Important Reminder for Purchasing Your Health Insurance Through The Government Marketplace

Article Highlights:

- Determining Household Income
- The Advanced Premium Tax Credit
- Marketplace Estimate of Income
- Modified Adjusted Gross Income
- Who Is Family for Health Insurance Purposes?

When applying for insurance through a state or the federal health insurance marketplace, you will be asked to provide an estimate of your household income for 2016. Your household income is a key factor in determining if you are qualified for an insurance subsidy called the premium tax credit (PTC). Any premium tax credit that you are entitled to will be computed on your 2016 tax return when it is filed in 2017. However, the insurance marketplace will allow you to reduce your insurance premiums during the year by applying this credit in advance based upon the estimate of your household income you provided when applying for the insurance. This advance is referred to as the advanced premium tax credit (APTC).

It is very important to remember that the PTC is based on the actual family income when your tax return is filed in 2017—not on the estimate you provided when you enrolled—and if the APTC you received during 2016 was more than the PTC you are entitled to based upon your household income, you may be required to repay all or part of the APTC you received during 2016. Thus, it is important to correctly estimate your family's household income when applying for the insurance and to report any significant income changes during the year on the insurance marketplace.

Household income includes the modified adjusted gross income (MAGI) of everyone in your family who is required to file a tax return. Your family includes you, your spouse, and everyone you are entitled to claim as a dependent on your tax return. MAGI is your family's adjusted gross income (AGI) plus nontaxable social security, nontaxable interest and excluded foreign earned income.

As an example, say that you are married with one child. You have a W-2 income of $35,000 and nontaxable interest income of $150. Your spouse does not work, but your 16-year-old child works at a fast food restaurant and has a W-2 income of $4,000 for the year. Your AGI would be $35,000, which includes only your W-2 income. However, your MAGI would be $35,150 because it includes the nontaxable interest income. Since your child's W-2 income is less than $6,300 (the standard deduction for 2016), your child is not required to file a tax return, and your child's income (MAGI) is not included in the household income. Thus, your household income would be $35,150.

However, if your child's W-2 income had been $7,000 (exceeding the standard deduction for the year), the child would have to file a tax return, and the child's income would have to be included when determining your household income, which in this case would be $42,150 ($35,150 + $7,000). The addition of the child's income to the household will significantly reduce the amount of PTC you are entitled to, and not including it when estimating your income will most likely result in you having to repay a significant amount of APTC on your 2016 tax return. The computation of household income can become complicated when dependent children are working and when one or more forms of nontaxable income are received by a family member. It may be appropriate to consult with this office for assistance when determining household income.