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Proposed Tax Credit for Insurance Exchanges

If you are a worker who does not receive any health insurance coverage from your employer, here's some interesting news. A new tax credit is being proposed by the Health and Human Services (HHS) and Treasury departments that can help you pay for coverage through health insurance exchanges.

What is a health insurance exchange, you might ask? This is going to be a novel concept beginning 2014 in which one-stop marketplaces for each state will be set up where consumers and small businesses can shop for and compare private health insurance plans much like they do at e-commerce sites. Last month, the HHS published guidelines on how each state is to set up their health exchange marketplace.

On August 12, the HHS and Treasury released guidelines on 3 proposed rules on this matter, namely exchange eligibility, small business employer standards for participation in the exchange and the tax credit that will help you reduce the cost of your health insurance.

The 3 proposed rules will make it easy to enroll in health plans and access premium tax credits and other cost-sharing reductions. On the other hand, small businesses participating in the exchange will be able to offer their employees a choice of health plans and cut their costs with a new tax credit. Up to 20 million individuals can be eligible for this tax credit, which may amount to \$5,000 per year.

The insurance exchanges in each state will tie in with eligibility procedures for Medicaid and Children's Health Insurance Program (CHIP). This makes enrollment easy and seamless for those who qualify. HHS Secretary Kathleen Sebelius said that individuals

and business owners will not have to try to figure out “which door to go through” as the system will be user-friendly enough to direct you to the correct plan for which you are eligible. “(Consumers) will not have to, as they do right now, sort through confusing multiple options,” Sebelius added.

According to IRS Commissioner Doug Shulman, “Consumers who enter the exchange portal will have access to an advance refundable credit based upon information the exchange has. We set up systems at the IRS to pay the insurer the co-pay, and the consumers are paying a piece of that, which is in the credit. In the back end, when the individual files their tax return, if they got too much credit, they will reconcile at that time.”

More than half of the states have started to set up their exchange portals. The HHS will hold nationwide forums to give information on the exchanges.