that the dates in some of the examples in the proposed regulations concerning eligibility for Medicare inaccurately describe when an individual's Medicare coverage begins. The commentator also asked that the final regulations create a safe harbor for taxpayers whose Medicare coverage is delayed because they enroll during the later months of their Medicare initial enrollment period.

The final regulations revise the examples in response to this comment. The final regulations do not include the suggested Medicare safe harbor because the commentator's concerns are addressed by the general rule that an individual is eligible for minimum essential coverage on the first day of the first full month the individual may receive benefits. Additionally, as discussed earlier in this preamble, the final regulations revise the rule that an individual who fails to complete the requirements to obtain coverage is treated as eligible on the first day of the fourth month after the event establishing eligibility. Thus, individuals enrolling during the later months of their initial Medicare enrollment period will not be deemed eligible for Medicare before the expiration of the enrollment period.

E. Indian Health Service

Commentators requested that the final regulations provide that individuals eligible to receive health care from the Indian Health Service (IHS) are not eligible for government-sponsored minimum essential coverage. Section 5000A(f) defines minimum essential coverage. It does not designate the IHS as providing minimum

essential coverage. Section 5000A(f)(1)(E) authorizes HHS to designate other coverage as minimum essential coverage. HHS has advised the IRS and the Treasury Department that it does not intend to designate access to the IHS as minimum essential coverage. Thus, individuals who are eligible to receive health care from the IHS will not be barred by IHS access alone from eligibility for the premium tax credit or from access to the special cost-sharing reduction for tribal members under section 1402(d) of the Affordable Care Act.

ii. Employer-Sponsored Coverage

A. Affordability

The proposed regulations provide that an eligible employer-sponsored plan is affordable for an employee and related individuals if the portion of the annual premium the employee must pay for self-only coverage does not exceed the required contribution percentage (9.5 percent for taxable years beginning before January 1, 2015) of the taxpayer's household income. Commentators suggested that the affordability of coverage for related individuals should be based on the portion of the annual premium the employee must pay for family coverage.

Under section 36B(c)(2)(C), an individual who may enroll in an eligible employer-sponsored plan may nonetheless be eligible for a premium tax credit if the employer-sponsored coverage either is unaffordable or fails to provide minimum value. Future regulations concerning employer-sponsored coverage will provide final rules on determining affordability for related individuals and proposed rules on determining minimum value.

Some commentators asked that the final rules clarify how employer contributions

to health savings accounts (HSAs), and amounts made available under health reimbursement arrangements (HRAs) are treated in determining affordability. Employer contributions to an HSA would not affect the affordability of employer-sponsored coverage because HSA contributions may not be used to pay for premiums for health insurance coverage (except in limited circumstances not applicable in the context of employer-sponsored coverage). Amounts available under an HRA that may be used only to reimburse medical expenses other than the employee's required share of the cost of employer-sponsored coverage also would not affect the affordability of employer-sponsored coverage. These final regulations do not address how other HRAs are treated for purposes of determining the affordability of an employer-sponsored plan, which may be addressed further in additional published guidance, see §601.601(d)(2).

Some commentators also asked for clarification on how wellness incentive programs affect the premium affordability determination. The final regulations authorize the Commissioner to publish additional guidance, see §601.601(d)(2), to address the effect on affordability of wellness incentives that increase or decrease an employee's share of premiums. Comments are requested on types of wellness incentives, how these programs affect the affordability of eligible employer-sponsored coverage for employees and related individuals, and how incentives are earned and applied. The administrability of any rule on wellness incentives must consider the extent to which employees can be certain they will qualify for the incentives at the time they otherwise would be evaluated for eligibility for advance credit payments.

B. Affordability safe harbor

Under the proposed regulations, an employer-sponsored plan is not affordable

for an employee or family member for a plan year if, when the employee or family member enrolls in a qualified health plan, an Exchange determines that the eligible employer-sponsored plan is not affordable. Individuals applying for advance credit payments are required to provide the Exchange with information on whether employer-sponsored coverage is available to them. Because an Exchange will make an affordability determination only when an individual represents that employer-sponsored coverage is available, the affordability safe harbor will not be available to a taxpayer who misrepresents to an Exchange the availability of employer-sponsored coverage. The final regulations provide that the affordability safe harbor does not apply if a taxpayer, with reckless disregard for the facts, provides incorrect information to an Exchange concerning an employee's portion of the annual premium for employer coverage. The final regulations clarify that the affordability safe harbor applies only until such time as the availability of employer-sponsored coverage changes. If new or different employer-sponsored coverage becomes available after an individual enrolls in a qualified health plan, the individual must notify the Exchange and get a new affordability determination to extend the safe harbor. As the preamble to the proposed regulation notes, regulations under section 4980H are expected to provide that an employer is not subject to a penalty merely because an employee receives a premium tax credit under this affordability safe harbor if the employer offers to its full-time employees affordable coverage that provides minimum value.

Under 45 CFR 155.335, Exchanges generally will conduct an annual redetermination process that will allow individuals who enroll in a qualified health plan to maintain their eligibility and enrollment for subsequent years with limited burden. This

process involves notifying the individual of the information the Exchange intends to use to make a new determination of eligibility for advance credit payments and soliciting the individual to report changes. The final regulations clarify that the affordability safe harbor does not carry over to later plan years automatically as part of the redetermination process. The affordability safe harbor applies only to a plan year for which a taxpayer responds to the notification and affirmatively provides information relating to the affordability in the upcoming year of available employer-sponsored coverage, allowing an Exchange to determine that employer-sponsored coverage available to the taxpayer for that plan year is unaffordable.

C. Eligibility during a waiting period

Under section 2708 of the Public Health Service Act, employers are permitted to apply a waiting period of up to 90 days beginning when the employee is otherwise eligible for coverage under a group health plan. See Notice 2012-17 (2012-9 IRB 430). The final regulations clarify that an employee or related individual is treated as not eligible for coverage under the employer's plan during a waiting period.

D. Minimum value

The proposed regulations provide that an eligible employer-sponsored plan provides minimum value only if the plan's share of the total allowed costs of benefits provided under the plan is at least 60 percent. Commentators provided various recommendations for determining minimum value. Some commentators requested transition relief. Notice 2012-31 (2012-20 IRB 906) solicits additional comments on potential approaches for determining minimum value. All comments will be considered in separate guidance on determining minimum value.

E. Individuals enrolled in coverage

Section 36B(c)(2)(C)(iii) and the proposed regulations provide that an individual who enrolls in an eligible employer-sponsored plan is not eligible for the premium tax credit even if the plan is unaffordable or fails to offer minimum value. Commentators asked whether an individual who enrolls in an eligible employer-sponsored plan and then terminates coverage during the plan year is treated as eligible for minimum essential coverage under the plan for the entire plan year under this rule, even though the coverage is unaffordable or does not provide minimum value. Commentators similarly asked if individuals who enroll in continuation coverage and then disenroll from it later during the year are treated as eligible for minimum essential coverage for the entire year. In response to these comments, the final regulations clarify that an individual is treated as eligible for minimum essential coverage under an eligible employer-sponsored plan by reason of enrolling in the plan or in continuation coverage only for months the individual is enrolled in the coverage.

Commentators expressed concern that an employee may be enrolled automatically in employer-sponsored coverage and would be treated as eligible for minimum essential coverage under an employer-sponsored plan by reason of the automatic enrollment even though the plan is not affordable or does not provide minimum value. The commentators were specifically concerned about the automatic enrollment provision in section 18A of the Fair Labor Standards Act (added by section 1511 of the Affordable Care Act), which is applicable to employers with more than 200 full-time employees. (The Department of Labor, which has jurisdiction over the automatic enrollment provisions under section 18A of the Fair Labor Standards Act,

does not intend to require employers to comply with the automatic enrollment provisions until after it publishes regulations and those regulations become applicable, and has indicated that the regulations will not take effect by 2014. See Notice 2012-17, Q&A-1.)

Commentators also raised concerns about the automatic enrollment of an employee in an employer-sponsored plan for other reasons, which could include automatic enrollment that a plan might provide for without regard to the automatic enrollment requirements of the Affordable Care Act, automatic enrollment that might occur because of administrative error, or automatic re-enrollment in the plan in a subsequent year. The commentators recommended allowing an employee to opt out of the employer-sponsored coverage following automatic enrollment.

In response to these comments, the final regulations provide that an employee or related individual is treated as not enrolled in an eligible employer-sponsored plan for a month in a plan year or other period if (1) the employee or related individual is automatically enrolled in the plan for that plan year or other period, and (2) terminates the coverage before the later of the first day of the second full calendar month of the plan year or other period or the last day of any permissible opt-out period provided by the employer-sponsored plan or in regulations to be issued by the Department of Labor. Thus, an individual who is automatically enrolled for a plan year or other period in coverage that is unaffordable or that does not provide minimum value and who terminates that coverage by the date specified in the preceding sentence will not be treated as eligible for minimum essential coverage under the employer-sponsored plan for the months in which the individual was automatically enrolled in the plan that are within that plan year or period. Accordingly, the individual will not be precluded by the

automatic enrollment from inclusion in the taxpayer's coverage family for computing the amount of the premium tax credit for those months.

iii. Nondependent Eligibility for Minimum Essential Coverage

Commentators asked whether individuals who may enroll in an eligible employer-sponsored plan based on their relationship to an employee but who are not tax dependents (for example, a 25-year old child or a domestic partner of the employee) are treated as eligible for minimum essential coverage under the plan. In response to these comments, the final regulations provide that an individual who may enroll in minimum essential coverage because of a relationship to another person eligible for the coverage, but for whom the other eligible person does not claim a personal exemption deduction under section 151, is treated as eligible for minimum essential coverage under the coverage only for months that the related individual is enrolled in the coverage. This change reflects the fact that the related individual is a member of a different family with different household income for purposes of the premium tax credit. Furthermore, a person who may not claim a related individual as a dependent is not responsible for the section 5000A penalty for the related individual who does not receive coverage. Thus, the final regulations ensure that coverage available through another person does not create an obstacle to a related individual claiming a premium tax credit.

3. Computing the Premium Tax Credit

a. Definition of coverage month

Section 36B(c)(2)(A)(ii) and the proposed regulations provide that a month is a coverage month for an individual only if the individual is enrolled in a qualified health

plan and is not eligible for other minimum essential coverage on the first day of the month, and the premiums are paid by the taxpayer or through advance credit payments.

Consistent with the proposed regulations, the final regulations provide that an individual must be enrolled in a qualified health plan as of the first day of the month for a month to be a coverage month. However, instead of testing whether the individual is eligible for other minimum essential coverage as of the first day of the month, the final regulations provide that an individual may have a coverage month as long as there is at least one day of the month when the individual is not eligible for other minimum essential coverage. The final regulations also clarify that a month is not a coverage month for a taxpayer if the taxpayer's share of premiums is not paid in full by the unextended due date for filing the taxpayer's income tax return for the taxable year.

b. Third-party payments

Under the proposed regulations, premiums another person pays for coverage of the taxpayer or a member of the taxpayer's family for a month are treated as paid by the taxpayer solely for purposes of the month qualifying as a coverage month.

Commentators asked for confirmation that an Indian tribe may pay premiums on behalf of a tribal member. The final regulations add an example illustrating that premiums paid for a taxpayer by an Indian tribe are treated as paid by the taxpayer under the coverage month rule.

c. Adjusted monthly premium

Under section 36B(b)(3)(C), the adjusted monthly premium is the premium an issuer would charge to cover all members of a taxpayer's coverage family, adjusted only for age. A commentator noted that the definition of adjusted monthly premium in the

proposed regulations does not include the statutory qualification that, in the case of a State participating in the wellness discount demonstration project under section 2705(d) of the Public Health Service Act, the adjusted monthly premium is determined without regard to any premium discount or rebate under the project. The final regulations revise the definition of adjusted monthly premium in accordance with this comment and clarify that the premium may not be adjusted for tobacco use, see section 36B(b)(3)(C).

d. Applicable benchmark plan

i. In General

Under section 36B(b)(3)(B), a taxpayer's premium tax credit is computed based on the premium for the applicable second lowest cost silver plan in the rating area where the taxpayer resides and offered by the Exchange where the taxpayer enrolls in a qualified health plan. For simplicity, the proposed regulations refer to this plan as the applicable benchmark plan.

Section 36B(b)(3)(B)(ii) describes the "applicable" benchmark plan as providing self-only or family coverage. The proposed regulations define family coverage as insurance that covers more than one individual. The proposed regulations further provide that a taxpayer's "applicable" benchmark plan is the benchmark plan that "applies" to the members of the taxpayer's coverage family. The proposed regulations define the coverage family, in general, as the members of the taxpayer's family (the individuals for whom the taxpayer properly claims a personal exemption deduction under section 151) who are not eligible for other minimum essential coverage. The final regulations clarify that the coverage family includes only those individuals in the

taxpayer's family who are not eligible for other minimum essential coverage and enroll in a qualified health plan.

For purposes of determining the benchmark plan that "applies" to a coverage family, the proposed regulations provide that if an Exchange offers categories of family coverage (such as coverage for two adults or coverage for one adult plus children), the applicable benchmark plan for family coverage is the coverage category that applies to the members of the taxpayer's coverage family who enroll in a qualified health plan. The final regulations delete the reference to coverage categories. The final Exchange rules promulgated by HHS removed references to rating categories, which are a parallel concept to coverage categories. The final regulations provide that the applicable benchmark plan for family coverage is the plan that applies to the members of the taxpayer's coverage family.

Commentators requested clarification on how the applicable benchmark plan would be determined for a qualified health plan that covers children only. The final regulations provide an example in response to this comment.

ii. Families Not Covered by One Applicable Benchmark Plan

The proposed regulations provide that the premium for the applicable benchmark plan is the sum of the premiums for the applicable benchmark plans that cover components of the taxpayer's coverage family if a single benchmark plan would not cover the family, for example because members live in different rating areas. The final regulations provide that, if there is at least one silver level plan offered on an Exchange that does not cover all members of a taxpayer's coverage family under one policy and premium, for example because of nontraditional relationships within the family, the

premium for the applicable benchmark plan is the single premium or the combination of premiums that is the second lowest cost silver option for covering the entire family. The final regulations reserve rules for determining the applicable benchmark plan for families with members residing in different locations.

Commentators stated that the final regulations should allow domestic partners and other two-adult groups to use a family benchmark plan to compute their premium tax credit if the Exchange allows both adults to be covered by the same qualified health plan. The final regulations do not adopt this suggestion. If the adults constitute two separate households for Federal tax purposes, section 36B requires a separate credit computation for each household that includes only those individuals for whom each taxpayer claims a personal exemption deduction under section 151.

iii. Plans Closed to Enrollment

The proposed regulations provide that, in general, an applicable benchmark plan is the second lowest cost silver plan offered through the Exchange at the time a taxpayer or family member enrolls. However, a plan does not cease to be a taxpayer's applicable benchmark plan for that enrollment period because the plan or a lower cost plan closes to enrollment during the taxable year. Thus, a plan may continue to be an applicable benchmark plan if it closes to enrollment after a taxpayer enrolls in a qualified health plan, but it is disregarded in determining the applicable benchmark plan if it is closed to enrollment at the time the taxpayer enrolls.

A commentator requested that the final regulations exclude certain qualified health plans open to enrollment only to certain individuals when determining which plan constitutes a taxpayer's applicable benchmark plan. The final regulations clarify that a

plan is taken into account in determining the taxpayer's applicable benchmark plan only if it is open to enrollment to one or more members of a taxpayer's coverage family.

iv. Changes Affecting Applicable Benchmark Plan

Commentators asked whether a taxpayer's applicable benchmark plan is locked in at enrollment and whether the benchmark plan could change during the year if a plan is decertified or if members of the taxpayer's family leave the plan. The proposed regulations provide that a taxpayer's applicable benchmark plan may change from month to month if changes in the taxpayer's coverage family occur (for example, if a family member becomes eligible or ineligible for minimum essential coverage during the taxable year). The proposed regulations also provide that a taxpayer's applicable benchmark plan does not cease to be the applicable benchmark plan solely because the plan, or a lower cost plan, terminates or closes to enrollment during the year. The final regulations adopt the proposed regulations without change.

e. Combining qualified health plan premiums with premiums for other coverage

Section 36B(b) and the proposed regulations provide that the premium tax credit is the lesser of (1) the premiums for the qualified health plan or plans in which a taxpayer or family member enrolls, or (2) the difference between the premium for a benchmark qualified health plan and the amount of the premium that the taxpayer would be required to pay if the taxpayer purchased the benchmark plan (the taxpayer's contribution amount). Commentators suggested that the final regulations allow taxpayers to determine the premium tax credit by combining the premiums for one or more qualified health plans with premiums a taxpayer pays for other minimum essential coverage (particularly premiums for coverage under CHIP). Under the rule suggested

by the commentators, the taxpayer's contribution amount would be reduced by the amount of the family's other premiums to ensure that a family could afford the combined premiums for qualified health plan coverage and CHIP or other coverage.

Under section 36B(b)(2), the premium tax credit is computed by taking into account only the premiums for qualified health plans. Thus, the credit may not be increased for premiums for other minimum essential coverage.

f. Pediatric dental coverage

Under section 36B(b)(3)(E), if an individual enrolls in both a qualified health plan and a dental plan, the portion of the premium for the dental plan properly allocable to pediatric dental benefits that are essential health benefits is treated as premiums payable for a qualified health plan for purposes of determining the monthly premium. The proposed regulations requested comments on methods for determining the amount of the premium properly allocable to pediatric dental benefits.

Commentators requested that the final regulations use a methodology that reflects the true costs of medical and dental care for children. Other commentators recommended that the Federal government split the value of the premium tax credit on a basis proportionate to the premium for the pediatric service in the dental plan and the qualified health plan premium. Some commentators requested a simple formula for allocating a taxpayer's dental benefits premium to pediatric dental care. A commentator requested a safe harbor permitting dental insurance carriers to use a reasonable method based on sound actuarial practice.

The final regulations provide that the portion of the premium for a stand-alone dental plan properly allocable to pediatric dental benefits is determined under guidance

issued by HHS. Under the final HHS Exchange regulations at 45 CFR 156.210, a qualified health plan issuer that offers a standalone dental plan is required to provide information on the plan's rates to the Exchange each year. It is anticipated that future HHS guidance will address how this required reporting on rates will include reporting on the portion of the premium allocable to pediatric dental coverage.

g. Families with individuals not lawfully present

Section 36B(e)(1)(B) describes a method for determining the FPL percentage for families that include an individual not lawfully present (the statutory method) and allows a comparable method that reaches the same results to be prescribed by regulations. Commentators suggested that the final regulations provide a comparable method based on the Medicaid rules for income and family size determinations.

The commentators' suggested method may not reach the same result as the statutory method. Thus, the final regulations do not adopt this suggestion. The final regulations provide that the Commissioner may provide a comparable method in additional published guidance, see §601.601(d)(2).

4. Reconciling the Credit and Advance Credit Payments

a. Months for which an issuer does not provide coverage

Section 1412(c)(2)(B) of the Affordable Care Act provides that an issuer receiving an advance credit payment must reduce the premiums charged to the insured for the period covered by the advance payment but may terminate coverage if the insured fails to pay premiums for a 3-month period. The final HHS Exchange regulations describe the operation of this grace period in more detail. Under the retroactive termination rule, if a taxpayer does not pay premiums in full for 3 months, the issuer must terminate

coverage retroactive to the end of the first of those months and will be required to return any advance payments received for any terminated coverage months. These final regulations clarify that a taxpayer does not have an advance credit payment for a month in which the issuer of the qualified health plan does not provide coverage and will not be required to reconcile payments for those months. The taxpayer will, however, have to reconcile the payment for the first month of the grace period. If the taxpayer has not paid the taxpayer's share of the premium for that month by the unextended due date for filing the return, the first month is not a coverage month, and the taxpayer is not eligible for the premium tax credit for that month.

b. Changes in circumstances

Section 36B(f) provides that a taxpayer must reconcile on the taxpayer's income tax return for the taxable year the premium tax credit allowed under section 36B with the advance payments paid during the course of the taxable year and must pay the amount of any excess advance payments as additional tax. For taxpayers with household income below 400 percent of the FPL, the amount of additional tax liability the taxpayer must repay is capped.

Commentators requested that the final regulations include rules to mitigate the effects of the requirement to repay excess advance payments. Commentators suggested that the final regulations adopt a safe harbor for individuals and families who can demonstrate that they accurately reported any changes in income or family size to the Exchange and that their advance payments were properly computed based on the information available at the time the payments were made. Commentators suggested that taxpayers who experience changes in circumstances during the year, including

taxpayers whose household income for the taxable year exceeds 400 percent of the FPL, should be allowed to prorate the repayment limitations based on the portion of the year the taxpayer receives advance payments. Other commentators asked that taxpayers who would experience a hardship as a result of repaying excess advance payments be exempt from the repayment requirement or that the IRS should disregard changes that cause income to slightly exceed 400 percent of the FPL. Commentators also suggested that taxpayers be allowed to compute their premium tax credit using the largest family size of the household during the year rather than the family size reported on the tax return.

The statute sets forth clear rules for reconciling advance credit payments, which are not consistent with the suggestions made by the commentators. Accordingly, the final regulations do not adopt these comments.

Commentators suggested that the IRS should offer automatic payment plans for taxpayers who have an additional tax liability and should not impose interest or penalties on this additional tax liability repaid through the payment plan. Although these comments are beyond the scope of these final regulations, the IRS will consider possible avenues of administrative relief in appropriate cases for taxpayers who have additional tax liability as a result of excess advance payments.

c. Changes in filing status

i. Taxpayers Who Marry During the Taxable Year

The proposed regulations provide that, like other taxpayers, newly-married taxpayers compute their premium tax credit using family size and household income as reported on their tax return and the appropriate applicable benchmark plan for each

coverage month regardless of whether the taxpayers were married or single during the month. The proposed regulations request comments on alternative credit computations for taxpayers who receive advance payments, marry during the year, and owe additional tax, even if the Exchange accurately projects each spouse's separate income.

Some commentators suggested an alternative computation that computes the credit for the single months separately for each spouse as if each taxpayer's annual income was one-half of the actual household income for the year. For the married months, the credit would be computed using actual household income for the year. The premium tax credit would be the sum of the credits computed for the single months and the married months. This computation generally results in a smaller amount of excess advance payments compared to the amount computed under the proposed regulations.

The final regulations adopt the alternative credit computation suggested by the commentators as an option for taxpayers who marry during the taxable year. Under this alternative method, the credit for the single months is computed separately for each spouse as if each taxpayer's annual income was one-half of the actual household income for the year, the credit for the married months is computed using actual household income for the year, and the premium tax credit is the sum of the credits computed for the single months and the married months. However, to avoid allowing taxpayers an increased amount of additional premium tax credit resulting from marriage, the final regulations cap any additional premium tax credit allowed to a taxpayer under this alternative computation method at the amount of additional credit that results from computing the credit under the general rule.

Commentators requested that the final regulations allow a year-of-marriage waiver on repaying excess advance payments. The final regulations do not adopt these comments as these rules would create unwarranted benefits, for example in cases of taxpayers who marry during the year and owe additional tax because their income is significantly higher than what the Exchange projected.

ii. Taxpayers Whose Marital Status Changes from Married to Single During the Taxable Year

The proposed regulations provide that taxpayers who are married to each other at the beginning but not at the end of the taxable year must allocate the premium for the applicable benchmark plan, the premium for the plan in which the taxpayers enroll, and the advance credit payments for the period the taxpayers are married. The proposed regulations permit the allocation to be made in any proportion, but if the taxpayers cannot agree on a proportion, these items are allocated 50 percent to each taxpayer.

Commentators opined that the final regulations should provide for allocating these items to each taxpayer in proportion to each taxpayer's household income. The final regulations do not adopt this suggestion as it would require divorced taxpayers to exchange income information or require the IRS to associate each taxpayer's return with the other. Divorced taxpayers may allocate the premium for the applicable benchmark plan, the premium for the plan in which the taxpayers enroll, and the advance credit payments in proportion to household income under the final regulations if they choose.

iii. Married Taxpayers Filing Separately

Section 36B(c)(1)(C) provides that married taxpayers who do not file a joint

return are not applicable taxpayers and are not allowed a premium tax credit.

Accordingly, married taxpayers who receive advance credit payments but do not file a joint return must repay the advance credit payments. The advance credit payments must be allocated equally to each taxpayer for purposes of determining the amount of excess advance payments. The final regulations clarify that this equal allocation also applies if one spouse is treated as unmarried under section 7703(b) (and may, for example, properly claim the premium tax credit on a return filed as head of household).

The proposed regulations requested comments on special rules for taxpayers who receive advance payments but face challenges in meeting the joint return requirement, for example because of the incarceration of a spouse, domestic abuse, or a pending divorce.

Numerous commentators stated that the final regulations should provide special rules allowing these spouses to file separate returns and claim the premium tax credit. Commentators suggested that abandoned spouses also warrant an exception. Other commentators noted that other married taxpayers may face challenges in filing a joint return and asked for a hardship exemption from the joint filing requirement.

Commentators suggested that taxpayers should be able to certify on the premium tax credit form that they meet the criteria for an exemption from the joint filing requirement. One commentator suggested granting an exception in case of domestic violence for a taxpayer who has or during the taxable year had an order of protection.

Some commentators, noting that many of these situations are not resolved in a single taxable year, requested a three-year exception to the joint filing requirement.

The final regulations do not provide special rules allowing married taxpayers to claim the premium tax credit on separate returns. However, the IRS and the Treasury Department intend to propose additional regulations regarding eligibility for the premium tax credit to address circumstances in which domestic abuse, abandonment, or similar circumstances create obstacles to the ability of taxpayers to file joint returns.

Comments are requested on the documentation that a taxpayer could provide to establish that he or she cannot file a joint return because of the domestic abuse, abandonment, or other similar circumstances, on what treatment should be accorded the other spouse if he or she does not file with documentation supporting an exception, and the need for anti-abuse rules.

5. Information Reporting

Commentators requested that the final regulations require an Exchange, in reporting information under section 36B(f)(3), to strictly define and limit the use and disclosure of immigration status information for any purpose other than ensuring efficient operation of the Exchange and prohibit the transfer of immigration status information from the Exchange to the IRS. The final regulations do not include a rule responding to these comments because the IRS does not require information on immigration status of any individual in order to administer the premium tax credit and will not obtain this information. The Exchange will verify that an individual is a citizen or lawfully present and eligible to enroll in coverage through the Exchange.

The proposed regulations provide that the IRS will provide rules on the time and manner of information reporting by Exchanges in additional published guidance, see §601.601(d)(2). Commentators requested that the final regulations provide information

on the time and manner of information reporting by Exchanges. A commentator suggested that the information returns should be provided to taxpayers by December 31. Another commentator suggested that the annual information return should report the cost of the applicable benchmark plan on the first day of each month. The final regulations defer rules on the time for information reporting by Exchanges to additional regulations, which are expected to provide for monthly reporting by Exchanges to the IRS and an annual report to the IRS and the taxpayer due by January 31.

6. American Indians/Alaska Natives

Commentators asked that the final regulations provide special provisions for American Indians and Alaska Natives, for example that they be treated as eligible for employer-sponsored minimum essential coverage only if they are enrolled in the coverage, that they should not be required to pay any premiums for a qualified health plan, and that they be exempted from reconciliation. The IRS and HHS have conducted several tribal consultations on these and other issues under the proposed regulations. The final regulations do not adopt these suggestions, as they are inconsistent with the statute.

7. Effective/Applicability Date

These final regulations apply to taxable years ending after December 31, 2013.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13563. Therefore, a regulatory assessment is not required. Section 553(b) of the

Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and, because the regulations do not impose a collection of information requirement on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking that preceded these final regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business, and no comments were received.

Comments

Written (including electronic) comments must be received by **[INSERT DATE 90 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

Comments should be submitted to Internal Revenue Service, CC:PA:LPD:PR (REG-131491-10), Room 5203, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044, or electronically to www.regulations.gov (IRS REG-131491-10). Alternatively, comments may be hand delivered between the hours of 8:00 a.m. and 4:00 p.m. Monday to Friday to CC:PA:LPD:PR (REG-131491-10), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, D.C. All comments will be available for public inspection and copying.

Drafting Information

The principal authors of these final regulations are Shareen S. Pflanz, Frank W. Dunham III, Andrew S. Braden, and Stephen J. Toomey of the Office of Associate Chief Counsel (Income Tax and Accounting). However, other personnel from the IRS and the Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 602 are amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805***

Section 1.36B-4 also issued under 26 U.S.C. 36B(g).

* * * * *

Par. 2. Sections 1.36B-0, 1.36B-1, 1.36B-2, 1.36B-3, 1.36B-4, and 1.36B-5 are added to read as follows:

§1.36B-0 Table of contents.

This section lists the captions contained in §§1.36B-1 through 1.36B-5.

§1.36B-1 Premium tax credit definitions.

- (a) In general.
- (b) Affordable Care Act.
- (c) Qualified health plan.
- (d) Family and family size.
- (e) Household income.
 - (1) In general.
 - (2) Modified adjusted gross income.
- (f) Dependent.
- (g) Lawfully present.
- (h) Federal poverty line.
- (i) Reserved.
- (j) Advance credit payment.
- (k) Exchange.
- (l) Self-only coverage.

- (m) Family coverage.
- (n) Rating area.
- (o) Effective/applicability date.

§1.36B-2 Eligibility for premium tax credit.

- (a) In general.
- (b) Applicable taxpayer.
 - (1) In general.
 - (2) Married taxpayers must file joint return.
 - (3) Dependents.
 - (4) Individuals not lawfully present or incarcerated.
 - (5) Individuals lawfully present.
 - (6) Special rule for taxpayers with household income below 100 percent of the Federal poverty line for the taxable year.
 - (7) Computation of premium assistance amounts for taxpayers with household income below 100 percent of the Federal poverty line.
- (c) Minimum essential coverage.
 - (1) In general.
 - (2) Government-sponsored minimum essential coverage.
 - (i) In general.
 - (ii) Obligation to complete administrative requirements to obtain coverage.
 - (iii) Special rule for coverage for veterans and other individuals under chapter 17 or 18 of Title 38, U.S.C.
 - (iv) Retroactive effect of eligibility determination.
 - (v) Determination of Medicaid or Children's Health Insurance Program (CHIP) ineligibility.
 - (vi) Examples.
 - (3) Employer-sponsored minimum essential coverage.
 - (i) In general.
 - (ii) Plan year.
 - (iii) Eligibility for months during a plan year.
 - (A) Failure to enroll in plan.
 - (B) Waiting periods.
 - (C) Example.
 - (iv) Continuation coverage.
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 - (A) In general.
 - (1) Affordability for employee.
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 - (3) Employee safe harbor.
 - (4) Wellness incentives and employer contributions to health reimbursement arrangements.
 - (B) Affordability for part-year period.
 - (C) Required contribution percentage.
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- (vii) Enrollment in eligible employer-sponsored plan.
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§1.36B-3 Computing the premium assistance credit amount.

- (a) In general.
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- (c) Coverage month.
 - (1) In general.
 - (2) Premiums paid for a taxpayer.
 - (3) Examples.
- (d) Premium assistance amount.
- (e) Adjusted monthly premium.
- (f) Applicable benchmark plan.
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 - (2) Family coverage.
 - (3) Silver level plan not covering a taxpayer's family.
 - (4) Family members residing at different locations.
 - (5) Plan closed to enrollment.
 - (6) Benchmark plan terminates or closes to enrollment during the year.
 - (7) Examples.
- (g) Applicable percentage.
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 - (2) Applicable percentage table.
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- (h) Plan covering more than one family.
 - (1) In general.
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- (i) Reserved.
- (j) Additional benefits.
 - (1) In general.
 - (2) Method of allocation.
 - (3) Examples.
- (k) Pediatric dental coverage.
 - (1) In general.
 - (2) Method of allocation.
 - (3) Example.
- (l) Families including individuals not lawfully present.
 - (1) In general.
 - (2) Revised household income computation.
 - (i) Statutory method.
 - (ii) Comparable method.

§1.36B-4 Reconciling the premium tax credit with advance credit payments.

- (a) Reconciliation.
 - (1) Coordination of premium tax credit with advance credit payments.
 - (i) In general.
 - (ii) Responsibility for advance credit payments.
 - (iii) Advance credit payment for a month in which an issuer does not provide coverage.
 - (2) Credit computation.
 - (3) Limitation on additional tax.
 - (i) In general.
 - (ii) Additional tax limitation table.
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 - (b) Changes in filing status.
 - (1) In general.
 - (2) Taxpayers who marry during the taxable year.
 - (i) In general.
 - (ii) Alternative computation of additional tax liability.
 - (A) In general.
 - (B) Alternative premium assistance amounts for pre-marriage months.
 - (C) Premium assistance amounts for marriage months.
 - (3) Taxpayers not married to each other at the end of the taxable year.
 - (4) Married taxpayers filing separate returns.
 - (5) Taxpayers filing returns as head of household and married filing separately.
 - (6) Examples.

§1.36B-5 Information reporting by Exchanges.

- (a) Information required to be reported.
- (b) Time of reporting.
- (c) Manner of reporting.

§1.36B-1 Premium tax credit definitions.

(a) In general. Section 36B allows a refundable premium tax credit for taxable years ending after December 31, 2013. The definitions in this section apply to this section and §§1.36B-2 through 1.36B-5.

(b) Affordable Care Act. The term Affordable Care Act refers to the Patient Protection and Affordable Care Act, Public Law 111-148 (124 Stat. 119 (2010)), and the Health Care and Education Reconciliation Act of 2010, Public Law 111-152 (124 Stat. 1029 (2010)), as amended by the Medicare and Medicaid Extenders Act of 2010, Public

Law 111-309 (124 Stat. 3285 (2010)), the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011, Public Law 112-9 (125 Stat. 36 (2011)), the Department of Defense and Full-Year Continuing Appropriations Act, 2011, Public Law 112-10 (125 Stat. 38 (2011)), and the 3% Withholding Repeal and Job Creation Act, Public Law 112-56 (125 Stat. 711 (2011)).

(c) Qualified health plan. The term qualified health plan has the same meaning as in section 1301(a) of the Affordable Care Act (42 U.S.C. 18021(a)) but does not include a catastrophic plan described in section 1302(e) of the Affordable Care Act (42 U.S.C. 18022(e)).

(d) Family and family size. A taxpayer's family means the individuals for whom a taxpayer properly claims a deduction for a personal exemption under section 151 for the taxable year. Family size means the number of individuals in the family. Family and family size may include individuals who are not subject to or are exempt from the penalty under section 5000A for failing to maintain minimum essential coverage.

(e) Household income--(1) In general. Household income means the sum of--

- (i) A taxpayer's modified adjusted gross income; plus
- (ii) The aggregate modified adjusted gross income of all other individuals who--
 - (A) Are included in the taxpayer's family under paragraph (d) of this section; and
 - (B) Are required to file a return of tax imposed by section 1 for the taxable year (determined without regard to the exception under section (1)(g)(7) to the requirement to file a return).

(2) Modified adjusted gross income. Modified adjusted gross income means adjusted gross income (within the meaning of section 62) increased by--

(i) Amounts excluded from gross income under section 911;

(ii) Tax-exempt interest the taxpayer receives or accrues during the taxable year;

and

(iii) Social security benefits (within the meaning of section 86(d)) not included in gross income under section 86.

(f) Dependent. Dependent has the same meaning as in section 152.

(g) Lawfully present. Lawfully present has the same meaning as in 45 CFR 155.20.

(h) Federal poverty line. The Federal poverty line means the most recently published poverty guidelines (updated periodically in the **Federal Register** by the Secretary of Health and Human Services under the authority of 42 U.S.C. 9902(2)) as of the first day of the regular enrollment period for coverage by a qualified health plan offered through an Exchange for a calendar year. Thus, the Federal poverty line for computing the premium tax credit for a taxable year is the Federal poverty line in effect on the first day of the initial or annual open enrollment period preceding that taxable year. See 45 CFR 155.410. If a taxpayer's primary residence changes during a taxable year from one state to a state with different Federal poverty guidelines or married taxpayers reside in separate states with different Federal poverty guidelines (for example, Alaska or Hawaii and another state), the Federal poverty line that applies for purposes of section 36B and the associated regulations is the higher Federal poverty guideline (resulting in a lower percentage of the Federal poverty line for the taxpayers' household income and family size).

(i) [Reserved]

(j) Advance credit payment. Advance credit payment means an advance payment of the premium tax credit as provided in section 1412 of the Affordable Care Act (42 U.S.C. 18082).

(k) Exchange. Exchange has the same meaning as in 45 CFR 155.20.

(l) Self-only coverage. Self-only coverage means health insurance that covers one individual.

(m) Family coverage. Family coverage means health insurance that covers more than one individual.

(n) Rating area. [Reserved]

(o) Effective/applicability date. This section and §§1.36B-2 through 1.36B-5 apply for taxable years ending after December 31, 2013.

§1.36B-2 Eligibility for premium tax credit.

(a) In general. An applicable taxpayer (within the meaning of paragraph (b) of this section) is allowed a premium assistance amount only for any month that one or more members of the applicable taxpayer's family (the applicable taxpayer or the applicable taxpayer's spouse or dependent)--

(1) Is enrolled in one or more qualified health plans through an Exchange; and

(2) Is not eligible for minimum essential coverage (within the meaning of paragraph (c) of this section) other than coverage described in section 5000A(f)(1)(C) (relating to coverage in the individual market).

(b) Applicable taxpayer--(1) In general. Except as otherwise provided in this paragraph (b), an applicable taxpayer is a taxpayer whose household income is at least 100 percent but not more than 400 percent of the Federal poverty line for the taxpayer's

family size for the taxable year.

(2) Married taxpayers must file joint return. A taxpayer who is married (within the meaning of section 7703) at the close of the taxable year is an applicable taxpayer only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

(3) Dependents. An individual is not an applicable taxpayer if another taxpayer may claim a deduction under section 151 for the individual for a taxable year beginning in the calendar year in which the individual's taxable year begins.

(4) Individuals not lawfully present or incarcerated. An individual who is not lawfully present in the United States or is incarcerated (other than incarceration pending disposition of charges) is not eligible to enroll in a qualified health plan through an Exchange. However, the individual may be an applicable taxpayer if a family member is eligible to enroll in a qualified health plan. See sections 1312(f)(1)(B) and 1312(f)(3) of the Affordable Care Act (42 U.S.C. 18032(f)(1)(B) and (f)(3)) and §1.36B-3(b)(2).

(5) Individuals lawfully present. If a taxpayer's household income is less than 100 percent of the Federal poverty line for the taxpayer's family size and the taxpayer or a member of the taxpayer's family is an alien lawfully present in the United States, the taxpayer is treated as an applicable taxpayer if--

(i) The lawfully present taxpayer or family member is not eligible for the Medicaid program; and

(ii) The taxpayer would be an applicable taxpayer if the taxpayer's household income for the taxable year was between 100 and 400 percent of the Federal poverty line for the taxpayer's family size.

(6) Special rule for taxpayers with household income below 100 percent of the

Federal poverty line for the taxable year. A taxpayer (other than a taxpayer described in paragraph (b)(5) of this section) whose household income for a taxable year is less than 100 percent of the Federal poverty line for the taxpayer's family size is treated as an applicable taxpayer if--

(i) The taxpayer or a family member enrolls in a qualified health plan through an Exchange;

(ii) An Exchange estimates at the time of enrollment that the taxpayer's household income will be between 100 and 400 percent of the Federal poverty line for the taxable year;

(iii) Advance credit payments are authorized and paid for one or more months during the taxable year; and

(iv) The taxpayer would be an applicable taxpayer if the taxpayer's household income for the taxable year was between 100 and 400 percent of the Federal poverty line for the taxpayer's family size.

(7) Computation of premium assistance amounts for taxpayers with household income below 100 percent of the Federal poverty line. If a taxpayer is treated as an applicable taxpayer under paragraph (b)(5) or (b)(6) of this section, the taxpayer's actual household income for the taxable year is used to compute the premium assistance amounts under §1.36B-3(d).

(c) Minimum essential coverage--(1) In general. Minimum essential coverage is defined in section 5000A(f) and regulations issued under that section. As described in section 5000A(f), government-sponsored programs, eligible employer-sponsored plans,

grandfathered health plans, and certain other health benefits coverage are minimum essential coverage.

(2) Government-sponsored minimum essential coverage--(i) In general. An individual is eligible for government-sponsored minimum essential coverage if the individual meets the criteria for coverage under a government-sponsored program described in section 5000A(f)(1)(A) as of the first day of the first full month the individual may receive benefits under the program, subject to the limitation in paragraph (c)(2)(ii) of this section. The Commissioner may define eligibility for specific government-sponsored programs further in additional published guidance, see §601.601(d)(2) of this chapter.

(ii) Obligation to complete administrative requirements to obtain coverage. An individual who meets the criteria for eligibility for government-sponsored minimum essential coverage must complete the requirements necessary to receive benefits. An individual who fails by the last day of the third full calendar month following the event that establishes eligibility under paragraph (c)(2)(i) of this section to complete the requirements to obtain government-sponsored minimum essential coverage (other than a veteran's health care program) is treated as eligible for government-sponsored minimum essential coverage as of the first day of the fourth calendar month following the event that establishes eligibility.

(iii) Special rule for coverage for veterans and other individuals under chapter 17 or 18 of Title 38, U.S.C. An individual is eligible for minimum essential coverage under a health care program under chapter 17 or 18 of Title 38, U.S.C. only if the individual is enrolled in a health care program under chapter 17 or 18 of Title 38, U.S.C. identified as

minimum essential coverage in regulations issued under section 5000A.

(iv) Retroactive effect of eligibility determination. If an individual receiving advance credit payments is determined to be eligible for government-sponsored minimum essential coverage that is effective retroactively (such as Medicaid), the individual is treated as eligible for minimum essential coverage under that program no earlier than the first day of the first calendar month beginning after the approval.

(v) Determination of Medicaid or Children's Health Insurance Program (CHIP) ineligibility. An individual is treated as not eligible for Medicaid, CHIP, or a similar program for a period of coverage under a qualified health plan if, when the individual enrolls in the qualified health plan, an Exchange determines or considers (within the meaning of 45 CFR 155.302(b)) the individual to be not eligible for Medicaid or CHIP.

(vi) Examples. The following examples illustrate the provisions of this paragraph (c)(2):

Example 1. Delay in coverage effectiveness. On April 10, 2015, Taxpayer D applies for coverage under a government-sponsored health care program. D's application is approved on July 12, 2015, but her coverage is not effective until September 1, 2015. Under paragraph (c)(2)(i) of this section, D is eligible for government-sponsored minimum essential coverage on September 1, 2015.

Example 2. Time of eligibility. Taxpayer E turns 65 on June 3, 2015, and becomes eligible for Medicare. Under section 5000A(f)(1)(A)(i), Medicare is minimum essential coverage. However, E must enroll in Medicare to receive benefits. E enrolls in Medicare in September, which is the last month of E's initial enrollment period. Thus, E may receive Medicare benefits on December 1, 2015. Because E completed the requirements necessary to receive Medicare benefits by the last day of the third full calendar month after the event that establishes E's eligibility (E turning 65), under paragraph (c)(2)(i) and (c)(2)(ii) of this section E is eligible for government-sponsored minimum essential coverage on December 1, 2015, the first day of the first full month that E may receive benefits under the program.

Example 3. Time of eligibility, individual fails to complete necessary requirements. The facts are the same as in Example 2, except that E fails to enroll in the Medicare coverage during E's initial enrollment period. E is treated as eligible for

government-sponsored minimum essential coverage under paragraph (c)(2)(ii) of this section as of October 1, 2015, the first day of the fourth month following the event that establishes E's eligibility (E turning 65).

Example 4. Retroactive effect of eligibility. In November 2014, Taxpayer F enrolls in a qualified health plan for 2015 and receives advance credit payments. F loses her part-time employment and on April 10, 2015 applies for coverage under the Medicaid program. F's application is approved on May 15, 2015, and her Medicaid coverage is effective as of April 1, 2015. Under paragraph (c)(2)(iv) of this section, F is eligible for government-sponsored minimum essential coverage on June 1, 2015, the first day of the first calendar month after approval.

Example 5. Determination of Medicaid ineligibility. In November 2014, Taxpayer G applies through the Exchange to enroll in health coverage for 2015. The Exchange determines that G is not eligible for Medicaid and estimates that G's household income will be 140 percent of the Federal poverty line for G's family size for purposes of determining advance credit payments. G enrolls in a qualified health plan and begins receiving advance credit payments. G experiences a reduction in household income during the year and his household income for 2015 is 130 percent of the Federal poverty line (within the Medicaid income threshold). However, under paragraph (c)(2)(v) of this section, G is treated as not eligible for Medicaid for 2015.

Example 6. Mid-year Medicaid eligibility redetermination. The facts are the same as in Example 5, except that G returns to the Exchange in July 2015 and the Exchange determines that G is eligible for Medicaid. Medicaid approves G for coverage and the Exchange discontinues G's advance credit payments effective August 1. Under paragraphs (c)(2)(iv) and (c)(2)(v) of this section, G is treated as not eligible for Medicaid for the months when G is covered by a qualified health plan. G is eligible for government-sponsored minimum essential coverage for the months after G is approved for Medicaid and can receive benefits, August through December 2015.

(3) Employer-sponsored minimum essential coverage--(i) In general. For purposes of section 36B, an employee who may enroll in an eligible employer-sponsored plan (as defined in section 5000A(f)(2)) and an individual who may enroll in the plan because of a relationship to the employee (a related individual) are eligible for minimum essential coverage under the plan for any month only if the plan is affordable and provides minimum value. Government-sponsored programs described in section 5000A(f)(1)(A) are not eligible employer-sponsored plans.

(ii) Plan year. For purposes of this paragraph (c)(3), a plan year is an eligible

employer-sponsored plan's regular 12-month coverage period (or the remainder of a 12-month coverage period for a new employee or an individual who enrolls during a special enrollment period).

(iii) Eligibility for months during a plan year--(A) Failure to enroll in plan. An employee or related individual may be eligible for minimum essential coverage under an eligible employer-sponsored plan for a month during a plan year if the employee or related individual could have enrolled in the plan for that month during an open or special enrollment period.

(B) Waiting periods. An employee or related individual is not eligible for minimum essential coverage under an eligible employer-sponsored plan during a required waiting period before the coverage becomes effective.

(C) Example. The following example illustrates the provisions of this paragraph (c)(3)(iii):

Example. (i) Taxpayer B is an employee of Employer X. X offers its employees a health insurance plan that has a plan year (within the meaning of paragraph (c)(3)(ii) of this section) from October 1 through September 30. Employees may enroll during an open season from August 1 to September 15. B does not enroll in X's plan for the plan year October 1, 2014, to September 30, 2015. In November 2014, B enrolls in a qualified health plan through an Exchange for calendar year 2015.

(ii) B could have enrolled in X's plan during the August 1 to September 15 enrollment period. Therefore, unless X's plan is not affordable for B or does not provide minimum value, B is eligible for minimum essential coverage under X's plan for the months that B is enrolled in the qualified health plan during X's plan year (January through September 2015).

(iv) Continuation coverage. An individual who may enroll in continuation coverage required under Federal law or a State law that provides comparable continuation coverage is eligible for minimum essential coverage only for months that the individual is enrolled in the coverage.

(v) Affordable coverage--(A) In general--(1) Affordability for employee. Except as provided in paragraph (c)(3)(v)(A)(3) of this section, an eligible employer-sponsored plan is affordable for an employee if the portion of the annual premium the employee must pay, whether by salary reduction or otherwise (required contribution), for self-only coverage does not exceed the required contribution percentage (as defined in paragraph (c)(3)(v)(C) of this section) of the applicable taxpayer's household income for the taxable year.

(2) Affordability for related individual. [Reserved]

(3) Employee safe harbor. An employer-sponsored plan is not affordable for an employee or a related individual for a plan year if, when the employee or a related individual enrolls in a qualified health plan for a period coinciding with the plan year (in whole or in part), an Exchange determines that the eligible employer-sponsored plan is not affordable for that plan year. This paragraph (c)(3)(v)(A)(3) does not apply to a determination made as part of the redetermination process described in 45 CFR 155.335 unless the individual receiving an Exchange redetermination notification affirmatively responds and provides current information on affordability. This paragraph (c)(3)(v)(A)(3) does not apply for an individual who, with reckless disregard for the facts, provides incorrect information to an Exchange concerning the portion of the annual premium for coverage for the employee or related individual under the plan.

(4) Wellness incentives and employer contributions to health reimbursement arrangements. The Commissioner may provide rules in published guidance, see §601.601(d)(2) of this chapter, for determining how wellness incentives and amounts made available under a health reimbursement arrangement are treated in determining

the affordability of eligible employer-sponsored coverage under this paragraph (c)(3)(v).

(B) Affordability for part-year period. Affordability under paragraph (c)(3)(v)(A) of this section is determined separately for each employment period that is less than a full calendar year or for the portions of an employer's plan year that fall in different taxable years of an applicable taxpayer (a part-year period). An eligible employer-sponsored plan is affordable for a part-year period if the employee's annualized required contribution for self-only coverage under the plan for the part-year period does not exceed the required contribution percentage of the applicable taxpayer's household income for the taxable year. The employee's annualized required contribution is the employee's required contribution for the part-year period times a fraction, the numerator of which is 12 and the denominator of which is the number of months in the part-year period during the applicable taxpayer's taxable year. Only full calendar months are included in the computation under this paragraph (c)(3)(v)(B).

(C) Required contribution percentage. The required contribution percentage is 9.5 percent. The percentage may be adjusted in published guidance, see §601.601(d)(2) of this chapter, for taxable years beginning after December 31, 2014, to reflect rates of premium growth relative to growth in income and, for taxable years beginning after December 31, 2018, to reflect rates of premium growth relative to growth in the consumer price index.

(D) Examples. The following examples illustrate the provisions of this paragraph (c)(3)(v). Unless stated otherwise, in each example the taxpayer is single and has no dependents, the employer's plan is an eligible employer-sponsored plan and provides minimum value, the employee is not eligible for other minimum essential coverage, and

the taxpayer, related individual, and employer-sponsored plan have a calendar taxable year:

Example 1. Basic determination of affordability. In 2014 Taxpayer C has household income of \$47,000. C is an employee of Employer X, which offers its employees a health insurance plan that requires C to contribute \$3,450 for self-only coverage for 2014 (7.3 percent of C's household income). Because C's required contribution for self-only coverage does not exceed 9.5 percent of household income, under paragraph (c)(3)(v)(A)(1) of this section, X's plan is affordable for C, and C is eligible for minimum essential coverage for all months in 2014.

Example 2. Basic determination of affordability for a related individual.
[Reserved]

Example 3. Determination of unaffordability at enrollment. (i) Taxpayer D is an employee of Employer X. In November 2013 the Exchange for D's rating area projects that D's 2014 household income will be \$37,000. It also verifies that D's required contribution for self-only coverage under X's health insurance plan will be \$3,700 (10 percent of household income). Consequently, the Exchange determines that X's plan is unaffordable. D enrolls in a qualified health plan and not in X's plan. In December 2014, X pays D a \$2,500 bonus. Thus, D's actual 2014 household income is \$39,500 and D's required contribution for coverage under X's plan is 9.4 percent of D's household income.

(ii) Based on D's actual 2014 household income, D's required contribution does not exceed 9.5 percent of household income and X's health plan is affordable for D. However, when D enrolled in a qualified health plan for 2014, the Exchange determined that X's plan was not affordable for D for 2014. Consequently, under paragraph (c)(3)(v)(A)(3) of this section, X's plan is not affordable for D and D is not eligible for minimum essential coverage under X's plan for 2014.

Example 4. Determination of unaffordability for plan year. The facts are the same as in Example 3, except that X's employee health insurance plan year is September 1 to August 31. The Exchange for D's rating area determines in August 2014 that X's plan is unaffordable for D based on D's projected household income for 2014. D enrolls in a qualified health plan as of September 1, 2014. Under paragraph (c)(3)(v)(A)(3) of this section, X's plan is not affordable for D and D is not eligible for minimum essential coverage under X's plan for the coverage months September to December 2014 and January through August 2015.

Example 5. No affordability information affirmatively provided for annual redetermination. (i) The facts are the same as in Example 3, except the Exchange redetermines D's eligibility for advance credit payments for 2015. D does not affirmatively provide the Exchange with current information regarding affordability and the Exchange determines that D's coverage is not affordable for 2015 and approves

advance credit payments based on information from the previous enrollment period. In 2015, D's required contribution for coverage under X's plan is 9.4 percent of D's household income.

(ii) Because D does not respond to the Exchange notification and the Exchange makes an affordability determination based on information from an earlier year, the employee safe harbor in paragraph (c)(3)(v)(A)(3) of this section does not apply. D's required contribution for 2015 does not exceed 9.5 percent of D's household income. Thus, X's plan is affordable for D for 2015 and D is eligible for minimum essential coverage for all months in 2015.

Example 6. Determination of unaffordability for part of plan year (part-year period). (i) Taxpayer E is an employee of Employer X beginning in May 2015. X's employee health insurance plan year is September 1 to August 31. E's required contribution for self-only coverage for May through August is \$150 per month (\$1,800 for the full plan year). The Exchange for E's rating area projects E's household income for purposes of eligibility for advance credit payments as \$18,000. E's actual household income for the 2015 taxable year is \$20,000.

(ii) Under paragraph (c)(3)(v)(B) of this section, whether coverage under X's plan is affordable for E is determined for the remainder of X's plan year (May through August). E's required contribution for a full plan year (\$1,800) exceeds 9.5 percent of E's household income ($1,800/18,000 = 10$ percent). Therefore, the Exchange determines that X's coverage is unaffordable for May through August. Although E's actual household income for 2015 is \$20,000 (and E's required contribution of \$1,800 does not exceed 9.5 percent of E's household income), under paragraph (c)(3)(v)(A)(3) of this section, X's plan is unaffordable for E for the part of the plan year May through August 2015. Consequently, E is not eligible for minimum essential coverage under X's plan for the period May through August 2015.

Example 7. Affordability determined for part of a taxable year (part-year period). (i) Taxpayer F is an employee of Employer X. X's employee health insurance plan year is September 1 to August 31. F's required contribution for self-only coverage for the period September 2014 through August 2015 is \$150 per month or \$1,800 for the plan year. F does not enroll in X's plan during X's open season but enrolls in a qualified health plan for September through December 2014. F does not request advance credit payments and does not ask the Exchange for his rating area to determine whether X's coverage is affordable for F. F's household income in 2014 is \$18,000.

(ii) Because F is a calendar year taxpayer and Employer X's plan is not a calendar year plan, F must determine the affordability of X's coverage for the part-year period in 2014 (September-December) under paragraph (c)(3)(v)(B) of this section. F determines the affordability of X's plan for the September through December 2014 period by comparing the annual premiums (\$1,800) to F's 2014 household income. F's required contribution of \$1,800 is 10 percent of F's 2014 household income. Because F's required contribution exceeds 9.5 percent of F's 2014 household income, X's plan is

not affordable for F for the part-year period September through December 2014 and F is not eligible for minimum essential coverage under X's plan for that period.

(iii) F enrolls in Exchange coverage for 2015 and does not ask the Exchange to approve advance credit payments or determine whether X's coverage is affordable. F's 2015 household income is \$20,000.

(iv) F must determine if X's plan is affordable for the part-year period January 2015 through August 2015. F's annual required contribution (\$1,800) is 9 percent of F's 2015 household income. Because F's required contribution does not exceed 9.5 percent of F's 2015 household income, X's plan is affordable for F for the part-year period January through August 2015 and F is eligible for minimum essential coverage for that period.

Example 8. Coverage unaffordable at year end. Taxpayer G is employed by Employer X. In November 2014, the Exchange for G's rating area determines that G is eligible for affordable employer-sponsored coverage for 2015. G nonetheless enrolls in a qualified health plan for 2015 but does not receive advance credit payments. G's 2015 household income is less than expected and G's required contribution for employer-sponsored coverage for 2015 exceeds 9.5 percent of G's actual 2015 household income. Under paragraph (c)(3)(v)(A)(1) of this section, G is not eligible for minimum essential coverage under X's plan for 2015.

(vi) Minimum value. An eligible employer-sponsored plan provides minimum value only if the plan's share of the total allowed costs of benefits provided to the employee under the plan (as determined under guidance issued by the Secretary of Health and Human Services under section 1302(d)(2) of the Affordable Care Act (42 U.S.C. 18022(d)(2))) is at least 60 percent.

(vii) Enrollment in eligible employer-sponsored plan--(A) In general. Except as provided in paragraph (c)(3)(vii)(B) of this section, the requirements of affordability and minimum value do not apply for months that an individual is enrolled in an eligible employer-sponsored plan.

(B) Automatic enrollment. An employee or related individual is treated as not enrolled in an eligible employer-sponsored plan for a month in a plan year or other period for which the employee or related individual is automatically enrolled if the

employee or related individual terminates the coverage before the later of the first day of the second full calendar month of that plan year or other period or the last day of any permissible opt-out period provided by the employer-sponsored plan or in regulations to be issued by the Department of Labor, for that plan year or other period.

(C) Examples. The following examples illustrate the provisions of this paragraph

(c)(3)(vii):

Example 1. Taxpayer H is employed by Employer X in 2014. H's required contribution for self-only employer coverage exceeds 9.5 percent of H's 2014 household income. H enrolls in X's calendar year plan for 2014. Under paragraph (c)(3)(vii)(A) of this section, H is eligible for minimum essential coverage for 2014 because H is enrolled in an eligible employer-sponsored plan for 2014.

Example 2. The facts are the same as in Example 1, except that H terminates plan coverage on June 30, 2014. Under paragraph (c)(3)(vii)(A) of this section, H is eligible for minimum essential coverage under X's plan for January through June 2014 but is not eligible for minimum essential coverage under X's plan for July through December 2014.

Example 3. The facts are the same as in Example 1, except that Employer X automatically enrolls H in the plan for calendar year 2015. H terminates the coverage on January 20, 2015. Under paragraph (c)(3)(vii)(B) of this section, H is not eligible for minimum essential coverage under X's plan for January 2015.

(4) Related individual not claimed as a personal exemption deduction. An individual who may enroll in minimum essential coverage because of a relationship to another person eligible for the coverage, but for whom the other eligible person does not claim a personal exemption deduction under section 151, is treated as eligible for minimum essential coverage under the coverage only for months that the related individual is enrolled in the coverage.

§1.36B-3 Computing the premium assistance credit amount.

(a) In general. A taxpayer's premium assistance credit amount for a taxable year is the sum of the premium assistance amounts determined under paragraph (d) of this

section for all coverage months for individuals in the taxpayer's family.

(b) Definitions. For purposes of this section--

(1) The cost of a qualified health plan is the premium the plan charges; and

(2) The term coverage family refers to members of the taxpayer's family who enroll in a qualified health plan and are not eligible for minimum essential coverage (other than coverage in the individual market).

(c) Coverage month--(1) In general. A month is a coverage month for an individual if--

(i) As of the first day of the month, the individual is enrolled in a qualified health plan through an Exchange;

(ii) The taxpayer pays the taxpayer's share of the premium for the individual's coverage under the plan for the month by the unextended due date for filing the taxpayer's income tax return for that taxable year, or the full premium for the month is paid by advance credit payments; and

(iii) The individual is not eligible for the full calendar month for minimum essential coverage (within the meaning of §1.36B-2(c)) other than coverage described in section 5000A(f)(1)(C) (relating to coverage in the individual market).

(2) Premiums paid for a taxpayer. Premiums another person pays for coverage of the taxpayer, taxpayer's spouse, or dependent are treated as paid by the taxpayer.

(3) Examples. The following examples illustrate the provisions of this paragraph (c):

Example 1. (i) Taxpayer M is single with no dependents. In December 2013, M enrolls in a qualified health plan for 2014 and the Exchange approves advance credit payments. M pays M's share of the premiums. On May 15, 2014, M enlists in the U.S. Army and is eligible immediately for government-sponsored minimum essential

coverage.

(ii) Under paragraph (c)(1) of this section, January through May 2014 are coverage months for M. June through December 2014 are not coverage months because M is eligible for minimum essential coverage for those months. Thus, under paragraph (a) of this section, M's premium assistance credit amount for 2014 is the sum of the premium assistance amounts for the months January through May.

Example 2. (i) Taxpayer N has one dependent, S. S is eligible for government-sponsored minimum essential coverage. N is not eligible for minimum essential coverage. N enrolls in a qualified health plan for 2014 and the Exchange approves advance credit payments. On August 1, 2014, S loses eligibility for minimum essential coverage. N terminates enrollment in the qualified health plan that covers only N and enrolls in a qualified health plan that covers N and S for August through December 2014. N pays all premiums not covered by advance credit payments.

(ii) Under paragraph (c)(1) of this section, January through December of 2014 are coverage months for N and August through December are coverage months for N and S. N's premium assistance credit amount for 2014 is the sum of the premium assistance amounts for these coverage months.

Example 3. (i) O and P are the divorced parents of T. Under the divorce agreement between O and P, T resides with P and P claims T as a dependent. However, O must pay premiums for health insurance for T. P enrolls T in a qualified health plan for 2014. O pays the portion of T's qualified health plan premiums not covered by advance credit payments.

(ii) Because P claims T as a dependent, P (and not O) may claim a premium tax credit for coverage for T. See §1.36B-2(a). Under paragraph (c)(2) of this section, the premiums that O pays for coverage for T are treated as paid by P. Thus, the months when T is covered by a qualified health plan and not eligible for other minimum essential coverage are coverage months under paragraph (c)(1) of this section in computing P's premium tax credit under paragraph (a) of this section.

Example 4. Q, an American Indian, enrolls in a qualified health plan for 2014. Q's tribe pays the portion of Q's qualified health plan premiums not covered by advance credit payments. Under paragraph (c)(2) of this section, the premiums that Q's tribe pays for Q are treated as paid by Q. Thus, the months when Q is covered by a qualified health plan and not eligible for other minimum essential coverage are coverage months under paragraph (c)(1) of this section in computing Q's premium tax credit under paragraph (a) of this section.

(d) Premium assistance amount. The premium assistance amount for a coverage month is the lesser of--

(1) The premiums for the month for one or more qualified health plans in which a taxpayer or a member of the taxpayer's family enrolls; or

(2) The excess of the adjusted monthly premium for the applicable benchmark plan over 1/12 of the product of a taxpayer's household income and the applicable percentage for the taxable year.

(e) Adjusted monthly premium. The adjusted monthly premium is the premium an issuer would charge for the applicable benchmark plan to cover all members of the taxpayer's coverage family, adjusted only for the age of each member of the coverage family as allowed under section 2701 of the Public Health Service Act (42 U.S.C. 300gg). The adjusted monthly premium is determined without regard to any premium discount or rebate under the wellness discount demonstration project under section 2705(d) of the Public Health Service Act (42 U.S.C. 300gg-4(d)) and may not include any adjustments for tobacco use.

(f) Applicable benchmark plan--(1) In general. Except as otherwise provided in this paragraph (f), the applicable benchmark plan for each coverage month is the second lowest cost silver plan (as described in section 1302(d)(1)(B) of the Affordable Care Act (42 U.S.C. 18022(d)(1)(B))) offered through the Exchange for the rating area where the taxpayer resides for--

(i) Self-only coverage for a taxpayer--

(A) Who computes tax under section 1(c) (unmarried individuals other than surviving spouses and heads of household) and is not allowed a deduction under section 151 for a dependent for the taxable year;

(B) Who purchases only self-only coverage for one individual; or

- (C) Whose coverage family includes only one individual; and
- (ii) Family coverage for all other taxpayers.

(2) Family coverage. The applicable benchmark plan for family coverage is the second lowest cost silver plan that applies to the members of the taxpayer's coverage family (such as a plan covering two adults if the members of a taxpayer's coverage family are two adults).

(3) Silver level plan not covering a taxpayer's family. If one or more silver level plans for family coverage offered through an Exchange do not cover all members of a taxpayer's coverage family under one policy (for example, because of the relationships within the family), the premium for the applicable benchmark plan determined under paragraphs (f)(1) and (f)(2) of this section may be the premium for a single policy or for more than one policy, whichever is the second lowest cost silver option.

(4) Family members residing at different locations. [Reserved]

(5) Plan closed to enrollment. A qualified health plan that is not open to enrollment by a taxpayer or family member at the time the taxpayer or family member enrolls in a qualified health plan is disregarded in determining the applicable benchmark plan.

(6) Benchmark plan terminates or closes to enrollment during the year. A qualified health plan that is the applicable benchmark plan under this paragraph (f) for a taxpayer does not cease to be the applicable benchmark plan solely because the plan or a lower cost plan terminates or closes to enrollment during the taxable year.

(7) Examples. The following examples illustrate the rules of this paragraph (f). Unless otherwise stated, in each example the plans are open to enrollment to a

taxpayer or family member at the time of enrollment and are offered through the Exchange for the rating area where the taxpayer resides:

Example 1. Single taxpayer enrolls. Taxpayer M is single, has no dependents and enrolls in a qualified health plan. Under paragraph (f)(1)(i) of this section, M's applicable benchmark plan is the second lowest cost silver plan providing self-only coverage for M.

Example 2. Family enrolls. The facts are the same as in Example 1, except that M, her spouse N, and their dependent enroll in a qualified health plan. Under paragraphs (f)(1)(ii) and (f)(2) of this section, M's and N's applicable benchmark plan is the second lowest cost silver plan covering M, N, and their dependent.

Example 3. Single taxpayer enrolls with nondependent. Taxpayer O is single and resides with his daughter, K, but may not claim K as a dependent. O purchases family coverage for himself and K. Under paragraphs (f)(1)(i)(A) and (f)(1)(i)(C) of this section, O's applicable benchmark plan is the second lowest cost silver plan providing self-only coverage for O. However, K may qualify for a premium tax credit if K is otherwise eligible. See paragraph (h) of this section.

Example 4. Single taxpayer enrolls with dependent and nondependent. The facts are the same as in Example 3, except that O also resides with his teenage son, L, and claims L as a dependent. O purchases family coverage for himself, K, and L. Under paragraphs (f)(1)(ii) and (f)(2) of this section, O's applicable benchmark plan is the second lowest cost silver plan covering O and L.

Example 5. Children only enroll. The facts are the same as in Example 4, except that O enrolls only K and L in the coverage. Under paragraph (f)(1)(i)(C) of this section, O's applicable benchmark plan is the second lowest cost silver plan providing self-only coverage for L.

Example 6. Applicable benchmark plan unrelated to coverage purchased. Taxpayers P and Q, who are married, reside with Q's two teenage daughters, M and N, whom they claim as dependents. P and Q purchase self-only coverage for P and family coverage for Q, M, and N. Under paragraphs (f)(1)(ii) and (f)(2) of this section, P's and Q's applicable benchmark plan is the second lowest cost silver plan covering P, Q, M, and N.

Example 7. Change in coverage family. Taxpayer R is single and has no dependents when she enrolls in a qualified health plan for 2014. On August 1, 2014, R has a child, O, whom she claims as a dependent for 2014. R enrolls in a qualified health plan covering R and O effective August 1. Under paragraph (f)(1)(i) of this section, R's applicable benchmark plan for January through July is the second lowest cost silver plan providing self-only coverage for R. Under paragraphs (f)(1)(ii) and (f)(2) of this section, R's applicable benchmark plan for the months August through December is the second lowest cost silver plan covering R and O.

Example 8. Minimum essential coverage for some coverage months. Taxpayer S claims his daughter, P, as a dependent. S and P enroll in a qualified health plan for 2014. S, but not P, is eligible for government-sponsored minimum essential coverage for September to December 2014. Thus, under paragraph (c)(1)(iii) of this section, January through December are coverage months for P and January through August are coverage months for S. Because, under paragraphs (d) and (f)(1) of this section, the premium assistance amount for a coverage month is computed based on the applicable benchmark plan for that coverage month, S's applicable benchmark plan for January through August is the second lowest cost silver plan under paragraphs (f)(1)(ii) and (f)(2) of this section covering S and P. Under paragraph (f)(1)(i)(C) of this section, S's applicable benchmark plan for September through December is the second lowest cost silver plan providing self-only coverage for P.

Example 9. Family member eligible for minimum essential coverage for the taxable year. The facts are the same as in Example 8, except that S is not eligible for government-sponsored minimum essential coverage for any months and P is eligible for government-sponsored minimum essential coverage for the entire year. Under paragraph (f)(1)(i)(C) of this section, S's applicable benchmark plan is the second lowest cost silver plan providing self-only coverage for S.

Example 10. Qualified health plans not covering certain families. (i) Taxpayers V and W are married and live with W's mother, K, whom they claim as a dependent. The Exchange for their rating area offers self-only and family coverage at the silver level through Issuers A, B, and C, who each offer only one silver level plan. Issuers A and B respectively charge V and W a monthly premium of \$900 and \$700 for family coverage, but do not allow individuals to enroll a parent in family coverage. Issuers A and B respectively charge \$600 and \$400 for self-only coverage for K. Issuer C offers a qualified health plan that provides family coverage for V, W, and K under one policy for a \$1,200 monthly premium. Thus, the Exchange offers the following silver level options for covering V's and W's coverage family:

Issuer A: \$1,500 for premiums for two policies (\$900 for V and W, \$600 for K)

Issuer B: \$1,100 for premiums for two policies (\$700 for V and W, \$400 for K)

Issuer C: \$1,200 for premiums for one policy (\$1,200 for V, W, and K)

(ii) Because some silver level qualified health plans for family coverage offered on the Exchange do not cover all members of their coverage family under one policy, under paragraph (f)(3) of this section, the premium for V's and W's applicable benchmark plan may be the premium for a single policy or for more than one policy. The coverage offered by Issuer C is the second lowest cost silver level option for covering V's and W's family. The premium for their applicable benchmark plan is the premium for the Issuer C coverage.

Example 11. (i) The facts are the same as in Example 10, except that Issuer B covers V, W, and K under one policy for a premium of \$1,100, and Issuer C does not allow individuals to enroll parents in family coverage. Issuer C charges a monthly premium of \$700 for family coverage for V and W and a monthly premium of \$500 for self-only coverage for K. Thus, the Exchange offers the following silver level options for covering V's and W's coverage family:

Issuer A: \$1,500 for premiums for two policies (\$900 for V and W, \$600 for K)

Issuer B: \$1,100 for premiums for one policy (\$1,100 for V, W, and K)

Issuer C: \$1,200 for premiums for two policies (\$700 for V and W, \$500 for K)

(ii) The coverage offered by Issuer C is the second lowest cost silver level option for covering V's and W's family. The premium for their applicable benchmark plan is the premiums for the two policies available through Issuer C.

Example 12. Family members residing in different locations. [Reserved]

Example 13. Qualified health plan closed to enrollment. Taxpayer Y has two dependents, R and S. Y, R, and S enroll in a qualified health plan. The Exchange for the rating area where the family resides offers silver level plans J, K, L, and M, which are the first, second, third, and fourth lowest cost silver plans covering Y's family. When Y's family enrolls, Plan J is closed to enrollment. Under paragraph (f)(5) of this section, Plan J is disregarded in determining Y's applicable benchmark plan, and Plan L is Y's applicable benchmark plan.

Example 14. Benchmark plan closes to new enrollees during the year. (i) Taxpayers X, Y, and Z each have coverage families consisting of two adults. In the rating area where X, Y, and Z reside, Plan 2 is the second lowest cost silver plan and Plan 3 is the third lowest cost silver plan covering the two adults in each coverage family offered through the Exchange. The X and Y families each enroll in a qualified health plan that is not the applicable benchmark plan (Plan 4) in November during the annual open enrollment period. Plan 2 closes to new enrollees the following June. Thus, on July 1, Plan 3 is the second lowest cost silver plan available to new enrollees through the Exchange. The Z family enrolls in a qualified health plan in July.

(ii) Under paragraphs (f)(1), (f)(2), and (f)(6) of this section, the applicable benchmark plan is Plan 2 for X and Y for all coverage months during the year. The applicable benchmark plan for Z is Plan 3, because Plan 2 is not open to enrollment through the Exchange when the Z family enrolls.

Example 15. Benchmark plan terminates for all enrollees during the year. The facts are the same as in Example 14, except that Plan 2 terminates for all enrollees on June 30. Under paragraphs (f)(1), (f)(2), and (f)(6) of this section, Plan 2 is the

applicable benchmark plan for X and Y for all coverage months during the year, and Plan 3 is the applicable benchmark plan for Z.

(g) Applicable percentage--(1) In general. The applicable percentage multiplied by a taxpayer's household income determines the taxpayer's required share of premiums for the benchmark plan. This required share is subtracted from the adjusted monthly premium for the applicable benchmark plan when computing the premium assistance amount. The applicable percentage is computed by first determining the percentage that the taxpayer's household income bears to the Federal poverty line for the taxpayer's family size. The resulting Federal poverty line percentage is then compared to the income categories described in the table in paragraph (g)(2) of this section (or successor tables). An applicable percentage within an income category increases on a sliding scale in a linear manner and is rounded to the nearest one-hundredth of one percent. The applicable percentages in the table may be adjusted in published guidance, see §601.601(d)(2) of this chapter, for taxable years beginning after December 31, 2014, to reflect rates of premium growth relative to growth in income and, for taxable years beginning after December 31, 2018, to reflect rates of premium growth relative to growth in the consumer price index.

(2) Applicable percentage table.

Household income percentage of Federal poverty line	Initial percentage	Final percentage
Less than 133%	2.0%	2.0%
At least 133% but less than 150%	3.0%	4.0%
At least 150% but less than 200%	4.0%	6.3%
At least 200% but less than 250%	6.3%	8.05%

At least 250% but less than 300%	8.05%	9.5%
At least 300% but less than 400%	9.5%	9.5%

(3) Examples. The following examples illustrate the rules of this paragraph (g):

Example 1. A's household income is 275 percent of the federal poverty line for A's family size for that taxable year. In the table in paragraph (g)(2) of this section, the initial percentage for a taxpayer with household income of 250 to 300 percent of the Federal poverty line is 8.05 and the final percentage is 9.5. A's Federal poverty line percentage of 275 percent is halfway between 250 percent and 300 percent. Thus, rounded to the nearest one-hundredth of one percent, A's applicable percentage is 8.78, which is halfway between the initial percentage of 8.05 and the final percentage of 9.5.

Example 2. (i) B's household income is 210 percent of the Federal poverty line for B's family size. In the table in paragraph (g)(2) of this section, the initial percentage for a taxpayer with household income of 200 to 250 percent of the Federal poverty line is 6.3 and the final percentage is 8.05. B's applicable percentage is 6.65, computed as follows.

(ii) Determine the excess of B's Federal poverty line percentage (210) over the initial household income percentage in B's range (200), which is 10. Determine the difference between the initial household income percentage in the taxpayer's range (200) and the ending household income percentage in the taxpayer's range (250), which is 50. Divide the first amount by the second amount:

$$\begin{aligned} 210 - 200 &= 10 \\ 250 - 200 &= 50 \\ 10/50 &= .20. \end{aligned}$$

(iii) Compute the difference between the initial premium percentage (6.3) and the second premium percentage (8.05) in the taxpayer's range; $8.05 - 6.3 = 1.75$.

(iv) Multiply the amount in the first calculation (.20) by the amount in the second calculation (1.75) and add the product (.35) to the initial premium percentage in B's range (6.3), resulting in B's applicable percentage of 6.65:

$$\begin{aligned} .20 \times 1.75 &= .35 \\ 6.3 + .35 &= 6.65. \end{aligned}$$

(h) Plan covering more than one family--(1) In general. If a qualified health plan covers more than one family under a single policy, each applicable taxpayer covered by the plan may claim a premium tax credit, if otherwise allowable. Each taxpayer

computes the credit using that taxpayer's applicable percentage, household income, and the benchmark plan that applies to the taxpayer under paragraph (f) of this section. In determining whether the amount computed under paragraph (d)(1) of this section (the premiums for the qualified health plan in which the taxpayer enrolls) is less than the amount computed under paragraph (d)(2) of this section (the benchmark plan premium minus the product of household income and the applicable percentage), the premiums paid are allocated to each taxpayer in proportion to the premiums for each taxpayer's applicable benchmark plan.

(2) Example. The following example illustrates the rules of this paragraph (h):

Example. (i) Taxpayers A and B enroll in a single policy under a qualified health plan. B is A's 25-year old child who is not A's dependent. B has no dependents. The plan covers A, B, and A's two additional children who are A's dependents. The premium for the plan in which A and B enroll is \$15,000. The premium for the second lowest cost silver family plan covering only A and A's dependents is \$12,000 and the premium for the second lowest cost silver plan providing self-only coverage to B is \$6,000. A and B are applicable taxpayers and otherwise eligible to claim the premium tax credit.

(ii) Under paragraph (h)(1) of this section, both A and B may claim premium tax credits. A computes her credit using her household income, a family size of three, and a benchmark plan premium of \$12,000. B computes his credit using his household income, a family size of one, and a benchmark plan premium of \$6,000.

(iii) In determining whether the amount in paragraph (d)(1) of this section (the premiums for the qualified health plan A and B purchase) is less than the amount in paragraph (d)(2) of this section (the benchmark plan premium minus the product of household income and the applicable percentage), the \$15,000 premiums paid are allocated to A and B in proportion to the premiums for their applicable benchmark plans. Thus, the portion of the premium allocated to A is \$10,000 ($\$15,000 \times \$12,000/\$18,000$) and the portion allocated to B is \$5,000 ($\$15,000 \times \$6,000/\$18,000$).

(i) [Reserved]

(j) Additional benefits--(1) In general. If a qualified health plan offers benefits in addition to the essential health benefits a qualified health plan must provide under

section 1302 of the Affordable Care Act (42 U.S.C. 18022), or a State requires a qualified health plan to cover benefits in addition to these essential health benefits, the portion of the premium for the plan properly allocable to the additional benefits is excluded from the monthly premiums under paragraph (d)(1) or (d)(2) of this section.

(2) Method of allocation. The portion of the premium properly allocable to additional benefits is determined under guidance issued by the Secretary of Health and Human Services. See section 36B(b)(3)(D).

(3) Examples. The following examples illustrate the rules of this paragraph (j):

Example 1. (i) Taxpayer B enrolls in a qualified health plan that provides benefits in addition to the essential health benefits the plan must provide (additional benefits). The monthly premium for the plan in which B enrolls is \$385 (Amount 1), of which \$35 is allocable to the additional benefits. The premium for B's applicable benchmark plan is \$440, of which \$40 is allocable to the additional benefits. The excess of the premium for B's applicable benchmark plan over B's \$60 contribution amount (which is the product of B's household income and the applicable percentage) is \$380 per month (Amount 2).

(ii) Under this paragraph (j), the premium for the qualified health plan in which B enrolls and the applicable benchmark premium each is reduced by the portion of the premium that is allocable to the additional benefits provided under that plan. Therefore, Amount 1 is reduced to \$350 (\$385 - \$35), the premium for B's applicable benchmark plan is reduced to \$400 (\$440 - \$40), and Amount 2 is reduced to \$340 (\$400 less \$60). B's premium assistance amount for a coverage month is \$340, the lesser of Amount 1 and Amount 2.

Example 2. (i) The facts are the same as in Example 1, except that B's applicable benchmark plan provides no benefits in addition to the essential health benefits required to be provided by the plan. Thus, under paragraph (j) of this section, only the amount of the monthly premium for the plan in which B enrolls is reduced by the portion of the premium that is allocable to the additional benefits provided under that plan, and Amount 1 is \$350 (\$385 - \$35). The premium for B's applicable benchmark plan is not reduced under this paragraph (j), and Amount 2 is \$380 (\$440 - \$60). B's premium assistance amount for a coverage month is \$350, the lesser of these two amounts.

(k) Pediatric dental coverage--(1) In general. For purposes of determining the amount of the monthly premium a taxpayer pays for coverage under paragraph (d)(1) of

this section, if an individual enrolls in both a qualified health plan and a plan described in section 1311(d)(2)(B)(ii) of the Affordable Care Act (42 U.S.C. 13031(d)(2)(B)(ii)) (a stand-alone dental plan), the portion of the premium for the stand-alone dental plan that is properly allocable to pediatric dental benefits that are essential benefits required to be provided by a qualified health plan is treated as a premium payable for the individual's qualified health plan.

(2) Method of allocation. The portion of the premium for a stand-alone dental plan properly allocable to pediatric dental benefits is determined under guidance issued by the Secretary of Health and Human Services.

(3) Example. The following example illustrates the rules of this paragraph (k):

Example. (i) Taxpayer C and C's dependent, R, enroll in a qualified health plan. The premium for the plan in which C and R enroll is \$7,200 (\$600/month) (Amount 1). The plan does not provide dental coverage. C also enrolls in a stand-alone dental plan covering C and R. The portion of the premium for the dental plan allocable to pediatric dental benefits that are essential health benefits is \$240 (\$20 per month). The excess of the premium for C's applicable benchmark plan over C's contribution amount (the product of C's household income and the applicable percentage) is \$7,260 (\$605/month) (Amount 2).

(ii) Under this paragraph (k), the amount C pays for premiums (Amount 1) for purposes of computing the premium assistance amount is increased by the portion of the premium for the stand-alone dental plan allocable to pediatric dental benefits that are essential health benefits. Thus, the amount of the premiums for the plan in which C enrolls is treated as \$620 for purposes of computing the amount of the premium tax credit. C's premium assistance amount for each coverage month is \$605 (Amount 2), the lesser of Amount 1 (increased by the premiums allocable to pediatric dental benefits) and Amount 2.

(l) Families including individuals not lawfully present--(1) In general. If one or more individuals for whom a taxpayer is allowed a deduction under section 151 are not lawfully present (within the meaning of §1.36B-1(g)), the percentage a taxpayer's household income bears to the Federal poverty line for the taxpayer's family size for

purposes of determining the applicable percentage under paragraph (g) of this section is determined by excluding individuals who are not lawfully present from family size and by determining household income in accordance with paragraph (l)(2) of this section.

(2) Revised household income computation--(i) Statutory method. For purposes of paragraph (l)(1) of this section, household income is equal to the product of the taxpayer's household income (determined without regard to this paragraph (l)(2)) and a fraction--

(A) The numerator of which is the Federal poverty line for the taxpayer's family size determined by excluding individuals who are not lawfully present; and

(B) The denominator of which is the Federal poverty line for the taxpayer's family size determined by including individuals who are not lawfully present.

(ii) Comparable method. The Commissioner may describe a comparable method in additional published guidance, see §601.601(d)(2) of this chapter.

§1.36B-4 Reconciling the premium tax credit with advance credit payments.

(a) Reconciliation--(1) Coordination of premium tax credit with advance credit payments--(i) In general. A taxpayer must reconcile the amount of credit allowed under section 36B with advance credit payments on the taxpayer's income tax return for a taxable year. A taxpayer whose premium tax credit for the taxable year exceeds the taxpayer's advance credit payments may receive the excess as an income tax refund. A taxpayer whose advance credit payments for the taxable year exceed the taxpayer's premium tax credit owes the excess as an additional income tax liability.

(ii) Responsibility for advance credit payments. A taxpayer must reconcile all

advance credit payments for coverage of any member of the taxpayer's family. If advance credit payments are made for coverage of an individual for whom no taxpayer claims a personal exemption deduction, the taxpayer who attests to the Exchange to the intention to claim a personal exemption deduction for the individual as part of the determination that the taxpayer is eligible for advance credit payments for coverage of the individual must reconcile the advance credit payments.

(iii) Advance credit payment for a month in which an issuer does not provide coverage. For purposes of reconciliation, a taxpayer does not have an advance credit payment for a month if the issuer of the qualified health plan in which the taxpayer or a family member is enrolled does not provide coverage for that month.

(2) Credit computation. The premium assistance credit amount is computed on the taxpayer's return using the taxpayer's household income and family size for the taxable year. Thus, the taxpayer's contribution amount (household income for the taxable year times the applicable percentage) is determined using the taxpayer's household income and family size at the end of the taxable year. The applicable benchmark plan for each coverage month is determined under §1.36B-3(f).

(3) Limitation on additional tax--(i) In general. The additional tax imposed under paragraph (a)(1) of this section on a taxpayer whose household income is less than 400 percent of the Federal poverty line is limited to the amounts provided in the table in paragraph (a)(3)(ii) of this section (or successor tables). For taxable years beginning after December 31, 2014, the limitation amounts may be adjusted in published guidance, see §601.601(d)(2) of this chapter, to reflect changes in the consumer price index.

(ii) Additional tax limitation table.

Household income percentage of Federal poverty line	Limitation amount for taxpayers whose tax is determined under section 1(c)	Limitation amount for all other taxpayers
Less than 200%	\$ 300	\$ 600
At least 200% but less than 300%	\$ 750	\$1,500
At least 300% but less than 400%	\$1,250	\$2,500

(4) Examples. The following examples illustrate the rules of this paragraph (a).

In each example the taxpayer enrolls in a higher cost qualified health plan than the applicable benchmark plan:

Example 1. Household income increases. (i) Taxpayer A is single and has no dependents. The Exchange for A's rating area projects A's 2014 household income to be \$27,925 (250 percent of the Federal poverty line for a family of one, applicable percentage 8.05). A enrolls in a qualified health plan. The annual premium for the applicable benchmark plan is \$5,200. A's advance credit payments are \$2,952, computed as follows: benchmark plan premium of \$5,200 less contribution amount of \$2,248 (projected household income of \$27,925 x .0805) = \$2,952.

(ii) A's household income for 2014 is \$33,622, which is 301 percent of the Federal poverty line for a family of one (applicable percentage 9.5). Consequently, A's premium tax credit for 2014 is \$2,006 (benchmark plan premium of \$5,200 less contribution amount of \$3,194 (household income of \$33,622 x .095)). Because A's advance credit payments for 2014 are \$2,952 and A's 2014 credit is \$2,006, A has excess advance payments of \$946. Under paragraph (a)(1) of this section, A's tax liability for 2014 is increased by \$946. Because A's household income is between 300 percent and 400 percent of the Federal poverty line, if A's excess advance payments exceeded \$1,250, under the limitation of paragraph (a)(3) of this section, A's additional tax liability would be limited to that amount.

Example 2. Household income increases, repayment limitation applies. The facts are the same as in Example 1, except that A's household income for 2014 is \$43,560 (390 percent of the Federal poverty line for a family of one, applicable percentage 9.5). Consequently, A's premium tax credit for 2014 is \$1,062 (\$5,200 benchmark plan premium less contribution amount of \$4,138 (household income of \$43,560 x .095)). A's advance credit payments for 2014 are \$2,952; therefore, A has excess advance payments of \$1,890. Because A's household income is between 300 percent and 400 percent of the Federal poverty line, A's additional tax liability for the taxable year is \$1,250 under the repayment limitation of paragraph (a)(3) of this section.

Example 3. Household income decreases. The facts are the same as in Example 1, except that A's actual household income for 2014 is \$22,340 (200 percent of the Federal poverty line for a family of one, applicable percentage 6.3). Consequently, A's premium tax credit for 2014 is \$3,793 (\$5,200 benchmark plan premium less contribution amount of \$1,407 (household income of \$22,340 x .063)). Because A's advance credit payments for 2014 are \$2,952, A is allowed an additional credit of \$841 (\$3,793 less \$2,952).

Example 4. Family size decreases. (i) Taxpayers B and C are married and have two children, K and L (ages 17 and 20), whom they claim as their dependents in 2013. The Exchange for their rating area projects their 2014 household income to be \$63,388 (275 percent of the Federal poverty line for a family of four, applicable percentage 8.78). B and C enroll in a qualified health plan for 2014 that covers the four family members. The annual premium for the applicable benchmark plan is \$14,100. B's and C's advance credit payments for 2014 are \$8,535, computed as follows: benchmark plan premium of \$14,100 less contribution amount of \$5,565 (projected household income of \$63,388 x .0878) = \$8,535.

(ii) In 2014, B and C do not claim L as their dependent. Consequently, B's and C's family size for 2014 is three, their household income of \$63,388 is 332 percent of the Federal poverty line for a family of three (applicable percentage 9.5), and the annual premium for their applicable benchmark plan is \$12,000. Their premium tax credit for 2014 is \$5,978 (\$12,000 benchmark plan premium less \$6,022 contribution amount (household income of \$63,388 x .095)). Because B's and C's advance credit payments for 2014 are \$8,535 and their 2014 credit is \$5,978, B and C have excess advance payments of \$2,557. B's and C's additional tax liability for 2014 under paragraph (a)(1) of this section, however, is limited to \$2,500 under paragraph (a)(3) of this section.

Example 5. Repayment limitation does not apply. (i) Taxpayer D is single and has no dependents. The Exchange for D's rating area approves advance credit payments for D based on 2014 household income of \$39,095 (350 percent of the Federal poverty line for a family of one, applicable percentage 9.5). D enrolls in a qualified health plan. The annual premium for the applicable benchmark plan is \$5,200. D's advance credit payments are \$1,486, computed as follows: benchmark plan premium of \$5,200 less contribution amount of \$3,714 (projected household income of \$39,095 x .095) = \$1,486.

(ii) D's actual household income for 2014 is \$44,903, which is 402 percent of the Federal poverty line for a family of one. D is not an applicable taxpayer and may not claim a premium tax credit. Additionally, the repayment limitation of paragraph (a)(3) of this section does not apply. Consequently, D has excess advance payments of \$1,486 (the total amount of the advance credit payments in 2014). Under paragraph (a)(1) of this section, D's tax liability for 2014 is increased by \$1,486.

Example 6. Coverage for less than a full taxable year. (i) Taxpayer F is single and has no dependents. In November 2013, the Exchange for F's rating area projects F's 2014 household income to be \$27,925 (250 percent of the Federal poverty line for a family of one, applicable percentage 8.05). F enrolls in a qualified health plan. The annual premium for the applicable benchmark plan is \$5,200. F's monthly advance credit payment is \$246, computed as follows: benchmark plan premium of \$5,200 less contribution amount of \$2,248 (projected household income of \$27,925 x .0805) = \$2,952; \$2,952/12 = \$246.

(ii) F begins a new job in August 2014 and is eligible for employer-sponsored minimum essential coverage for the period September through December 2014. F discontinues her Exchange coverage effective November 1, 2014. F's household income for 2014 is \$28,707 (257 percent of the Federal poverty line for a family size of one, applicable percentage 8.25).

(iii) Under §1.36B-3(a), F's premium assistance credit amount is the sum of the premium assistance amounts for the coverage months. Under §1.36B-3(c)(1)(iii), a month in which an individual is eligible for minimum essential coverage other than coverage in the individual market is not a coverage month. Because F is eligible for employer-sponsored minimum essential coverage as of September 1, only the months January through August of 2014 are coverage months.

(iv) If F had 12 coverage months in 2014, F's premium tax credit would be \$2,832 (benchmark plan premium of \$5,200 less contribution amount of \$2,368 (household income of \$28,707 x .0825)). Because F has only eight coverage months in 2014, F's credit is \$1,888 (\$2,832/12 x 8). Because F does not discontinue her Exchange coverage until November 1, 2014, F's advance credit payments for 2014 are \$2,460 (\$246 x 10). Consequently, F has excess advance payments of \$572 (\$2,460 less \$1,888) and F's tax liability for 2014 is increased by \$572 under paragraph (a)(1) of this section.

Example 7. Changes in coverage months and applicable benchmark plan. (i) Taxpayer E claims one dependent, F. E is eligible for government-sponsored minimum essential coverage. E enrolls F in a qualified health plan for 2014. The Exchange for E's rating area projects E's 2014 household income to be \$30,260 (200 percent of the Federal poverty line for a family of two, applicable percentage 6.3). The annual premium for E's applicable benchmark plan is \$5,200. E's monthly advance credit payment is \$275, computed as follows: benchmark plan premium of \$5,200 less contribution amount of \$1,906 (projected household income of \$30,260 x .063) = \$3,294; \$3,294/12 = \$275.

(ii) On August 1, 2014, E loses her eligibility for government-sponsored minimum essential coverage. E enrolls in the qualified health plan that covers F for August through December 2014. The annual premium for the applicable benchmark plan is \$10,000. The Exchange computes E's monthly advance credit payments for the period September through December to be \$675 as follows: benchmark plan premium of

\$10,000 less contribution amount of \$1,906 (projected household income of \$30,260 x .063) = \$8,094; \$8,094/12 = \$675. E's household income for 2014 is \$28,747 (190 percent of the Federal poverty line, applicable percentage 5.84).

(iii) Under §1.36B-3(c)(1), January through July of 2014 are coverage months for F and August through December are coverage months for E and F. Under paragraph (a)(2) of this section, E must compute her premium tax credit using the premium for the applicable benchmark plan for each coverage month. E's premium assistance credit amount for 2014 is the sum of the premium assistance amounts for all coverage months. E reconciles her premium tax credit with advance credit payments as follows:

Advance credit payments (Jan. to July)	\$1,925	(\$275 x 7)
Advance credit payments (Aug. to Dec.)	<u>3,375</u>	(\$675 x 5)
Total advance credit payments	5,300	
Benchmark plan premium (Jan. to July)	3,033	(((\$5,200/12) x 7)
Benchmark plan premium (Aug. to Dec.)	<u>4,167</u>	(((\$10,000/12) x 5)
Total benchmark plan premium	7,200	
Contribution amount (taxable year household income X applicable percentage)	1,679	(\$28,747 x .0584)
Credit (total benchmark plan premium less contribution amount)	5,521	

(iv) E's advance credit payments for 2014 are \$5,300. E's premium tax credit is \$5,521. Thus, E is allowed an additional credit of \$221.

Example 8. Part-year coverage and changes in coverage months and applicable benchmark plan. (i) The facts are the same as in Example 7, except that F is eligible for government-sponsored minimum essential coverage for January and February 2014, and E enrolls F in a qualified health plan beginning in March 2014. Thus, March through July are coverage months for F and August through December are coverage months for E and F.

(ii) E reconciles her premium tax credit with advance credit payments as follows:

Advance credit payments (March to July)	\$1,375	(\$275 x 5)
Advance credit payments (Aug. to Dec.)	<u>3,375</u>	(\$675 x 5)
Total advance credit payments	4,750	
Benchmark plan premium (March to July)	2,167	(((\$5,200/12) x 5)
Benchmark plan premium (Aug. to Dec.)	<u>4,167</u>	(((\$10,000/12) x 5)
Total benchmark plan premium	6,334	

Contribution amount for 10 coverage months (taxable year household income X applicable percentage X 10/12)	1,399	(\$28,747 x .0584 x 10/12)
Credit (total benchmark plan premium less contribution amount)	4,935	

(iii) E's advance credit payments for 2014 are \$4,750. E's premium tax credit is \$4,935. Thus, E is allowed an additional credit of \$185.

Example 9. Advance credit payments for months an issuer does not provide coverage. (i) Taxpayer F enrolls in a qualified health plan for 2014 and the Exchange approves advance credit payments. F pays the portion of the premium not covered by advance credit payments for January through April of 2014 but fails to make payments in May, June, and July. As a result, the issuer of the qualified health plan initiates the 3-month grace period under section 1412(c)(2)(B)(iv)(II) of the Affordable Care Act and 45 CFR 156.270(d). During the grace period the issuer continues to receive advance credit payments on behalf of F. On July 1 the issuer rescinds F's coverage retroactive to the end of the first month of the grace period, May 31.

(ii) Under paragraph (a)(1)(iii) of this section, F does not take into account advance credit payments for June or July of 2014 when reconciling the premium tax credit with advance credit payments under paragraph (a)(1) of this section.

(b) Changes in filing status--(1) In general. Except as provided in paragraph (b)(2) or (b)(3) of this section, a taxpayer whose marital status changes during the taxable year computes the premium tax credit by using the applicable benchmark plan or plans for the taxpayer's marital status as of the first day of each coverage month. The taxpayer's contribution amount (household income for the taxable year times the applicable percentage) is determined using the taxpayer's household income and family size at the end of the taxable year.

(2) Taxpayers who marry during the taxable year--(i) In general. Taxpayers who marry during and file a joint return for the taxable year may compute the additional tax imposed under paragraph (a)(1) of this section under paragraph (b)(2)(ii) of this section. Only taxpayers who are unmarried at the beginning of the taxable year and are married

(within the meaning of section 7703) at the end of the taxable year, at least one of whom receives advance credit payments, may use this alternative computation.

(ii) Alternative computation of additional tax liability--(A) In general. The additional tax liability determined under this paragraph (b)(2)(ii) is equal to the excess of the taxpayers' advance credit payments for the taxable year over the amount of the alternative marriage-year credit. The alternative marriage-year credit is the sum of both taxpayers' alternative premium assistance amounts for the pre-marriage months and the premium assistance amounts for the marriage months. This paragraph (b)(2)(ii) may not be used to increase the additional premium tax credit computed under paragraph (a)(1)(i) of this section.

(B) Alternative premium assistance amounts for pre-marriage months.

Taxpayers compute the alternative premium assistance amounts for each taxpayer for each full or partial month the taxpayers are unmarried as described in paragraph (a)(2) of this section, except that each taxpayer treats the amount of household income as one-half of the actual household income for the taxable year and treats family size as the number of individuals in the taxpayer's family prior to the marriage. The taxpayers may include a dependent of the taxpayers for the taxable year in either taxpayer's family size for the pre-marriage months.

(C) Premium assistance amounts for marriage months. Taxpayers compute the premium assistance amounts for each full month the taxpayers are married as described in paragraph (a)(2) of this section.

(3) Taxpayers not married to each other at the end of the taxable year.

Taxpayers who are married (within the meaning of section 7703) to each other during a

taxable year but are not married to each other on the last day of the taxable year, and who are enrolled in the same qualified health plan at any time during the taxable year, must allocate the premium for the applicable benchmark plan, the premium for the plan in which the taxpayers enroll, and the advance credit payments for the period the taxpayers are married during the taxable year. The taxpayers may allocate these items to each former spouse in any proportion but must allocate all items in the same proportion. If the taxpayers cannot agree on an allocation, 50 percent of the premium for the applicable benchmark plan, the premiums for the plan in which the taxpayers enroll, and the advance credit payments for the married period are allocated to each taxpayer. If a plan covers only one of these taxpayers for any period during a taxable year, the amounts for that period are allocated entirely to that taxpayer.

(4) Married taxpayers filing separate returns. The premium tax credit is allowed to married (within the meaning of section 7703) taxpayers only if they file joint returns. See §1.36B-2(b)(2). A married taxpayer who receives advance credit payments and files an income tax return as married filing separately has received excess advance payments. Taxpayers who receive advance credit payments as married taxpayers and do not file a joint return must allocate the advance credit payments equally to each taxpayer. The repayment limitation described in paragraph (a)(3) of this section applies to each taxpayer based on the household income and family size reported on that taxpayer's return.

(5) Taxpayers filing returns as head of household and married filing separately. If taxpayers enroll in one qualified health plan and receive advance credit payments based on a filing status of married filing a joint tax return, and one taxpayer properly

files a tax return as head of household and the other taxpayer files a tax return as married filing separately for that taxable year, advance credit payments are allocated to each taxpayer equally for any period the taxpayers are enrolled in the same qualified health plan.

(6) Examples. The following examples illustrate the provisions of this paragraph

(b). In each example the taxpayer enrolls in a higher cost qualified health plan than the applicable benchmark plan:

Example 1. Taxpayers marry during the taxable year, general rule for computing additional tax. (i) P is a single taxpayer with no dependents. In 2013 the Exchange for the rating area where P resides determines that P's 2014 household income will be \$40,000 (358 percent of the Federal poverty line, applicable percentage 9.5). P enrolls in a qualified health plan. The premium for the applicable benchmark plan is \$5,200. P's monthly advance credit payment is \$117, computed as follows: \$5,200 benchmark plan premium minus contribution amount of \$3,800 ($\$40,000 \times .095$) equals \$1,400 (total advance credit payment); $\$1,400/12 = \117 .

(ii) Q is a single taxpayer with two dependents. In 2013 the Exchange for the rating area where Q resides determines that Q's 2014 household income will be \$35,000 (183 percent of the Federal poverty line, applicable percentage 5.52). Q enrolls in a qualified health plan. The premium for the applicable benchmark plan is \$10,000. Q's monthly advance credit payment is \$672, computed as follows: \$10,000 benchmark plan premium minus contribution amount of \$1,932 ($\$35,000 \times .0552$) equals \$8,068 (total advance credit); $\$8,068/12 = \672 .

(iii) P and Q marry on July 17, 2014 and enroll in a single policy for a qualified health plan covering four family members, effective August 1, 2014. The premium for the applicable benchmark plan is \$14,000. Based on household income of \$75,000 and a family size of four (325 percent of the Federal poverty line, applicable percentage 9.5), the Exchange approves advance credit payments of \$573 per month, computed as follows: \$14,000 benchmark plan premium minus contribution amount of \$7,125 ($\$75,000 \times .095$) equals \$6,875 (total advance credit); $\$6,875/12 = \573 .

(iv) P and Q file a joint return for 2014 and report \$75,000 in household income and a family size of four. P and Q compute their credit at reconciliation under paragraph (b)(1) of this section. They use the premiums for the applicable benchmark plans that apply for the months married and the months not married, and their contribution amount is based on their Federal poverty line percentage at the end of the taxable year. P and Q reconcile their premium tax credit with advance credit payments as follows:

Advance payments for P (Jan. to July)	\$ 819
Advance payments for Q (Jan. to July)	4,704
Advance payments for P and Q (Aug. to Dec.)	<u>2,865</u>
Total advance payments	8,388
Benchmark plan premium for P (Jan. to July)	3,033
Benchmark plan premium for Q (Jan. to July)	5,833
Benchmark plan premium for P and Q (Aug. to Dec.)	<u>5,833</u>
Total benchmark plan premium	14,699
Contribution amount (taxable year household income X applicable percentage)	7,125
Credit (total benchmark plan premium less contribution amount)	7,574
Additional tax	814

(v) P's and Q's tax liability for 2014 is increased by \$814 under paragraph (a)(1) of this section.

Example 2. Taxpayers marry during the taxable year, alternative computation of additional tax. (i) The facts are the same as in Example 1, except that P and Q compute their additional tax liability under paragraph (b)(2)(ii) of this section. P's and Q's additional tax is the excess of their advance credit payments for the taxable year (\$8,388) over their alternative marriage-year credit, which is the sum of the alternative premium assistance amounts for the pre-marriage months and the premium assistance amounts for the marriage months.

(ii) P and Q compute the alternative marriage-year credit as follows:

Alternative premium assistance amounts for pre-marriage months

Benchmark plan premium for P (Jan. to July)	\$3,033 (((\$5,200/12) x 7)
Contribution amount (1/2 taxable year household income X applicable percentage) X 7/12)	\$2,078 (\$37,500 x .095 x 7/12)
Alternative premium assistance amount for P's pre-marriage months	\$ 955 (\$3,033 - \$2,078)
Benchmark plan premium for Q (Jan. to July)	\$5,833 (((\$10,000/12) x 7)
Contribution amount (1/2 taxable year household income X applicable percentage X 7/12)	\$1,339 (\$37,500 x .0612 x 7/12)

Alternative premium assistance amount for Q's pre-marriage months	\$4,494 (\$5,833 - \$1,339)
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Premium assistance amount for marriage months

Benchmark plan premium for P and Q (Aug. to Dec.)	\$5,833 ((\$14,000/12 x 5)
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Contribution amount (taxable year household income X applicable percentage X 5/12)	\$2,969 (\$75,000 x .095 x 5/12)
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Premium assistance amount for marriage months	\$2,864 (\$5,833 - \$2,969)
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Alternative marriage-year credit (sum of premium assistance amounts for pre-marriage months and marriage months): $\$955 + \$4,494 + \$2,864 = \$8,313$.

(iii) P and Q reconcile their premium tax credit with advance credit payments by determining the excess of their advance credit payments (\$8,388) over their alternative marriage-year credit (\$8,313). P and Q must increase their tax liability by \$75 under paragraph (a)(1) of this section.

Example 3. Taxpayers marry during the taxable year, alternative computation of additional tax, alternative marriage-year tax credit exceeds advance credit payments. The facts are the same as in Example 2, except that the amount of P's and Q's advance credit payments is \$8,301. Thus, their alternative marriage-year credit (\$8,313) exceeds the amount of their advance credit payments (\$8,301). Under paragraph (b)(2)(ii)(A) of this section, the amount of additional tax liability and additional tax credit that P and Q report on their tax return is \$0.

Example 4. Taxpayers marry during the taxable year, alternative computation of additional tax. (i) Taxpayer R is single and has no dependents. In 2013, the Exchange for the rating area where R resides determines that R's 2014 household income will be \$40,000 (358 percent of the Federal poverty line, applicable percentage 9.5). R enrolls in a qualified health plan. The premium for the applicable benchmark plan is \$5,200. R's monthly advance credit payment is \$117, computed as follows: \$5,200 benchmark plan premium minus contribution amount of \$3,800 ($\$40,000 \times .095$) = \$1,400 (total advance credit); $\$1,400/12 = \117 .

(ii) Taxpayer S is single with no dependents. In 2013, the Exchange for the rating area where S resides determines that S's 2014 household income will be \$20,000 (179 percent of the Federal poverty line, applicable percentage 5.33). S enrolls in a qualified health plan. The premium for the applicable benchmark plan is \$5,200. S's monthly advance credit payment is \$345, computed as follows: \$5,200 benchmark plan premium minus contribution amount of \$1,066 ($\$20,000 \times .0533$) = \$4,134 (total advance credit); $\$4,134/12 = \345 .

(iii) R and S marry in September 2014 and enroll in a single policy for a qualified health plan covering them both, beginning October 1, 2014. The premium for the applicable benchmark plan is \$10,000. Based on household income of \$60,000 and a family size of two (397 percent of the Federal poverty line, applicable percentage 9.5), R's and S's monthly advance credit payment is \$358, computed as follows: \$10,000 benchmark plan premium minus contribution amount of \$5,700 ($\$60,000 \times .095$) = \$4,300; $\$4,300/12 = \358 . R's and S's advance credit payments for 2014 are \$5,232, computed as follows:

Advance payments for R (Jan. to Sept.)	\$1,053	(\$117 x 9)
Advance payments for S (Jan. to Sept.)	3,105	(\$345 x 9)
Advance payments for R and S (Oct. to Dec.)	<u>1,074</u>	(\$358 x 3)
Total advance payments	5,232	

(iv) R and S file a joint return for 2014 and report \$62,000 in household income and a family size of two (410 percent of the FPL for a family of 2). Thus, under §1.36B-2(b)(2), R and S are not applicable taxpayers for 2014 and may not claim a premium tax credit for 2014. However, they compute their additional tax liability under paragraph (b)(2)(ii) of this section. R's and S's additional tax is the excess of their advance credit payments for the taxable year (\$5,232) over their alternative marriage-year credit, which is the sum of the alternative premium assistance amounts for the pre-marriage months and the premium assistance amounts for the marriage months. In this case, R and S have no premium assistance amounts for the married months because their household income is over 400 percent of the Federal poverty line for a family of 2.

(v) R and S compute their alternative marriage-year credit as follows:

Premium assistance amount for pre-marriage months

Benchmark plan premium for R (Jan. to Sept.)	\$3,900	(($\$5,200/12$) x 9)
Contribution amount ((1/2 taxable year household income X applicable percentage) x 9/12)	\$2,053	($\$31,000 \times .0883 \times 9/12$)
Premium assistance amount for R's pre-marriage months	\$1,847	($\$3,900 - \$2,053$)
Benchmark plan premium for S (Jan. to Sept.)	\$3,900	(($\$5,200/12$) x 9)
Contribution amount ((1/2 taxable year household income X applicable percentage) x 9/12)	\$2,053	($\$31,000 \times .0883 \times 9/12$)
Premium assistance amount for S's pre-marriage months	\$1,847	($\$3,900 - \$2,053$)
<u>Premium assistance amount for marriage months</u>	\$	0

Alternative marriage-year credit (sum of premium assistance amounts for pre-marriage months and marriage months): $\$1,847 + 1,847 + 0 = \$3,694$.

(vi) R and S reconcile their premium tax credit with advance credit payments by determining the excess of their advance credit payments (\$5,232) over their alternative marriage-year credit (\$3,694). R and S must increase their tax liability by \$1,538 under paragraph (a)(1) of this section.

Example 5. (i) Taxpayers marry during the taxable year, no additional tax liability. The facts are the same as in Example 4, except that S has no income and is enrolled in Medicaid for January through September 2014 and R's and S's household income for 2014 is \$37,000 (245 percent of the Federal poverty line, applicable percentage 7.88). Their advance credit payments for 2014 are \$2,707 (\$1,053 for R for January to September and \$1,654 for R and S for October to December). Their premium tax credit for 2014 is \$3,484 (total benchmark premium of \$6,400 less contribution amount of \$2,916).

(ii) Because R's and S's premium tax credit of \$3,484 exceeds their advance credit payments of \$2,707, R and S are allowed an additional credit of \$707. Although R and S marry in 2014, paragraph (b)(2) of this section (the alternative computation of additional tax for taxpayers who marry during the taxable year) does not apply because they do not owe additional tax for 2014.

Example 6. Taxpayers divorce during the taxable year, 50 percent allocation. (i) Taxpayers V and W are married and have two dependents. In 2013, the Exchange for the rating area where the family resides determines that their 2014 household income will be \$76,000 (330 percent of the Federal poverty line for a family of 4, applicable percentage 9.5). V and W enroll in a qualified health plan for 2014. The premium for the applicable benchmark plan is \$14,100. The Exchange approves advance credit payments of \$573 per month, computed as follows: \$14,100 benchmark plan premium minus V and W's contribution amount of \$7,220 ($\$76,000 \times .095$) equals \$6,880 (total advance credit); $\$6,880/12 = \573 .

(ii) V and W divorce on June 17, 2014, and obtain separate qualified health plans beginning July 1, 2014. V enrolls based on household income of \$60,000 and a family size of three (314 percent of the Federal poverty line, applicable percentage 9.5). The premium for the applicable benchmark plan is \$10,000. The Exchange approves advance credit payments of \$358 per month, computed as follows: \$10,000 benchmark plan premium minus V's contribution amount of \$5,700 ($\$60,000 \times .095$) equals \$4,300 (total advance credit); $\$4,300/12 = \358 .

(iii) W enrolls based on household income of \$16,420 and a family size of one (147 percent of the Federal poverty line, applicable percentage 3.82). The premium for the applicable benchmark plan is \$5,200. The Exchange approves advance credit payments of \$381 per month, computed as follows: \$5,200 benchmark plan premium

minus W's contribution amount of \$627 ($\$16,420 \times .0382$) equals \$4,573 (total advance credit); $\$4,573/12 = \381 . V and W do not agree on an allocation of the premium for the applicable benchmark plan, the premiums for the plan in which they enroll, and the advance credit payments for the period they were married in the taxable year.

(iv) V and W each compute their credit at reconciliation under paragraph (b)(1) of this section, using the premiums for the applicable benchmark plans that apply to them for the months married and the months not married, and the contribution amount based on their Federal poverty line percentages at the end of the taxable year. Under paragraph (b)(3) of this section, because V and W do not agree on an allocation, V and W must equally allocate the benchmark plan premium (\$7,050) and the advance credit payments (\$3,438) for the six-month period January through June 2014 when they are married and enrolled in the same qualified health plan. Thus, V and W each are allocated \$3,525 of the benchmark plan premium ($\$7,050/2$) and \$1,719 of the advance credit payments ($\$3,438/2$) for January through June.

(v) V reports on his 2014 tax return \$60,000 in household income and family size of three. W reports on her 2014 tax return \$16,420 in household income and family size of one. V and W reconcile their premium tax credit with advance credit payments as follows:

	<u>V</u>	<u>W</u>
Allocated advance payments (Jan. to June)	\$ 1,719	\$ 1,719
Actual advance payments (July to Dec.)	<u>2,148</u>	<u>2,286</u>
Total advance payments	3,867	4,005
Allocated benchmark plan premium (Jan. to June)	3,525	3,525
Actual benchmark plan premium (July to Dec.)	<u>5,000</u>	<u>2,600</u>
Total benchmark plan premium	8,525	6,125
Contribution amount (taxable year household income X applicable percentage)	5,700	627
Credit (total benchmark plan premium less contribution amount)	2,825	5,498
Additional credit		1,493
Additional tax	1,042	

(vi) Under paragraph (a)(1) of this section, on their tax returns V's tax liability is increased by \$1,042 and W is allowed \$1,493 as additional credit.

Example 7. Taxpayers divorce during the taxable year, allocation in proportion to household income. (i) The facts are the same as in Example 6, except that V and W decide to allocate the benchmark plan premium (\$7,050) and the advance credit payments (\$3,438) for January through June 2014 in proportion to their household

incomes (79 percent and 21 percent). Thus, V is allocated \$5,570 of the benchmark plan premiums (\$7,050 x .79) and \$2,716 of the advance credit payments (\$3,438 x .79), and W is allocated \$1,481 of the benchmark plan premiums (\$7,050 x .21) and \$722 of the advance credit payments (\$3,438 x .21). V and W reconcile their premium tax credit with advance credit payments as follows:

	<u>V</u>	<u>W</u>
Allocated advance payments (Jan. to June)	\$ 2,716	\$ 722
Actual advance payments (July to Dec.)	<u>2,148</u>	<u>2,286</u>
Total advance payments	4,864	3,008
Allocated benchmark plan premium (Jan. to June)	5,570	1,481
Actual benchmark plan premium (July to Dec.)	<u>5,000</u>	<u>2,600</u>
Total benchmark plan premium	10,570	4,081
Contribution amount (taxable year household income X applicable percentage)	5,700	627
Credit (total benchmark plan premium less contribution amount)	4,870	3,454
Additional credit	6	446

(ii) Under paragraph (a)(1) of this section, on their tax returns V is allowed an additional credit of \$6 and W is allowed an additional credit of \$446.

Example 8. Married taxpayers filing separate tax returns. (i) Taxpayers X and Y are married and have two dependents. In 2013, the Exchange for the rating area where the family resides determines that their 2014 household income will be \$76,000 (330 percent of the Federal poverty line for a family of 4, applicable percentage 9.5). W and Y enroll in a qualified health plan for 2014. The premium for the applicable benchmark plan is \$14,100. X's and Y's monthly advance credit payment is \$573, computed as follows: \$14,100 benchmark plan premium minus X's and Y's contribution amount of \$7,220 ($\$76,000 \times .095$) equals \$6,880 (total advance credit); $\$6,880/12 = \573 .

(ii) X and Y file income tax returns for 2014 using a married filing separately filing status. X reports household income of \$60,000 and a family size of three (314 percent of the Federal poverty line). Y reports household income of \$16,420 and a family size of one (147 percent of the Federal poverty line).

(iii) Because X and Y are married but do not file a joint return for 2014, X and Y are not applicable taxpayers and are not allowed a premium tax credit for 2014. See §1.36B-2(b)(2). Under paragraph (b)(4) of this section, half of the advance credit payments ($\$6,880/2 = \$3,440$) is allocated to X and half is allocated to Y for purposes of determining their excess advance payments. The repayment limitation described in

paragraph (a)(3) of this section applies to X and Y based on the household income and family size reported on each return. Consequently, X's tax liability for 2014 is increased by \$2,500 and Y's tax liability for 2014 is increased by \$600.

Example 9. (i) The facts are the same as in Example 8, except that X and Y live apart for over 6 months of the year and X properly files an income tax return as head of household. Under section 7703(b), X is treated as unmarried and therefore is not required to file a joint return. If X otherwise qualifies as an applicable taxpayer, X may claim the premium tax credit based on the household income and family size X reports on the return. Y is not an applicable taxpayer and is not eligible to claim the premium tax credit.

(ii) X must reconcile the amount of credit with advance credit payments under paragraph (a) of this section. The premium for the applicable benchmark plan covering X and his two dependents is \$9,800. X's premium tax credit is computed as follows: \$9,800 benchmark plan premium minus X's contribution amount of \$5,700 ($\$60,000 \times .095$) equals \$4,100.

(iii) Under paragraph (b)(5) of this section, half of the advance payments ($\$6,880/2 = \$3,440$) is allocated to X and half is allocated to Y. Thus, X is entitled to \$660 additional premium tax credit ($\$4,100 - \$3,440$). Y has \$3,440 excess advance payments, which is limited to \$600 under paragraph (a)(3) of this section.

§1.36B-5 Information reporting by Exchanges.

(a) Information required to be reported. An Exchange must report to the Internal Revenue Service and each taxpayer the following information for the qualified health plan or plans in which the taxpayer or a member of the taxpayer's family enrolls through the Exchange--

(1) The premium for the applicable benchmark plans used to compute advance credit payments and the period coverage was in effect;

(2) The total premium for the coverage in which the taxpayer or family member enrolls without reduction for advance credit payments;

(3) The aggregate amount of any advance credit payments;

(4) The name, address and Social Security number (SSN) of the primary insured and the name and SSN or adoption taxpayer identification number of each other

individual covered under the policy;

(5) All information provided to the Exchange at enrollment or during the taxable year, including any change in circumstances, necessary to determine eligibility for and the amount of the premium tax credit;

(6) Any other information required in published guidance, see §601.601(d)(2) of this chapter, necessary to determine whether a taxpayer has received excess advance payments.

(b) Time of reporting. [Reserved]

(c) Manner of reporting. The Commissioner may provide rules in published guidance, see §601.601(d)(2) of this chapter, for the manner of reporting under this section.

Par. 3. Section 1.6011-8 is added to read as follows:

§1.6011-8 Requirement of income tax return for taxpayers who claim the premium tax credit under section 36B.

(a) Requirement of return. A taxpayer who receives advance payments of the premium tax credit under section 36B must file an income tax return for that taxable year on or before the fifteenth day of the fourth month following the close of the taxable year.

(b) Effective/applicability date. This section applies for taxable years ending after December 31, 2013.

Par. 4. In §1.6012-1, paragraph (a)(2)(viii) is added to read as follows:

§1.6012-1 Individuals required to make returns of income.

(a) * * *

(2) * * *

(viii) For rules relating to returns required of taxpayers who receive advance payments of the premium tax credit under section 36B, see §1.6011-8(a).

* * * * *

PART 602 -- OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 5. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 6. In §602.101, paragraph (b) is amended by adding an entry in numerical order to the table to read as follows:

§602.101 OMB Control numbers.

* * * * *

(b) * * *

CFR part or section where identified and described	Current OMB Control No.
* * * * *	
1.36B-5	1545-2232
* * * * *	

Steven T. Miller
Deputy Commissioner for Services and Enforcement.

Approved: May 16, 2012

Emily S. McMahon
Acting Assistant Secretary of the Treasury (Tax Policy).