



Treasury Inspector General for Tax Administration Office of Audit

REVIEW OF THE ACCOUNTING STRUCTURE USED FOR THE ADMINISTRATION OF PREMIUM TAX CREDITS

Issued on March 31, 2015

Highlights of:

- Evaluation Number OEI-06-14-00590 to the Department of Health and Human Services (HHS) Centers for Medicare & Medicaid Services (CMS) Acting Administrator and the Assistant Secretary for Financial Resources.
- Audit Reference Number 2015-13-029 to the Internal Revenue Service Commissioner.

IMPACT ON TAXPAYERS

The Patient Protection and Affordable Care Act created a refundable tax credit referred to as the Premium Tax Credit (PTC) to assist individuals with the cost of their health insurance premiums. Individuals may elect to have the PTC paid directly to their health insurance issuers as partial payment for their monthly premiums (referred to as the Advance Premium Tax Credit or APTC). With nearly \$11 billion disbursed for APTC payments in Fiscal Year 2014, proper accounting is imperative.

WHY THE HHS OIG AND TIGTA DID THE REVIEW

This review was initiated as the result of a congressional request for a joint review of the administration of the PTC. This review was performed as part of a series of coordinated audits and evaluations by the Department of Health and Human Services Office of Inspector General (HHS OIG) and TIGTA. The objective of this review was to identify the IRS and CMS justification for determining how to establish programmatic control over the PTC.

WHAT THE HHS OIG AND TIGTA FOUND

The IRS and CMS, in coordination with the Department of the Treasury and the HHS, took significant steps in planning the shared roles and responsibilities for APTC Payments. These efforts were necessitated by the Affordable Care Act structure of the PTC, which places new responsibilities on both the IRS and CMS.

Planning efforts were initiated in late Calendar Year 2011 to select an appropriate accounting structure to support APTC payments made to health insurance issuers. The IRS and CMS, in an effort to ensure that a sound and lawful accounting structure was selected, identified issues requiring resolution and discussed a variety of accounting approaches. They sought legal opinions from agency counsel and obtained input from the Office of Management and Budget. Ultimately, three accounting approaches were considered. By mutual agreement, the IRS and CMS adopted an allocation account structure. The Office of Management and Budget concurred with the use of the allocation account structure.

The allocation account structure provides a framework allowing the use of a permanent indefinite refund appropriation, administered by the IRS, to fund APTC payments certified and paid by the CMS to health insurance issuers. Effective operation of this approach is dependent upon the CMS's ability to reliably validate invoiced charges submitted by health insurance issuers to the CMS prior to certifying the payments. Also critical to the overall effectiveness of the APTC payment process is the IRS's ability to subsequently identify and address incorrect APTC payments when taxpayers file their tax returns. Continuing work by the HHS OIG and TIGTA will examine these operations.

WHAT THE HHS OIG AND TIGTA RECOMMENDED

The HHS OIG and TIGTA made no recommendations in this report. In their responses, the IRS concurred with the report and the HHS provided technical comments.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2015reports/201513029fr.pdf>