SecureOne Benefit Administrators, Inc
News Alert!

February 2013

“Premium Tax Credit Affordability”

IRS released final regulations on the premium tax credit rules clarifying that eligibility for the premium tax credit will be based on the affordability of single-only coverage. This is good news for TPAs because it means that dependents will most likely remain on the employer-sponsored plan and not leave to seek subsidies in the exchange plans.

IRS released proposed regulations, as well as questions and answers, on the individual shared responsibility provision.

Both the final and the proposed regulations address affordability issues that may sound conflicting. Let us clarify these affordability issues so you have a better understanding.

Premium Tax Credit Rule - The final regulations on the premium tax credit (also called premium subsidies) adopt the approach taken in the proposed rule that defines affordable coverage in relation to the cost of self-only coverage. Under these rules, an employer-sponsored plan is affordable for related individuals (family members) if the employee contribution for self-only coverage (the required contribution percentage) does not exceed 9.5% of the employee’s household income. There was speculation that Treasury and IRS would expand the definition to define unaffordable in relation to the cost of family coverage and not just self-only coverage. Treasury and IRS decided not to go in that direction. Based on conversations with agency officials, the statutory language was clear in basing the affordability test for related individuals on the cost of self-only coverage.

Individual Shared Responsibility Rule – The proposed regulations on the individual shared responsibility payment (individual mandate) provide an exemption from the requirement to obtain minimum essential coverage for certain individuals. One of the exemptions is for individuals whose contribution would be more than eight percent (8%) of their household income.

Below are some highlights from the questions and answers on the individual shared responsibility provision. The complete questions and answers can be viewed at http://www.irs.gov/uac/Questions-and-Answers-on-the-Individual-Shared-Responsibility-Provision

What is the individual shared responsibility provision?

Starting in 2014, the individual shared responsibility provision calls for each individual to have minimum essential coverage for each month, or qualify for an exemption, or make a payment when filing his or her federal income tax return.

Who is subject to the individual shared responsibility provision?

The provision applies to individuals of all ages, including children. The adult or married couple who can claim a child or another individual as a dependent for federal income tax purposes is responsible for making the payment if the dependent does not have coverage or an exemption from the requirement.

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When does the individual shared responsibility provision go into effect?

The provision goes into effect on January 1, 2014. It applies to each month in the calendar year. The amount of any payment owed takes into account the number of months in a given year an individual is without coverage or an exemption.

What counts as minimum essential coverage?

Minimum essential coverage includes all of the following:

- Employer-Sponsored coverage (including COBRA coverage and retiree coverage).
- Coverage purchased in the individual market.
- Medicare coverage (including Medicare Advantage)
- Medicaid coverage
- Children’s Health Insurance Program (CHIP).
- Certain types of Veterans health coverage
- TRICARE

Minimum essential coverage does not include specialized coverage, such as coverage only for vision care or dental care, workers’ compensation, disability policies, or coverage only for a specific disease or condition.

HHS has the authority to designate additional types of coverage as minimum essential coverage. Thus far, HHS has proposed to designate student health plans and coverage provided by foreign governments as minimum essential coverage.

What are the statutory exemptions from the requirement to obtain minimum essential coverage?

- Religious Conscience
- Health care sharing ministry
- Indian Tribes
- Individuals with no requirement to file a federal tax return.
- Short coverage gap: Individuals who went without coverage for less than three consecutive months during the year.
- Hardship: An Exchange has certified that an individual has suffered a hardship.
- Unaffordable coverage options: Individuals who cannot afford coverage because the minimum amount they must pay for the premiums is more than eight percent of their household income.
- Incarceration
- Not lawfully present: Individuals who are neither a US Citizen, a US National nor an alien lawfully present in the US.

Are all individuals living in the United States subject to the individual shared responsibility provision?

All citizens are subject to the individual shared responsibility provision as are all permanent residents and all foreign nationals who are in the United States long enough during a calendar year to qualify as resident aliens for tax purposes. Foreign nationals who live in the United States for a short enough period that they do not become resident aliens for federal income tax purposes are not subject to the individual shared responsibility payment even though they may have to file a US income tax return.