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The Inflation Reduction Act's Impact on the Affordable Care Act Tax credits: What Individuals and Employers Need to Know

The Inflation Reduction Act (IRA) includes various provisions that affect individual taxes. Signed into law on August 16, 2022, part of the IRA's overall goal was to lower healthcare costs for individuals throughout the United States. For example, it directs the Secretary of Health and Human Services to negotiate prescription drug costs for Medicare beneficiaries—which has never been done.

The IRA will also directly impact the Affordable Care Act (ACA) and tax credits that those who use healthcare plans on the Marketplace can use. Previously, Marketplace healthcare insurance premiums were set to increase dramatically in 2023. Some plans would increase upwards of 50 percent for approximately 13 million Americans.

Expansion of Healthcare Subsidies Under the American Rescue Plan Act and Inflation Reduction Act

So far in 2022, there have been six million new enrollees to the Marketplace exchange. This is the largest growth in the 12 years that purchasing health insurance through the Marketplace has been an option.

Part of the reason so many people signed up for Marketplace health insurance was due to the subsidies available. These subsidies help individuals and families lower their healthcare premiums. It also assists small business owners who previously never qualified for Marketplace insurance
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In large part due to the pandemic, the American Rescue Plan Act removed the income cap so that more individuals could receive healthcare premium subsidies. Before the American Rescue Plan, insurance options through the Marketplace were only available to those making between 100 and 400 percent of the federal poverty level.

The Prior Expansion of Healthcare Subsidies under the American Rescue Plan

The American Rescue Plan capped healthcare premium costs at no more than 8.5 percent of household income for those with incomes 400 percent of the poverty level or higher. This is a substantial cost savings for millions of Americans. By removing the income cap, even those who are just one dollar over the 400 percent limit can benefit from the 8.5 percent limitation on premium costs.

If income is lower than this 400 percent mark, then the percentage of household income is further reduced. Households that earn less than 400 percent of the federal poverty level will often qualify for subsidies to further decrease the overall cost of their health insurance from the Marketplace.

Under the American Rescue Plan Act, the income limit cap would have stopped at the end of 2022. For individuals, that would mean that premiums would have jumped between 25 and 50 percent.

Extending the American Rescue Plan Act Subsidies

The Inflation Reduction Act extends the subsidy expansions that the American Rescue Plan put in place. Those will now be in effect through the end of 2025.

In addition, the IRA has committed another $100 million toward efforts to expand the ACA’s reach. This money will go to “navigator organizations” that will help inform individuals in low-income areas of their ability to qualify for Marketplace plans and subsidies under the ACA.

The Employer Impact: Minimum Essential Coverage (MEC)

Many employers are required to provide Minimum Essential Coverage (MEC) to their employees. This is part of the ACA’s Employer Mandate. Because of a strange hole in the ACA, some employees were paying healthcare premiums through their employer-provided plans over and above the roughly 9.61 percent affordability limitation. The IRA addresses this hole and closes it.

IRA Addresses the “Family Glitch”

Under the ACA, employees with access to healthcare who found the premiums were too high (and therefore unaffordable) could turn to options from the Marketplace. The affordable plan had a self-only coverage that was less than 9.83 percent of household income. However, this applied even if the individual had dependents.

Because of this “family glitch,” the individual could pay much higher premiums through their employer than what they could have gotten on the Marketplace. In fact, five million Americans are paying for health insurance that costs more than 9.61 percent of their income because of this glitch.

Thankfully, the IRA addresses this glitch so that dependents are considered as part of the income calculation. It is also based on the family median income in each state, rather than an across-the-board limitation.

For employers, it means that they need to ensure that healthcare premiums do not exceed 9.61 percent of household income for an entire family. If employers do not offer affordable health insurance, they can face penalties. Those penalties have been increased in 2022 as part of the IRA.

The IRA Increase in Employer Penalties

Specifically, employers can be assessed penalties of either:

- $229.17 per month ($2,750 per year) per employee for failing to offer a MEC plan, or
- $343.33 per month ($4,120 per year) per employee affected for failing to provide their shared responsibility of premiums.

The MEC penalty is applied to all full-time employees, even if only one employee would qualify for subsidies through the federal Marketplace.
These penalties are assessed through the IRS in a 226J penalty notice. Other penalties might also apply for failing to file or incorrect filings.

A Quick Reminder About Employer Requirements

Employers have dealt with the MEC requirements for years and should know the MEC must be offered to at least 95 percent of full-time employees and dependents. The IRS sets out affordability calculations that dictate whether penalties should be assessed.

As a reminder, employers with 50 or more full-time (or full-time equivalent) employees are subject to the employer mandate under the ACA.

IRA Helps Expand Healthcare Insurance Access

The Inflation Reduction Act will help millions of Americans access affordable healthcare insurance. Understanding the limitations and consequences will help employers and individuals take full advantage of the benefits while avoiding penalties. Further, proper planning and analysis will help both individuals and businesses effectively evaluate Marketplace and other healthcare insurance options.

Contact Frankel Zacharia today if you have any questions or would like additional information. Please contact us at 402-496-9100 or www.fzacpa.com.