

HRA and premium tax credits: how does it work?

Written by: **Gabrielle Smith**

June 24, 2021 at 8:29 AM

One of the most valuable features of a [health reimbursement arrangement](#) (HRA) is its ability to reimburse employees for individual health insurance policies tax-free. Unlike group health insurance, HRAs give employees the freedom to choose from a wider variety of insurance policies and customize them to fit their personal needs.

Young, healthy employees may choose a high-deductible health plan to save money, while employees with a specific health issue may purchase a policy with more extensive coverage. The employer's role is merely to set up the HRA and then reimburse the expenses with the employee's monthly HRA allowance.

However, with the advent of the Affordable Care Act (ACA), this system grew more complicated. The ACA introduced to health insurance shoppers the [premium tax credit](#), also known as a health insurance premium subsidy, to help discount health insurance purchased on the [health insurance marketplaces](#).

Premium tax credits are a boon to individual health insurance shoppers, but they require extra effort to coordinate with an HRA. Because both HRA allowances and premium tax credits pay for health insurance premiums, employees must account for both. This plays out differently depending on which type of HRA is being offered.

In this post, we'll further examine what premium tax credits are as well as explain how to coordinate tax credits with two of the most popular HRAs: the [qualified small employer HRA \(QSEHRA\)](#) and the [individual coverage HRA \(ICHRA\)](#).

What are premium tax credits?

Premium tax credits were created by the U.S. government in 2014 as a way to provide discounts for health insurance to eligible individuals and families.

These tax credits alleviate the financial stress of purchasing individual health insurance by allowing recipients to apply the tax credit to their premium in advance, thus lowering the total cost of their policy.

Whether or not you qualify for a tax credit depends on several factors, including where you live, your household income, and the number of dependents you have. You can find out if you qualify by using the [Kaiser Family Foundation's Health Insurance Marketplace Calculator](#).

How do premium tax credits work with a QSEHRA?

The QSEHRA has specific rules relating to premium tax credit coordination.

Employees can keep their tax credit and participate in the QSEHRA, however, their premium tax credit must be reduced, dollar-for-dollar, by the amount of their QSEHRA allowance.

For example, let's suppose an employee has a \$500 premium tax credit and a \$400 QSEHRA allowance from their employer. In this case, the employee must subtract their \$400 QSEHRA allowance from their \$500 tax credit, leaving them with a \$100 premium tax credit.

It's important to note that employees with a QSEHRA can't choose to opt-out of the benefit in order to collect their full premium tax credit.

How do premium tax credits work with an ICHRA?

With an ICHRA, employees with a premium tax credit can't keep their tax credit and participate in the ICHRA.

In this case, you have two options. One option is to waive your premium tax credit so you can participate in the ICHRA. This is the best option if your ICHRA is considered [affordable](#).

However, if it's not affordable, your other option is to opt-out of the ICHRA and collect your full premium tax credit.

As a new plan year comes around, you're welcome to reevaluate your choice and choose to opt-in or out of the ICHRA in advance of the next plan year, but you can't make changes midyear. Once you've chosen to opt-out, you can't participate for the rest of that plan year.

[Learn more about the ICHRA's rules about premium tax credits](#)

HRA premium tax credit comparison chart

Take a look at this chart to quickly compare how to coordinate your premium tax credit with a QSEHRA and an ICHRA:

| | Eligible for premium tax credits? | Premium tax credit coordination? | Opt-out available? |
|---------------|--|--|---------------------------|
| QSEHRA | Yes, if the QSEHRA allowance is considered unaffordable. | Premium tax credits are reduced by the amount of the QSEHRA allowance. | No. |
| ICHRA | No. | N/A - Employees must either collect their premium tax credit or their ICHRA allowance. | Yes. |

Conclusion

Whether your employer offers a QSEHRA or an ICHRA, there are important guidelines to keep in mind when making your premium tax credit work with your HRA. While coordinating your premium tax credit and your HRA can seem tricky at first, following the guidelines in this article will give you everything you need to understand how the two can work together.

This article was originally published on February 21, 2019. It was last updated June 24, 2021.

Topics: [Health Reimbursement Arrangement](#), [Qualified Small Employer HRA](#), [Taxation](#), [Individual Coverage HRA](#), [Video](#)