2023 NATIONAL INCOME TAX WORKBOOK

CHAPTER 7: INDIVIDUAL TAX ISSUES PART 2

Land Grant University Tax Education Foundation

INDIVIDUAL TAX ISSUES - PART 2

P. 223

LEARNING OBJECTIVES

- Understand when a taxpayer can claim a credit for a clean vehicle
- Calculate the amount of a clean vehicle credit
- Understand what improvements qualify for the energy-efficient home improvement credit
- Know how to claim the residential clean energy property credit
- Comply with household employee tax reporting requirements
- Understand the new premium tax credit regulations

ISSUE 1: CLEAN VEHICLE CREDITS

P. 225

New Clean Vehicle Credit

- I.R.C. §30D allows a nonrefundable credit for a new clean vehicle
  - Tax years ending after April 17, 2023
  - Vehicle placed in service on or after January 1, 2023, through April 17, 2023
    - ➢Eligible for the $2,500 base credit amount

ISSUE 1: CLEAN VEHICLE CREDITS P. 225

- Additional credit for vehicle that draws propulsion energy from a battery (not less than 7 kilowatt hours of capacity)
  - ➢ $417 plus
  - ➢ $417 for each kilowatt hour of capacity in excess of 5 kilowatt hours
    - Up to maximum of $5,000
- Thus, minimum credit is $3,751 & maximum credit is $7,500

  ($2,500 base credit + $417 + (7kw – 5kw) x $417 = $3,751)

ISSUE 1: CLEAN VEHICLE CREDITS

P. 225

New Clean Vehicle Credit

- Section 30D allows a nonrefundable credit for a new clean vehicle
  - For vehicles placed in services after April 17, 2023
  - Credit amount will depend on vehicle meeting
    - ➢Critical minerals requirement $3,750 and/or
    - ➢Battery components requirement $3,750
  - Vehicle meeting neither requirement not eligible for credit
  - $3,750 for vehicle meeting only one requirement, $7,500 for both
  - Only one credit is allowed per vehicle

ISSUE 1: CLEAN VEHICLE CREDITS

P. 225

New Clean Vehicle Credit

- Credit terminates for vehicles placed in service after December 31, 2032
- What is meant by "placed in service?"
  - On date taxpayer takes possession of vehicle

Cross-Reference

- Business Use – apportion between personal use (section 30D) and business use (section 38)

ISSUE 1: CLEAN VEHICLE CREDITS

PP. 225-226

New Clean Vehicle Credit

Must meet all the following 9 requirements:

1. Placed in service on and after January 1, 2023
2. Original use commenced with taxpayer
3. Acquired for use or lease (not for resale)
4. Made by qualified manufacturer
5. Treated as motor vehicle under Title II of Clean Air Act

ISSUE 1: CLEAN VEHICLE CREDITS

PP. 225-226

New Clean Vehicle Credit

6. Has gross vehicle weight (GVW) < 14,000 pounds
7. Propelled to a significant extent by an electric motor drawing electricity from a battery
   - Capacity not less than 7 kilowatt hours
   - Can be recharged from external source of electricity
8. Assembled in North America
9. The seller reports to the taxpayer & the IRS

ISSUE 1: CLEAN VEHICLE CREDITS

P. 226

New Clean Vehicle Credit

- Seller reports to the taxpayer and IRS
  - ➢Name and TIN of taxpayer
  - ➢Vehicle identification number (VIN)
  - ➢Battery capacity
  - ➢Verification that original use commenced with taxpayer
  - ➢Maximum credit allowable
- Search list of vehicles that qualify for credit
  - https://fueleconomy.gov/feg/tax2023.shtml
  - Must verify compliance with final assembly in US and MSRP requirements

ISSUE 1: CLEAN VEHICLE CREDITS

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New Clean Vehicle Credit - Definitions

- **Motor Vehicle**
  - Vehicle that is manufactured primarily for use on:
    - ➢Public streets, roads, and highways
    - ➢At least 4 wheels
    - ➢Compliant with Clean Air Act
    - ➢Compliant with federal motor vehicle safety requirements
- **Original Use**
  - First use of vehicle after sold, registered, or titled
    - ➢Test drives do not disqualify the vehicle

ISSUE 1: CLEAN VEHICLE CREDITS

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New Clean Vehicle Credit – Definitions (Continued)

- **Qualified Manufacturer**
  - Manufacturer that enters into a written agreement with IRS and must
    - Make periodic written reports to IRS
    - Provide VINs and such other information related to each vehicle

- **Battery Capacity**
  - Quantity of electricity the battery can store(kilowatt hours)

ISSUE 1: CLEAN VEHICLE CREDITS

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New Clean Vehicle Credit – Definitions (Continued)

- **Final Assembly**
  - Process by which a manufacturer produces a new clean vehicle
    - Taxpayer can search VIN at:
    - Dept of Energy's Alternative Fuels Data Center or
    - Dept of Transportation Nat'l Hwy Traffice Safety Admin
    - Applies to Vehicles sold after August 16, 2022

North America = US, Canada & Mexico

ISSUE 1: CLEAN VEHICLE CREDITS

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New Clean Vehicle Credit

- Special Tax Rules
  - Prop. Treas. Reg. §1.30D-4
  - **No Double Tax Benefit**
    - New clean vehicle credit reduces any other deduction or credit allowed for the vehicle.
    - However, if taxpayer claims Sec 30D credit in one year another taxpayer can claim Sec 25E credit for a **previously owned clean vehicle** in subsequent year.
    - No Sec 45W credit for a qualified commercial clean vehicle is allowed if Sec 30D credit claimed

ISSUE 1: CLEAN VEHICLE CREDITS

PP. 228-229

New Clean Vehicle Credit

- Special Tax Rules
  - **MAGI Limits**
    - Vehicles placed in service after December 31, 2022
      - No credit is allowed if current-year or prior-year MAGI exceeds:
        - $300,000 – MFJ or SS
        - $225,000 – HoH
        - $150,000 – Single or MFS
      - If filing status differs in current and prior-years, determine if MAGI exceeds threshold limit based on filing status for each year

ISSUE 1: CLEAN VEHICLE CREDITS

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New Clean Vehicle Credit

- Special Tax Rules
  - **Multiple Owners**
    - Passthrough Entity Ownership
      - Partnership or S corporation places a new clean vehicle in service
      - Partnership or S corporation is the vehicle owner
      - Section 30D credit is allocated **among the partners or shareholders** and claimed on their individual returns
      - Name and TIN of partnership or S corporation will be named on seller’s report

ISSUE 1: CLEAN VEHICLE CREDITS

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New Clean Vehicle Credit

- Manufacturer's Suggested Retail Price
  - Vehicles placed in service after December 31, 2022
    - No credit is allowed if MSRP exceeds:
      - Vans $80,000
      - SUVs $80,000
      - Pick-up trucks $80,000
      - Other vehicles $55,000
  - MSRP is found on vehicle information label attached to each vehicle on dealer's premises

ISSUE 1: CLEAN VEHICLE CREDITS

PP. 230-231

New Clean Vehicle Credit

Example 7.2

- Determining the Vehicle Classification

Figure 7.1

- Tesla Model S Vehicle

Practitioner Note

- Transition Rule

Claiming the Credit

- Form 8936, *Qualified Plug-in Electric Motor Vehicle Credit*

P

CHAPTER 7 – POLLING QUESTION #1

Taxpayers claim the new clean vehicle credit and the used clean vehicle credit on Form 8936.

True

False

ISSUE 1: CLEAN VEHICLE CREDITS

PP. 231-232

Previously Owned Clean Vehicle Credit

- I.R.C. §25E Nonrefundable Credit
  - Equal to lesser of $4,000 or 30% of vehicle's sales price
  - **Previously Owned**
    - Model year at least 2 years earlier than calendar year acquired
    - Original use commenced with another person
    - Taxpayer acquires vehicle in qualified sale
    - Vehicle is a qualified fuel cell motor vehicle with GVW < 14,000 pounds

ISSUE 1: CLEAN VEHICLE CREDITS

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Previously Owned Clean Vehicle Credit

Qualified Sale

- Sale price cannot exceed $25,000
- Sale must be first transfer after August 16, 2022

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Previously Owned Clean Vehicle Credit

- AGI Limits
  - No credit is allowed if the current-year or prior-year MAGI exceeds:
    - $150,000 MFJ or SS
    - $112,500 HoH
    - $75,000 Single or MFS

ISSUE 1: CLEAN VEHICLE CREDITS

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- Reminder:
  - Dealer must furnish report to buyer and IRS at time of sale for taxpayer to be eligible for credit
  - www.irs.gov/credits-deductions/manufacturers-and-models-of-qualified-used-clean-vehicles

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- I.R.C. §25C(g)(2) Nonbusiness Energy Property Credit
  - Inflation Reduction Act (IRA) of 2022
    - Extended to December 31, 2032
    - Increased credit
    - Revised definition of residential energy property expenditures
      - No longer must be made on principal residence
    - Removed lifetime credit limit
    - Replaced with annual limits

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credits

- Section 25C(g)(2) Nonbusiness Energy Property Credit
  - Through December 31, 2022
    - Sec 25C credit is a $500 lifetime credit

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credits

- Beginning January 1, 2023
  - Sec 25C credit is equal to 30% amount paid for certain qualified expenditures installed during year
    - Qualified energy efficiency improvements
    - Residential energy property expenditures
    - Home energy audits
  - Maximum $3,200
  - No longer a lifetime limit!!!

ISSUE 2: ENERGY CREDITS

PP. 233-234

Energy-Efficient Home Improvement Credit

- Eligible Home Improvements and Expenditures
  - Building envelope components satisfying energy efficient requirements
    - ➢Exterior doors (30% of costs up to $250 per door, up to a total of $500)
    - ➢Exterior windows and skylights (30% of costs up to $600)
    - ➢Insulation materials or systems and air sealing materials or systems (30% of costs)

ISSUE 2: ENERGY CREDITS

PP. 233 - 234

Energy-Efficient Home Improvement Credit

- Home energy audits (30% of costs up to $150)
- Residential energy property (30% of costs, including labor, up to $600 for each item)
- Heat pumps and biomass stoves and biomass boilers (30% of costs, including labor)

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Home Energy Audit
  - Inspection of a dwelling, including condominiums and certain manufactured homes
    - ➢Located in United States
    - ➢Owned or used as personal residence

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Home Energy Audit
  - Home energy auditor must provide written report
    - ➢Identify most significant and cost-effective energy efficiency improvements
    - ➢Estimate energy and cost savings for each improvement
    - ➢Meet certification or other requirements specified by Treasury & IRS

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Credit Limit
  - $1,200 aggregate yearly tax credit maximum
    - ➢Building envelope components
    - ➢Home energy audits
    - ➢Energy property

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- **Energy-Efficient Home Improvement Credit**
- Credit Limit
  - $2,000 credit limit
    - ➢Electric or natural gas heat pump water heaters
    - ➢Electric or natural gas heat pumps
    - ➢Biomass stoves and boilers
- Therefore, maximum yearly energy-efficient home improvement credit is $3,200

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

Example 7.3

Calculating the Credit Limit

2 exterior doors at $1,000 each

Windows & skylights $2,200 total

Central Air Conditioner $5,000

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

Example 7.3 (Continued)

2 exterior doors at $1,000 each x 30% = $300 per door
limited to $250 per door x 2 doors
Windows & Skylights $2,200 x 30% = $660
limited to $600
Central A/C $5,000 x 30% = $1,500
limited to $600
Credit amounts total $1,700,
limited to $1,200 aggregate

ISSUE 2: ENERGY CREDITS

PP. 234-235

Energy-Efficient Home Improvement Credit

- Energy Efficiency Requirements
  - Exterior doors
    - Applicable ***Energy Star*** requirements
  - Windows and skylights
    - ***Energy Star*** most efficient certification requirements
  - Insulation materials or systems and air sealing materials or systems
    - International ***Energy Conservation Code***

ISSUE 2: ENERGY CREDITS

PP. 234-235

Energy-Efficient Home Improvement Credit

- Electric or natural gas heat pumps, electric or natural gas heat pump water heaters, central air conditioners, natural gas or propane or oil water heaters, natural gas or propane or oil furnaces or hot water boilers
  - Exceed highest efficiency tier established by the ***Consortium for Energy Efficiency***

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Energy-Efficient Home Improvement Credit

- Energy Efficiency Requirements
  - Oil furnaces or hot water boilers
    - Meet or exceed 2021 ***Energy Star*** efficiency
  - Biomass stove or biomass boilers
    - Thermal efficiency rating of at least 75%
  - Panelboards, sub-panelboards, branch circuits, or feeders
    - Installed according to ***National Electric Code***
    - Load capacity of 200 amps or greater

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Residence
  - Available only for certain improvement to taxpayer’s **residence**
    - Landlord cannot claim credit for improvements made to homes rented by others
    - However, a taxpayer who rents a home as principal residence and makes eligible improvements may be eligible for the credit

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Credit
  - Available for an existing home
  - Available for an addition or renovation to existing home
  - NOT available for a newly constructed home
  - Must be located in the United States

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Principal Residence or Second Home
  - It depends on type of improvement or expenditure on whether the credit may be available to a principal residence or second home
    - See detailed listing on pages 235-236

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Business Use
  - No credit if **solely** used for business purposes
  - Full credit if **no more than 20%** business use
  - **More than 20%** business use, calculate amount of credit
    - Include only portion allocable for nonbusiness purposes

ISSUE 2: ENERGY CREDITS

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Energy-Efficient Home Improvement Credit

- Labor Costs
  - It depends on the type of improvement or expenditure on whether the following labor costs can be included in computing the credit
    - ➢Onsite preparation
    - ➢Assembly
    - ➢Original installation
  - See page 236
- No Carry Over and Not Refundable

ISSUE 2: ENERGY CREDITS

P. 236

Residential Clean Energy Property Credit

- I.R.C. §25D Residential Clean Energy Property Credit
  - 30% credit for certain qualified expenditures
  - IRA
    - Extended to December 31, 2034
    - Modified the applicable credit percentage rates
    - Added battery storage technology

ISSUE 2: ENERGY CREDITS

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Residential Clean Energy Property Credit

- Credit applies to property placed in service 2022 to 2032
- Credit percentage rate phases down to 26% in 2033 and 22% in 2034
- No credit is available after 2034

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Residential Clean Energy Property Credit

- Eligible Home Improvements
  - Solar panels
  - Solar water heaters
  - Fuel cell property expenditures
  - Wind turbines
  - Geothermal heat pump
  - Battery storage technology

ISSUE 2: ENERGY CREDITS

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Residential Clean Energy Property Credit

- Credit Limits
  - No overall dollar limit
    - Generally limited to 30% of qualified expenditures 2022 to 2032
  - Exception:
    - Fuel cell property expenditures have maximum $500 credit
      - For each half kilowatt of capacity

ISSUE 2: ENERGY CREDITS

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Residential Clean Energy Property Credit

- Energy Efficiency Requirements
  - Solar water heating property
    - Certified by nonprofit ***Solar Rating Certification Corporation*** or comparable entity
  - Geothermal heat pump property
    - Meet ***Energy Star*** requirements
  - Battery storage technology
    - Have a ***3 kilowatt-hours*** or greater capacity

ISSUE 2: ENERGY CREDITS

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Residential Clean Energy Property Credit

- Residence
  - Same rules apply
- Labor Costs
  - Onsite preparation
  - Assembly
  - Original installation
  - Piping or wiring to interconnect qualifying property to home
- Carry Over but Not Refundable

ISSUE 2: ENERGY CREDITS

PP. 237-238

Effect of Subsidies

- Public Utility
  - Value of subsidy is **not** included in customer’s gross income
  - Taxpayer cannot claim a credit for the amount of the subsidy
- Rebates
  - Reduce purchase price or cost of property

ISSUE 2: ENERGY CREDITS PP. 237-238

Effect of Subsidies

- State Energy-Efficiency Incentives
  - Generally, a taxpayer is **not required** to reduce the purchase price or cost of property acquired with a governmental energy-efficiency incentive
    - Unless that incentive qualifies as a rebate under federal income tax law

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 239

Household Employees

- Hired to do housework and hiring taxpayer controls what and how work is to be done
  - Caretakers
  - Child care providers
  - Health aids
  - Housekeepers
  - Nannies
  - Yard workers
- Full-time or part-time
- Paid by hour, by day, by job

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 239

Household Employees

Cross-Reference

- Employee vs. Independent Contractor

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 239

Income Tax Withholding

- Employer can, but is not required, to withhold income tax
- If withheld:
  - Request Form W-4, *Employee's Withholding Certificate*
  - Issue Form W-2, *Wage & Tax Statement*

Cross-Reference

- Estimated Tax Payments

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 240

FICA Taxes

- If the employer paid a household employee $2,600 or more of cash wages in 2023, the employer must pay employer's share of FICA, withhold and pay employee's share
- If employer pays the employee's share of FICA taxes on behalf of employee
  - Include amount in Box 1 of Form W-2 (not boxes 3 and 5)
  - Report amount employer paid in boxes 4 and 6
- Noncash wages (food, lodging, and clothing) Not included in FICA wages
  - Subject to federal income taxes (unless an exception)

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 240

FICA Taxes

- Exceptions
  - Wages paid to
    - Taxpayer’s spouse
    - Taxpayer’s child under age 21
    - Taxpayer’s parent (with limited exception)
    - Any employee under age 18 (household services not principal occupation)

Practitioner Note

- Employer Identification Number

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

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FICA Taxes

- Parent Wages Subject to FICA Tax
  - Taxpayer's parent cares for taxpayer's child
    - Under age 18; or
    - Has physical or mental condition that requires personal care of an adult
      - For at least 4 continuous weeks in calendar quarter

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING P. 240

FICA Taxes

- Subject to FICA tax only if household employer is one of following
  - Divorced or not remarried
  - Widow or widower
  - Living with a spouse whose mental or physical condition prevents caring for the child for at least 4 continuous weeks in the calendar quarter

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 240

FICA Taxes

- Employee under Age 18
  - Exemption from FICA taxes **does not** apply
    - If providing household services if the employee's principal occupation
  - If employee is a student, providing household services
    - **Not** considered employee's principal occupation

Practitioner Note

- Additional Medicare Tax

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING P. 241

Federal Unemployment Tax

- Due if **quarterly** cash wages to **all** household employees totals $1,000 or more
  - FUTA tax is 6% of cash wages up to $7,000
    - Paid to **each** household employee
  - Reduced to 5.4%
    - If employer timely pays state unemployment tax

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING P. 241

Federal Unemployment Tax

- No FUTA tax for wages paid to:
  - Spouse
  - Child under 21
  - Parent

Michigan Unemployment Tax

- Follows FUTA Guidelines

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

P. 241

Schedule H

- Required if employer pays household wages
  - Subject to FICA tax; or
  - Subject to FUTA tax; or
  - Federal income tax withheld
- Can be attached to following returns
  - Form 1040
  - Form 1040-SR
  - Form 1040-NR
  - Form 1040-SS
  - Form 1041

ISSUE 3: HOUSEHOLD EMPLOYMENT TAX REPORTING

PP. 241-242

Schedule H

- Must file Schedule H even if not required to file an income tax return

Figure 7.2

- Schedule H (Form 1040) Lines A, B, and C

Law Change

- SEP Contributions

ISSUE 4: PREMIUM TAX CREDIT

P. 243

Premium Tax Credit (PTC) Overview

- ACA established an online health insurance Marketplace
  - To search for & purchase ACA health insurance coverage
  - Taxpayer who secures Marketplace coverage
    - May be eligible for refundable PTC

ISSUE 4: PREMIUM TAX CREDIT

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Premium Tax Credit (PTC) Overview

- Taxpayers can claim the PTC
  - File a return
  - Paid directly to the insurer, as an advance premium tax credit (APTC)
    - To fund coverage on behalf of the tax filer throughout the year
- Requires APTC to PTC reconciliation resulting in refund or tax owed

ISSUE 4: PREMIUM TAX CREDIT

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Eligibility for the Premium Tax Credit

- Eligible for PTC for months in which:
  - Member of household
    - Is enrolled in qualified plan offered through Marketplace; and
    - Is not otherwise eligible for minimum essential coverage (MEC)

P. 243

Eligibility for the Premium Tax Credit

- MEC includes
  - All employer-provided coverage
  - Government-provided health plans
  - Individual coverage purchased on the Marketplace
  - ACA-compliant plans purchased through individual market
    - Including grandfathered plans

ISSUE 4: PREMIUM TAX CREDIT

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Eligibility for the Premium Tax Credit

- MEC does not include
  - Health sharing ministry plans
  - Limited benefit plans
    - Those offering only dental, vision, or critical illness benefits

Practitioner Note

- Minimum Value

ISSUE 4: PREMIUM TAX CREDIT

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Eligibility for the Premium Tax Credit

- Affordability
  - If affordable employer coverage offering minimum value is offered
    - Individual is **not** eligible for a PTC
  - For 2023, an employer plan is affordable if it meets
    - Minimum value standard and costs 9.12% or less of household income

ISSUE 4: PREMIUM TAX CREDIT

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Eligibility for the Premium Tax Credit

- Affordability
  - **Required contribution** is the amount employee must pay for coverage
    - If required contribution is 9.12% or less of household income, the offered coverage is affordable
      - Employee is not eligible for PTC even if employee refuses coverage
    - Employees who **accept** coverage are **not** eligible for the PTC
      - Even if the employee coverage is unaffordable
  - Affordability is determined **monthly**

ISSUE 4: PREMIUM TAX CREDIT

P. 244

Eligibility for the Premium Tax Credit

- Household Defined
  - Generally defined as the taxpayer and spouse and tax dependents
    - Even if they are not eligible for a Marketplace policy
    - **NOTE:** Spouses who are legally separated or divorced are not included in household
      - Special rules apply to victims of domestic violence or abandonment

Eligibility for the Premium Tax Credit

- Household Defined
  - Nondependent children under 26 are included **only if**
    - Taxpayer wants to include them in family Marketplace plan
  - Nondependent children or relatives living in the home are not included in the household
    - Unless they are tax dependents

ISSUE 4: PREMIUM TAX CREDIT

P. 244

Eligibility for the Premium Tax Credit

- Family Glitch Fix
  - ACA's original calculation for affordability of an employer-provided family plan
    - Based on self-only coverage
  - Even if cost of employer's family policy was unaffordable, no PTC was available if
    - Cost of employer's self-only coverage was affordable
  - **Final regulations eliminated the family glitch!**

ISSUE 4: PREMIUM TAX CREDIT

PP. 244-245

Example 7.4

- 2013 Affordability Rule

Example 7.5

- 2023 Affordability Rule – Self-Only Coverage

Example 7.6

- 2023 Affordability Rule – Family Coverage

Observation

- Families May Need Multiple Policies

ISSUE 4: PREMIUM TAX CREDIT

PP. 245-246

Calculating the Premium Tax Credit

- Amount of PTC depends on household income as it relates to:
  - Federal poverty level (FPL); and
  - Cost of applicable benchmark plan
- Household income = MAGI
- Federal poverty level
  - Before 2021, PTC available to taxpayers with household incomes
    - Between 100% and 400% of the FPL
  - ARPA and IRA temporarily (thru 2025) eliminated 400% ceiling

ISSUE 4: PREMIUM TAX CREDIT

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Calculating the Premium Tax Credit

Figure 7.3

- 2023 Federal Poverty Level

2023 FPL

- Used to calculate the PTC for 2024 Marketplace plans
- Increased as inflation has risen

ISSUE 4: PREMIUM TAX CREDIT

P. 246

Calculating the Premium Tax Credit

- Applicable Benchmark Plan
  - Defined as second-lowest-cost silver plan (SLCSP) on Marketplace
  - Cost of SLCSP (varies by region and age) is the **benchmark**
    - Regardless of the actual plan in which taxpayer enrolls
  - Marketplace will determine cost of SLCSP at time of enrollment
  - Look up SLCSP based on demographics
    - www.healthcare.gov/tax-tool/#

ISSUE 4: PREMIUM TAX CREDIT

PP. 246-247

Calculating the Premium Tax Credit

- Applicable Percentage of Household Income
  - Defined as percentage of income a household is **expected to contribute** to health care premiums each year
  - Applicable percentage **differs** from required contribution

Figure 7.4

- Applicable Percentages Prior to ARPA/IRA

Figure 7.5

- Applicable Percentages for 2021-2025

ISSUE 4: PREMIUM TAX CREDIT

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Calculating the Premium Tax Credit

- Applicable Percentage of Household Income
  - At the end of each year, taxpayer must reconcile APTC with PTC
    - Calculated using actual household income reported on return

Example 7.9

- Reconciliation of the APTC

Practitioner Note

- Reconciliation Form 8962, Marketplace reports on Form 1095-A