

Repayment of Advance Premium Tax Credit Under ARPA

Another part of the American Rescue Plan Act (ARPA) that affects 2020 income tax returns is the repayment of the Advance Premium Tax Credit.

Taxpayer can receive an Advance Premium Tax Credit when they sign up for Marketplace insurance and have Modified AGI (MAGI) that is below 400% of poverty level. When the taxpayer files the tax return for the applicable year, the advance payment is reconciled with the amount the taxpayer “truly” is allowed. If the MAGI is lower than the amount the taxpayer used when signing up for Marketplace, the taxpayer will receive a refundable credit on the income tax return. And if the MAGI is higher than the amount the taxpayer used when signing up for Marketplace, the taxpayer will have an increase in their tax for the amount of repayment required.

ARPA has changed the repayment provision ONLY FOR 2020. For tax year 2020 only, the repayment is not required. In other words, anyone who underestimated their 2020 MAGI will NOT have to repay any portion of the Advance Premium Tax Credit.

IRS has now made this change in its tax software program (as of April 3), so these returns can be filed. Thank you, IRS, for getting this software change so quickly after Congress changed the rules mid-stream. IRS has not yet released guidance on previously filed returns.

Editorial comment – We feel Congress was irresponsible in making this change in the middle of tax season. We’re not saying this provision is wrong or irresponsible, but we believe Congress making this change during tax season, especially after returns have already been filed, instead of last summer OR fall is irresponsible. IRS already has too much on its plate!

(Another change for the repayment calculation occurs for 2021 and will be discussed in a later email article.)

This text has been shared courtesy of: David & Mary Mellem, EAs & Ashwaubenon Tax Professionals, 920-496-1065 (920-496-9111).

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