PREMIUM TAX CREDITS

The July 4 Tax Act (P.L. 119-21) will soon make it harder for many obtain health coverage – recent regulatory changes and the looming expiration of the enhanced premium tax credit could compound that.

Understanding the Premium Tax Credit

The premium tax credit helps individuals afford health insurance by providing financial assistance to those without access to subsidized coverage (e.g., through an employer or Medicaid). Generally, individuals claiming the credit must have an annual household income at or above 100% of the federal poverty level (FPL) and enroll in a health plan through the Affordable Care Act individual exchange.

Originally the credit was only available to those with incomes up to 400% FPL. But post-COVID legislation temporarily enhanced the credit through the end of 2025 – providing for a more generous credit and expanding eligibility to those over 400% FPL.

Key Changes for 2026

Several significant changes affecting the premium tax credit will occur in 2026, stemming from both the Tax Act and the expiration of the temporary enhancements.

Tax Act provisions:

- *No Repayment Cap.* The cap on repaying excess advance premium tax credit payments (due to underestimated income) will be removed.
- *Special Enrollment Period Limits.* Taxpayers will no longer be allowed to enroll during special enrollment periods triggered by exceptional circumstances.
- *Elimination of Special Income Threshold.* The special income threshold for lawfully present aliens under 100% FPL will be eliminated.

Expiration of Enhanced Credit:

- *Income Limit Reinstated.* Eligibility will be limited to taxpayers with incomes up to 400% FPL.
- *Credit Amounts Reduced.* Credit amounts will decrease for certain taxpayers as the enhanced provisions expire. (More **here**)

Beyond the statutory changes, a Health and Human Services (HHS) final rule revises income verification procedures and eligibility redetermination procedures. (Marketplace Integrity and Affordability final rule (90 FR 27074, 6/25/2025)) However, while the rule was set to go into effect August 25, 2025, portions were temporarily blocked by a federal court. (More **here**.)

Further Changes for 2027 and Beyond

Other limitations are set to go into effect in future years:

- 2027: Premium tax credit eligibility will be limited to lawful permanent residents, certain Cuban/Haitian entrants, and certain Compact of Free Association migrants.
- 2028: Enhanced eligibility verification provisions for all taxpayers claiming the credit will take effect.

The Impending Coverage Cliff and Possible Solutions

The expiration of the enhanced premium tax credit, coupled with the Tax Act and HHS Rule, is projected to significantly reduce health insurance coverage.

The Congressional Budget Office (CBO) **said** in June that the scheduled expiration, along with the HHS rule, would "increase the number of people without health insurance by a total of 5.1 million in 2034."

And the Tax Act changes only compound that – the CBO, in an August 25 **letter**, concludes that the Act's provisions "will increase the number of people without health insurance, in total, by 2.1 million in 2034."

Some policy experts **view** the impending health coverage cliff as the starting point for a year-end bipartisan tax package that would, among other things, further extend the enhanced credit. But even if such a proposal keeps in place the Tax Act's new premium tax credit guardrails, it's unclear whether enough Republicans are on board.

On September 3, Senate Majority Leader John Thune (R-SD) said it's something some Republicans are "paying attention to." But he accused Democrats of creating the problem "by putting the deadlines or the phase-outs in the legislation" and "by dramatically expanding the size of the program in the first place." He said he hoped Democrats "will come to us with a suggestion, a solution, about how to address it."

A day later, before grilling HHS Secretary Robert Kennedy, Senator Ron Wyden (D-OR) noted that "Democrats are ready to pass an extension that stops a dramatic premium spike." Wyden also shared a new Georgetown University **report** finding that for the 2026 plan year, insurers in the ACA Marketplace have proposed a median 18% proposed rate increase.

HHS Solution

On Thursday, the HHS offered its solution to the health insurance cliff – expanding access to catastrophic health coverage through a new hardship exemption. A September 4 **Fact Sheet** indicates that a hardship exemption will be available, in 2026, to those who are "newly ineligible" for advance payments of the premium tax credit or cost-sharing reductions because their projected income is below 100% or above 400% FPL.

The Fact Sheet also shares that the hardship exemption will be expanded to those who are over 250% FPL and are only ineligible for cost-sharing reductions – but provides no details on that yet.

Catastrophic coverage would be a step down for current premium tax credit recipients. But such plans "generally have lower monthly premiums, are designed to protect consumers from very high medical costs in the event of serious illness or injury," **says** HHS. They also "are required to cover three primary care visits pre-deductible."

Premium Tax Credit Critiques

Underpinning opposition to the premium tax credit are concerns – particularly among Republicans – about enrollment fraud.

Paragon Health Institute **contends** that the enhanced credit resulted in "phantom enrollees" who made no medical claims. "The percentage of individual market enrollees with no claims jumped from fewer than 20 percent in 2021 to 35 percent in 2024 – an increase of nearly 80 percent in three years," explains Paragon President Brian Blase. For these enrollees, "every taxpayer dollar went to insurers and middlemen without funding a single medical service," he adds.

Blase **cheered** the HHS' announcement that it would expand catastrophic plan eligibility.

The CBO **says** it "has no direct knowledge of the intentions of enrollees or others acting on their behalf." However, it estimates based on the "unusual concentration of enrollees reporting income just above the FPL" that 2.3 million enrollees "improperly claimed the premium tax credit via intentional overstatement of income" in 2025.

As far as the Tax Act and HHS final rule's changes to the premium tax credit, the CBO estimates that several provisions "will reduce the number of people who improperly claim the tax credit."

Maureen Leddy. (*5-September-2025*) *Premium Tax Credit Changes Ahead*, Thomson Reuters. https://tax.thomsonreuters.com/news/premium-tax-credit-changes-ahead/