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Enhanced Premium Tax Credit Expiration: Frequently Asked Questions

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Enhanced Premium Tax Credit Expiration: Frequently Asked Questions

SUMMARY

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Although the *premium tax credit* (PTC) has been available since 2014, there is increased congressional interest in the federal subsidy due to the impending expiration of a provision that enhanced the PTC.

The Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended) established the PTC to help eligible households lower their payments toward premiums for *qualified health plans* offered through health insurance exchanges. The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) expanded eligibility for and the amount of the PTC for tax years 2021 and 2022. The Fiscal Year (FY) 2022 Budget Reconciliation Law (P.L. 117-169) extended the ARPA provision for three additional tax years, 2023 through 2025.

In general, the enhanced PTC provision allowed more households to become eligible for the credit and provided larger subsidies to all eligible households, compared with ACA-only rules. As a result, federal expenditures for the PTC were larger under ARPA/FY2022 Budget Reconciliation Law rules than under ACA-only rules.

If the enhanced subsidies expire, the Congressional Budget Office (CBO) estimates a decrease in enrollees with subsidized exchange coverage resulting in a reduction in federal expenditures. CBO also estimates that expiration of the enhanced PTC would contribute to a rise in the uninsured rate.

If the enhanced subsidies are permanently extended, CBO and the staff of the Joint Committee on Taxation estimate an overall increase in exchange enrollment leading to an increase in the federal budget deficit.

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Introduction

Certain individuals and families without access to subsidized health insurance coverage may be eligible for a federal subsidy: the *premium tax credit* (PTC).[1] The PTC, authorized under the Patient Protection and Affordable Care Act (ACA; P.L. 111-148, as amended), applies toward the cost of purchasing specific types of health plans offered by private companies participating in ACA exchanges (marketplaces). The PTC is refundable, allowing individuals to claim the full credit amount when filing their income taxes even if they have little or no federal income tax liability. The credit also is advanceable, so individuals may choose to receive advanced payments of the credit (or APTC). APTCs are provided on a monthly basis to coincide with the payment of insurance premiums, which automatically reduces consumer costs associated with purchasing applicable insurance through the exchanges.

Although the PTC has been available since 2014, there is increased congressional interest in the subsidy due to an impending expiration of the expanded and enhanced subsidy. This report provides answers to frequently asked questions about the PTC.[2]

Frequently Asked Questions

What Is the ACA Subsidy?

ACA subsidy is a common phrase used to refer to the PTC, a federally financed subsidy that helps eligible households lower their payments toward premiums to enroll in (or continue enrollment in) *qualified health plans* offered through exchanges.[3]

The subsidy amount (the PTC) is determined by a formula that requires households to contribute a portion of the premium, based partly on household income and size. As household income increases, the PTC amount generally decreases, requiring households to contribute a larger portion of their income toward the premium.

Who Is Eligible for the Subsidy?

To be eligible to receive the PTC, individuals currently must

- be U.S. citizens, U.S. nationals, or *lawfully present* individuals;
- not be incarcerated (except for individuals in custody pending the disposition of charges);
- not have access to subsidized health coverage (with exceptions); and

[1] Access to these forms of subsidized coverage generally will make an individual ineligible for the premium tax credit (PTC) (with exceptions): Medicare; Medicaid; the State Children's Health Insurance Program; Tricare; a health care program administered by the Department of Veterans Affairs; coverage provided through the Peace Corps program; any government plan (local, state, federal), including the Federal Employees Health Benefits Program; an employer-sponsored health plan; and other coverage (e.g., a state high-risk pool) recognized by the Secretary of the Department of Health and Human Services (HHS).

[2] For a comprehensive discussion about the PTC, see CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*.

[3] For a comprehensive discussion about the exchanges, see CRS Report R44065, *Health Insurance Exchanges and Qualified Health Plans: Overview and Policy Updates*.

- have annual household income that meets or exceeds the minimum threshold equivalent to 100% of the federal poverty level (FPL) (with exceptions).[4]

An individual may be eligible for the PTC even if a member of his or her household is not eligible. For example, one spouse may have access to an affordable *eligible employer-sponsored plan*,[5] which would make that individual ineligible for the PTC. However, the rest of the household may only have access to employer benefits that are not affordable; in this case, the rest of the household may receive a PTC, as long as they meet the eligibility criteria.[6]

What Does It Mean That the Subsidy Is Enhanced?

The PTC statute includes a temporary provision that expanded eligibility and enhanced subsidy amounts for tax years 2021 through 2025.

Individuals must meet income (and other) criteria to be eligible for the PTC. Also, the formula for calculating the credit amount is based, in part, on income. Specifically, the PTC formula incorporates a premium contribution for the household receiving the subsidy. That premium contribution is the product of multiplying the household's income by a specified percentage (*applicable percentage*).

As enacted under the ACA, the following rules applied:

- income eligibility was limited to households whose annual incomes were at or above 100% of the federal poverty level (FPL) but not more than 400% of FPL, and
- the applicable percentages used to determine household premium contributions initially were specified in statute and adjusted annually through guidance issued by the Internal Revenue Service (IRS). (The annual adjustment to applicable percentages is sometimes referred to as *indexing*.)

As part of relief legislation enacted in response to the Coronavirus Disease 2019 pandemic and related economic disruption, Congress passed the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2). Among the act's provisions was one that expanded eligibility for the PTC and enhanced credit amounts.[7] For tax years 2021 and 2022, ARPA temporarily

- eliminated the maximum income limit (400% of FPL) for PTC eligibility purposes, leaving only the minimum income threshold (100% of FPL), and

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[4] The guidelines that designate the federal poverty level (FPL) are used in various federal programs for eligibility purposes. The poverty guidelines vary by family size and by whether an individual resides in the 48 contiguous states and the District of Columbia, Alaska, or Hawaii. See HHS, Office of the Assistant Secretary for Planning and Evaluation, *Frequently Asked Questions Related to the Poverty Guidelines and Poverty*, https://aspe.hhs.gov/frequently-asked-questions-related-poverty-guidelines-and-poverty#programs.

[5] 26 U.S.C. 36B(c)(2)(C)(i). As defined under the ACA, an *eligible employer-sponsored plan* is a group health plan or group coverage offered by an employer to the employee that is a governmental plan, a small-group plan, or a large-group plan. Affordability is measured according to the percentage of income necessary to pay for the employee's (or family's) portion of the total premium for an eligible employer-sponsored plan. If an employee's (or family's) premium contribution is below the dollar amount equivalent to the applicable percentage of income, such a plan is considered affordable for PTC purposes.

[6] This eligibility scenario and other subsidized coverage exceptions are discussed in the "Not Eligible for Minimum Essential Coverage" section of CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*.

[7] For a summary of the American Rescue Plan Act of 2021 (P.L. 117-2) provision, see "Section 9661: Improving Affordability by Expanding Premium Assistance for Consumers" in CRS Report R46777, *American Rescue Plan Act of 2021 (P.L. 117-2): Private Health Insurance, Medicaid, CHIP, and Medicare Provisions*.

- reduced applicable percentages and eliminated indexing, which resulted in larger subsidy amounts (compared with ACA-only rules).

These changes were extended for three additional tax years, 2023 through 2025, under the FY2022 Budget Reconciliation Law (FY2022 Reconciliation; P.L. 117-169).[8] The sunset date established under the FY2022 Reconciliation for the enhanced PTC provision is January 1, 2026.

Does the Expiration Mean the Subsidies Will End After 2025?

The PTC will continue after 2025. There is no sunset provision applicable to authorization for the credit itself.

The expiration applies only to the temporary provision that expanded income eligibility and enhanced subsidy amounts described above. Without an additional extension of the ARPA provision, the maximum income limit of 400% of the FPL would be reinstated and the applicable percentages would revert to higher levels resulting in lower subsidy amounts.

What Has Been the Impact of the Enhanced Subsidies?

In general, the enhanced PTC provision allowed more households to become eligible for the credit and provided larger subsidies to all eligible households, compared with ACA-only rules.[9] As a result, federal expenditures for the PTC were larger under ARPA/FY2022 Reconciliation rules than under ACA-only rules.

Federal Budgetary Effects

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) estimated the ARPA provision that expanded PTC eligibility and enhanced subsidy amounts for tax years 2021-2022 would increase outlays by approximately $22 billion and reduce revenue by more than $12 billion for FY2021-FY2030 (relative to the February 2021 baseline).[10]

For the FY2022 Reconciliation, CBO and JCT estimated that extending the enhanced PTC for three additional years (tax years 2023-2025) would increase outlays by over $33 billion and reduce revenue by more than $31 billion for FY2022-FY2031 (relative to the July 2021 baseline).[11]

[8] For a summary of the provision in the budget reconciliation measure known as the Inflation Reduction Act (P.L. 117-169), see the "Premium Tax Credits" section in CRS In Focus IF12203, *Selected Health Provisions of the Inflation Reduction Act*.

[9] For an illustrative example of the difference in subsidy amounts under different eligibility and formula rules, see Figure 4 in CRS Report R48034, *Illustrative Examples of Premium Tax Credit Variation Among Hypothetical Households*.

[10] Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT), Table 9 (Detailed Tables), in *Estimated Budgetary Effects of H.R. 1319, American Rescue Plan Act of 2021*, March 10, 2021, https://www.cbo.gov/publication/57056.

Because the PTC is refundable, eligible individuals may receive credit amounts that exceed their tax liability. For budget purposes, the credit amount that reduces tax liability is considered a revenue reduction. The credit amount that exceeds that liability is considered an outlay. Together, the revenue reductions and outlays constitute total federal expenditures for the PTC.

[11] CBO and JCT, Table 1, in *Estimated Budgetary Effects of H.R. 5376, the Inflation Reduction Act of 2022*, August 3, 2022, https://www.cbo.gov/publication/58366.

JCT incorporated the temporary PTC changes in its most recent committee print on federal tax expenditures for FY2024-FY2028. JCT estimated the net revenue loss attributable to the total PTC would be

- $113.6 billion in FY2024;
- $129.2 billion in FY2025;
- $107.9 billion in FY2026;
- $100.8 billion in FY2027; and
- $103.6 billion in FY2028.[12]

These estimates are based on federal tax provisions enacted through November 1, 2024, including expiration of the enhanced PTC provision at the end of tax year 2025.

Impact on Coverage

In CBO's most recent update to its projections to "Federal Subsidies for Health Insurance" (June 2024), the agency stated that "average annual enrollment through the marketplaces over the period [2024-2033] is 3.2 million more than previously estimated."[13] CBO attributes this increase, relative to prior baseline projections (September 2023) in part, to "availability of enhanced marketplace subsidies."[14]

In addition, administrative exchange data reveal steady increases in subsidized enrollment from 2020 to 2025.[15] The Centers for Medicare & Medicaid Services (CMS) attributes the "growth and popularity of the HealthCare.gov Marketplaces" to the availability of "enhanced tax credits."[16]

The count of individuals with effectuated subsidized exchange enrollment has increased year to year following availability of the enhanced PTC.[17] (The CMS data also provided the percentage of subsidized enrollment over total exchange enrollment.)

Subsidized exchange enrollment by year (as of February) was as follows:

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[12] See "Subsidies for Insurance Purchased Through Health Benefit Exchanges" in Table 1 of JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2024-2028*, December 11, 2024 (JCX-48-24), https://www.jct.gov/publications/2024/jcx-48-24/ .

[13] CBO, "CBO Publishes New Projections Related to Health Insurance for 2024 to 2034," *CBO Blog*, June 18, 2024, https://www.cbo.gov/publication/60383.

[14] Ibid. At the time, CBO compared its latest health insurance projections (June 2024) with its prior projections (September 2023) and concluded that one of the largest revisions was estimated upward enrollment in the ACA exchanges. The agency explained that the larger projected enrollment in exchanges were due to (1) changes to economic and demographic assumptions which resulted in a larger PTC-eligible population and (2) incorporating greater-than-expected effects from the availability of the enhanced credits.

[15] Centers for Medicare & Medicaid Services (CMS), "February Effectuated Enrollment Tables," July 2, 2024, https://www.cms.gov/marketplace/resources/forms-reports-other#Health_Insurance_Marketplaces. Hereinafter, CMS, "February Effectuated Enrollment Tables." Additional information and links to related reports are available in Table 2 in CRS Report R46638, *Health Insurance Exchanges: Sources of Statistics*.

[16] CMS, "Affordability and Choice Anchor Biden-Harris Administration's Launch of Window-Shopping for 12th HealthCare.gov Marketplace Open Enrollment," press release, October 25, 2024, https://www.cms.gov/newsroom/press-releases/affordability-and-choice-anchor-biden-harris-administrations-launch-window-shopping-12th.

[17] *Effectuated enrollment* is the number of unique individuals who have been determined eligible to enroll in an exchange plan, have selected a plan, and have submitted the first premium payment for an exchange plan. Effectuated enrollment estimates generally are point-in-time and may change over the plan year. Also, these data represent individuals who received advanced payments of the PTC; however, individuals also may wait until tax filing season (after the plan year has ended) to claim the PTC on their individual income tax forms.

- 2020: 9.2 million (represented 86% of all individuals enrolled in exchanges)
- 2021: 9.7 million (86%)
- 2022: 12.5 million (90%)
- 2023: 14.3 million (91%)
- 2024: 19.3 million (93%)
- 2025: 21.8 million (93%)

Overall, subsidized exchange enrollment more than doubled between 2020 and 2025, increasing by 137% during this time period. At the state level, all states but New York had more individuals with subsidized exchange enrollment in 2025 compared to 2020.[18]

What Might Happen If the Enhanced Subsidies Expire?

CBO estimates that average gross benchmark premiums would increase—following expiration—due in part to the expected departure of healthier exchange enrollees due to less generous subsidies (see the **Appendix** for a discussion of the 2025 and 2026 premium contributions used to calculate subsidy amounts for PTC-eligible households); "without an extension through 2026, CBO estimates gross benchmark premiums will increase by 4.3 percent, on average, for that year."[19] Further, CBO estimates that gross benchmark premiums will increase, without a permanent extension, by the following percentages: 4.3% in 2026, 7.7% in 2027, and an average 7.9% for 2026-2034 overall. Overlapping with the increase in average premiums, CBO estimates that expiration of the enhanced PTC would contribute to a rise in the number of uninsured individuals. CBO projects that the uninsured population would increase by 2.2 million in 2026 without an extension for that year. Further, without a permanent extension, CBO projects that the "number of uninsured people will rise by 2.2 million in 2026, by 3.7 million in 2027, and by 3.8 million, on average, in each year over the 2026-2034 period."[20]

What Might Happen If the Enhanced Subsidies Are Extended?

CBO and JCT provided budgetary and coverage estimates under a permanent extension of the enhanced PTC.[21] They estimated that direct spending would increase by nearly $296 billion (on net) over the FY2026-FY2035 budget window and that revenues would decrease (on net) by more than $54 billion over the same window. Taken together, the permanent extension would add approximately $350 billion to the budget deficit for that time period.

In addition, CBO and JCT estimated that, under a permanent extension, "the number of people with health insurance would increase by 3.6 million in 2030 and by 3.8 million in 2035."[22] CBO also projected that gross benchmark premiums would decrease 7.6%, on average, each year over the 2026-2035 period.

[18] CRS calculations based on national and state data in CMS, February Effectuated Enrollment Tables.

[19] CBO, "Re: The Effects of Not Extending the Expanded Premium Tax Credits for the Number of Uninsured People and the Growth in Premiums," December 5, 2024, p. 3, https://www.cbo.gov/system/files/2024-12/59230-ARPA.pdf.

[20] Ibid, p. 3. For an interactive tool estimating the potential loss of coverage resulting from the expiration of the enhanced PTC, by state, see Jameson Carter et al., Urban Institute, "Who Would Lose Coverage If Enhanced Premium Tax Credits Expire?," November 14, 2024, https://www.urban.org/data-tools/health-insurance-premium-tax-credit.

[21] CBO and JCT, "Re: The Estimated Effects of Enacting Selected Health Coverage Policies on the Federal Budget and on the Number of People With Health Insurance," September 18, 2025, https://www.cbo.gov/system/files/2025-09/61734-Health.pdf.

[22] Ibid., p. 3.

What Did the Recent Reconciliation Law (P.L. 119-21) Do to the PTC Expiration?

The FY2025 budget reconciliation law (P.L. 119-21) includes PTC provisions that affect eligibility, income verification, and repayment of excess advance PTCs, and these provisions are estimated to reduce outlays and increase revenues.[23] This act did not affect expiration of the enhanced PTC.

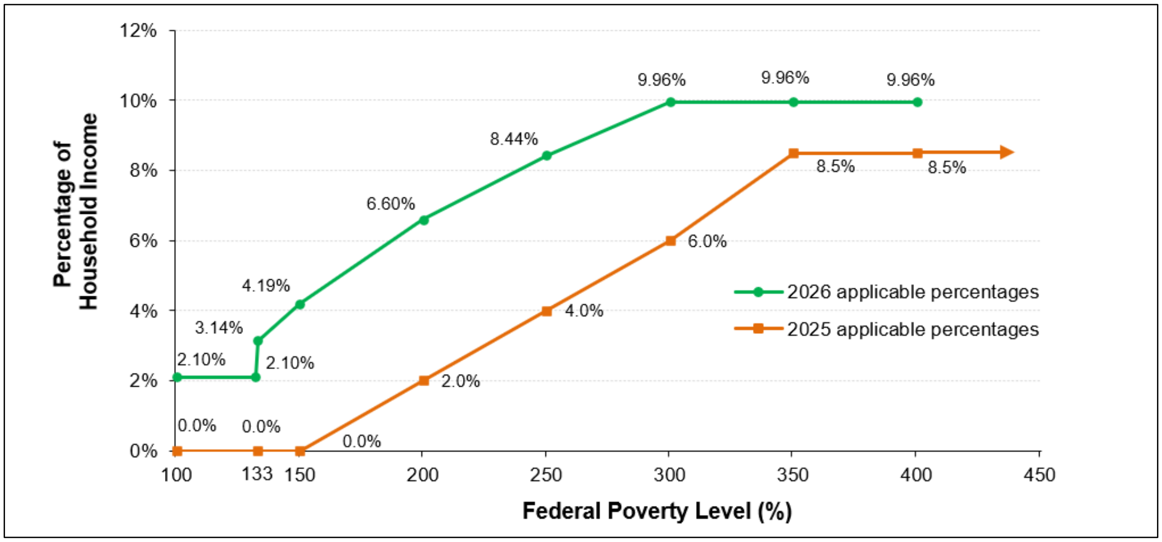
[23] For additional information about these provisions, see CRS Report R48633, *Health Provisions in P.L. 119-21, the FY2025 Reconciliation Law*.

Appendix. Household Premium Contributions

Calculation of the credit amount is based on a number of factors, including annual household income. For PTC purposes, income is measured according to federal poverty guidelines.[24] (The guidelines that designate the federal poverty level [FPL] are used in various federal programs for eligibility purposes.) Income equivalent to an FPL is used to calculate a given household's premium contribution.[25] As household income increases, the share of income used to determine the required premium contribution also generally increases. That share of income is referred to as the *applicable percentage*. That is, a household's premium contribution is the product of annual household income and the applicable percentage.

Figure A-1 compares the applicable percentages that apply in 2025 and will apply in 2026 under expiration. As the figure illustrates, the percentage of income used to calculate the amount a PTC-eligible household would pay will be higher in 2026 compared with 2025, at each FPL.

Figure A-1. Applicable Percentages Used to Determine Household Premium Contributions, by Federal Poverty Level, Comparing 2025 and 2026 Rules



Sources: 26 U.S.C. 36B(b)(3)(A)(iii) and Internal Revenue Service, Rev. Proc. 2025-25.

Notes: The applicable percentage is used to calculate a given household's premium contribution toward the benchmark plan. For example, a household with annual income equivalent to 200% of the federal poverty level (FPL) in 2025 is required to contribute 2% of their income to pay benchmark plan premiums. In 2026, the same household with income equivalent to 200% of FPL would be required to contribute 6.6% of their income toward benchmark premiums.

In general, a higher applicable percentage results in a larger premium contribution, which, in turn, would result in a lower subsidy amount, all else equal.

[24] The poverty guidelines are updated annually at the beginning of the calendar year. However, PTC calculations are based on the prior year's guidelines to provide individuals and families with timely information as they compare and enroll in exchange plans during the open enrollment period that occurs prior to the beginning of the plan year. For the 2024 poverty guidelines, see HHS, "Annual Update of the HHS Poverty Guidelines," 89 *Federal Register* 2961, January 17, 2024, at https://www.govinfo.gov/content/pkg/FR-2024-01-17/pdf/2024-00796.pdf.

[25] The premium contribution is applied toward the premium for the benchmark plan in the household's local area. For a discussion of the benchmark plan, see the "Determination of Required Premium Contributions and Premium Tax Credit Amounts" section of CRS Report R44425, *Health Insurance Premium Tax Credit and Cost-Sharing Reductions*.

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