

Eligibility Cliff on ACA Tax Credits Would Make Health Care Unaffordable for Middle-Class Families

Most Americans Receive Federal Help for Health Insurance, Tax Credits Fill the Gap for Those Left Out

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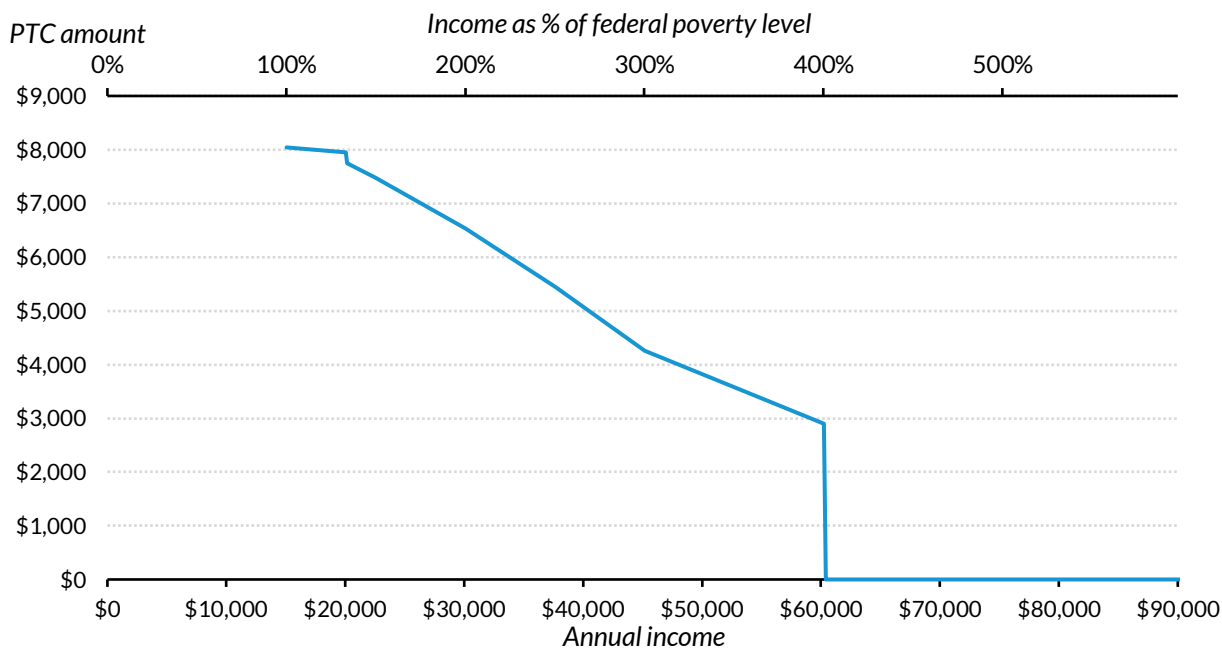
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A key sticking point in the government shutdown debate is the upcoming reductions in the premium tax credit (PTC; Buettgens et al. 2025),¹ particularly how the credit declines as income increases.² The reductions expected in 2026 (but already being felt; Levitis, Corlette, and O'Brien 2025) include reimposing an eligibility cliff at 400 percent of the federal poverty level (FPL)—a bit over \$60,000 for a single person. With the cliff in place, the tax credit falls suddenly to zero when income crosses this line (figure 1).³

FIGURE 1

Without Enhancements, the PTC Cuts off in a Cliff

PTC amount without enhancements for a 50-year-old in an average premium benchmark plan, 2025



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Source: Authors' calculations using "Rev. Proc. 2024-35," IRS, 2024; and premiums from "Health Insurance Marketplace Calculator," KFF, October 29, 2024, <https://www.kff.org/interactive/subsidy-calculator/>.

Notes: PTC = premium tax credit. Income is for an individual tax-filer. Premiums in 2026 are expected to be higher. See Stacey Pogue, Billy Dering, JoAnn Volk, and Kevin Lucia, "Early 2026 Rate Filings Show Marketplace Policy Changes Contribute to Eye-Popping Rate Increases," CHIR, June 26, 2025, <https://chir.georgetown.edu/early-2026-rate-filings-show-marketplace-policy-changes-contribute-to-eye-popping-rate-increases-2/>.

The cliff was originally included in the PTC as a means of reducing the Affordable Care Act's (ACA) cost.⁴ It was then eliminated as part of PTC enhancements that were enacted in the American Rescue Plan Act of 2021 and extended in the Inflation Reduction Act of 2022. Without action by Congress, the enhancements will expire at the end of 2025, and the cliff will reappear. Some argue that providing the PTC past the cliff is an unnecessary giveaway to the rich. In a recent op-ed, a senior fellow at Americans for Prosperity claims that, without the “income cap,... sliding-scale subsidies are available to everyone... even millionaires.”⁵

But this is not the case. In fact, the PTC without the cliff is income-limited—it just phases out gradually rather than dropping off suddenly. There are other reasons not to reimpose the cliff. Given the high cost of health coverage, virtually all Americans receive some kind of federal assistance to pay for it, whether from Medicare, Medicaid, or the tax exclusion for employer coverage. For those beyond the cliff, the enhanced PTC is already smaller on average than the tax benefit from the tax exclusion for employer-sponsored coverage. Reimposing the cliff would worsen this disparity. The cliff—and therefore this disparate treatment—falls disproportionately on older people, those in high-premium areas (which are heavily rural areas), and small business owners. More generally, cliffs are widely considered bad policy because they are inequitable and create perverse incentives. Finally, the PTC is especially ill-suited to a cliff, as it is advanceable, which creates the risk that a small income change triggers a large tax liability.

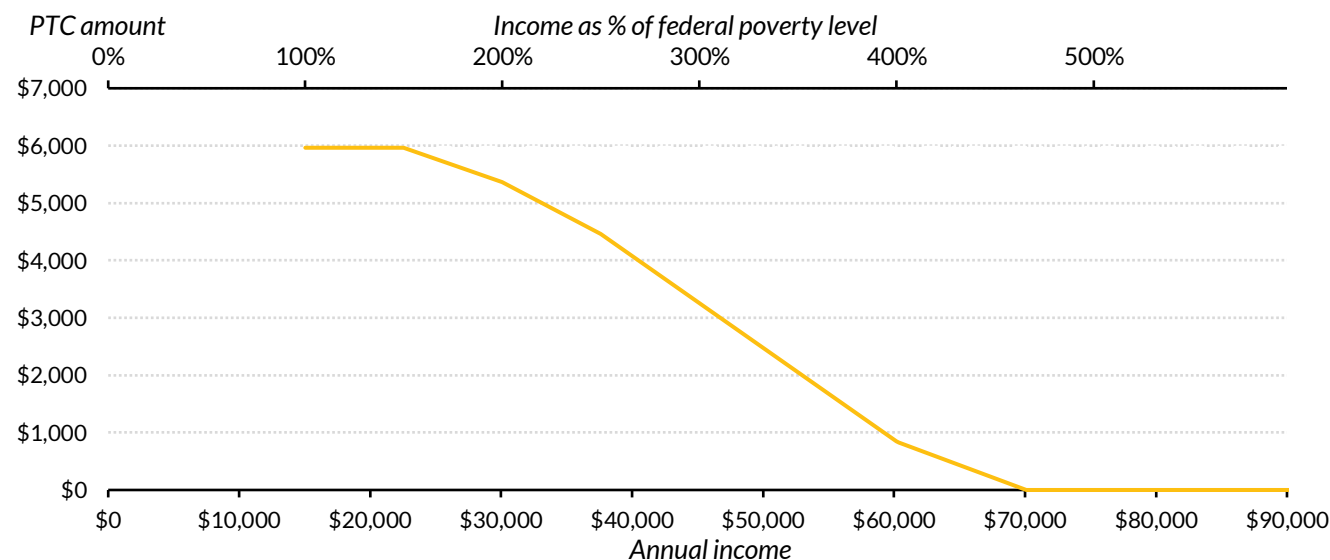
The Enhanced PTC Is Still Capped—Just without a Cliff

Even without the cliff, the PTC is income-limited, since it phases out as income increases. For example, for a 40-year-old with an average premium (\$5,964 annually), the PTC hits zero at an income of \$70,165, or 466 percent of FPL (figure 2). The PTC is very small at incomes just below that. For example, if the 40-year-old had an income of \$68,000, their credit would be \$184.

FIGURE 2

The Enhanced PTC Falls to Zero as Income Rises

PTC amount with enhancements in place for a 40-year-old in an average-premium benchmark plan, 2025



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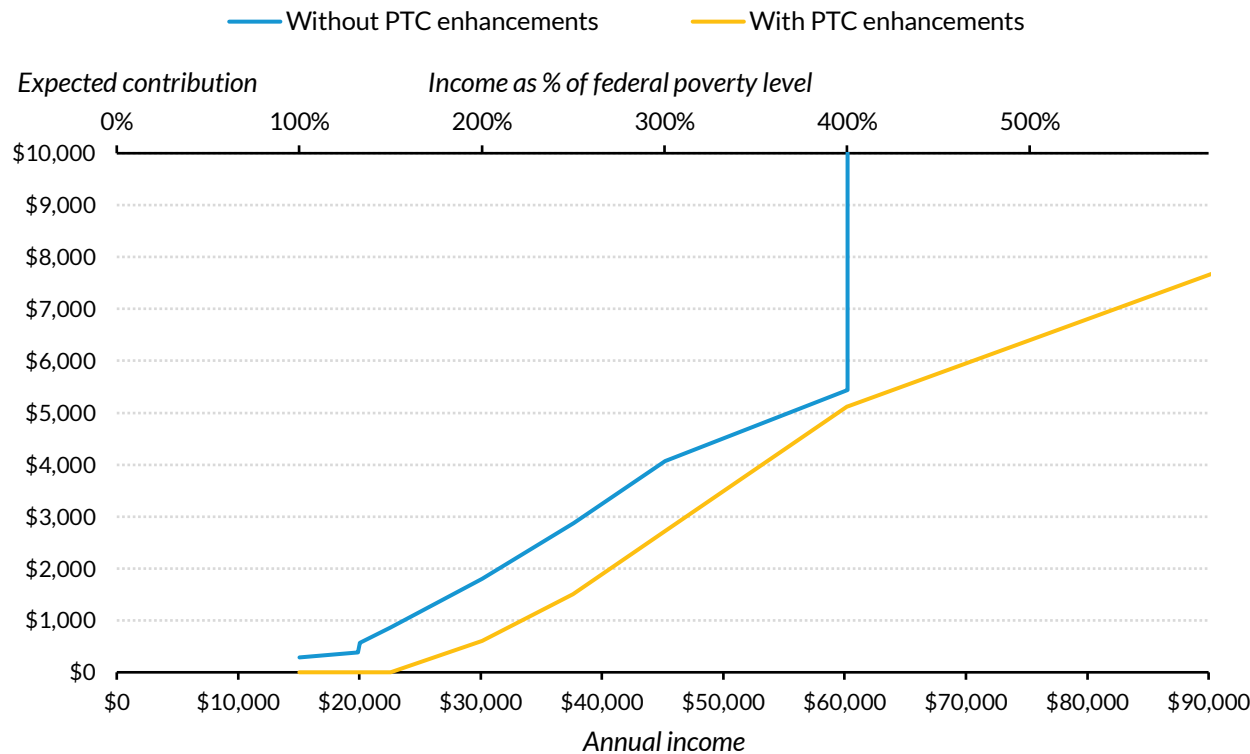
Source: Authors' calculations using “Rev. Proc. 2024-35,” IRS, 2024; and premiums from “Health Insurance Marketplace Calculator,” KFF, October 29, 2024, <https://www.kff.org/interactive/subsidy-calculator/>.

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The PTC phases down to zero because it is calculated to cap the individual contribution toward a benchmark plan at a certain percentage of income. (The benchmark premium is the second-lowest cost “silver” tier plan. If a consumer buys a more expensive plan, they pay the difference). Under the enhancements, this individual contribution percentage is 8.5 percent at incomes above 400 percent of FPL (\$60,240 for a single person). For example, a person with income of \$65,000 (432 percent of FPL) has to pay \$5,525 (8.5 percent of \$65,000) for a benchmark plan, and the PTC covers the rest (figure 3). When income grows large enough that the expected individual contribution exceeds the benchmark premium, the tax credit zeros out. Without the enhancements, an individual with an income of \$65,000 gets no assistance regardless of the premium they face.

FIGURE 3
The Cliff Exposes Middle-Income Consumers to Unlimited Premiums

Expected contribution with PTC to purchase individual benchmark coverage, with and without the PTC enhancements, 2025



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Source: Authors’ calculations using “Rev. Proc. 2024-35,” IRS, 2024; and “Federal Poverty Level,” Healthcare.gov, accessed October 14, 2025.
<https://www.healthcare.gov/glossary/federal-poverty-level-fpl/>.

Notes: PTC = premium tax credit. Income is for an individual tax-filer.

Because of this structure, people with relatively higher incomes qualify for the enhanced PTC only if they face high gross premiums. For example, a person earning \$200,000 has an expected contribution of \$17,000 (8.5 percent of \$200,000). So they qualify for PTC only if their benchmark premium exceeds \$17,000. The credit at higher incomes is generally small. For example, if a person earning \$200,000 faces a gross premium of \$20,000, their expected contribution is \$17,000, and the credit covers \$3,000—15 percent of the total premium.

The Cliff Denies Some People the Federal Help for Health Insurance That’s Available to Virtually All Other Americans—and Even the Enhanced PTC Is Smaller than the Tax Benefit for Employer Coverage at Incomes Beyond the Cliff

Almost all Americans receive some kind of federal assistance in paying for health insurance: more than half benefit from the tax exclusion for employer coverage—the largest tax expenditure in the tax code—and another hundred million or more have Medicare or Medicaid.⁶ The PTC is designed to help people ineligible for these other benefits. With or without the enhancements, it is available only to people without other affordable coverage options.⁷ The cliff denies this group any such benefit, disadvantaging them relative to other Americans.

Eliminating the cliff mitigates but doesn’t remove this disparity. Treasury data shows that, for people with incomes past the cliff, the enhanced PTC is smaller on average than the tax benefit from employer-sponsored coverage.⁸ This disparity is especially harmful to those who rely disproportionately on Marketplace coverage, including older people, rural Americans, and small businesses, as explained below.

The Cliff Is Especially Harmful for Older People and People in High-Premium Areas

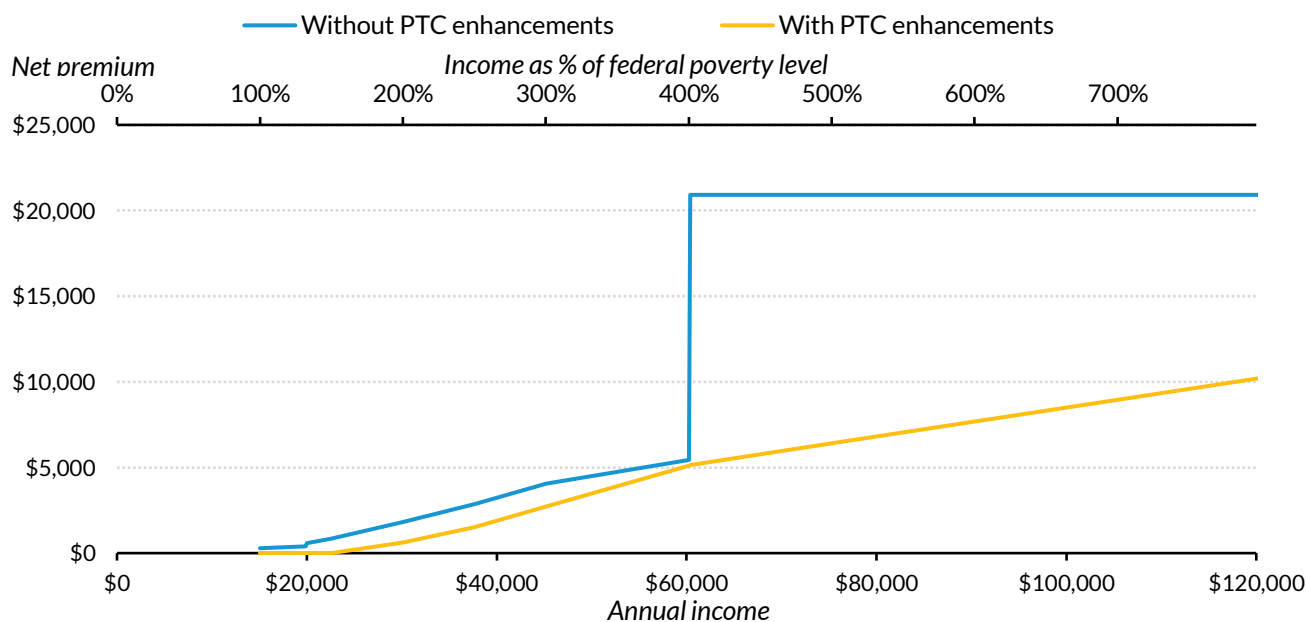
Extending the credit beyond the cliff is essential to making coverage affordable for people facing higher premiums—generally older people and people in high-premium areas (Banthin, Skopec, and Simpson 2024). With the cliff in place, those beyond it receive no assistance, even if the premium is very high.

For example, the benchmark premium for a 60-year-old in Cheyenne, Wyoming, is \$20,916 annually.⁹ With the cliff in place, a person with an income of \$65,000 (432 percent of FPL) pays the full amount out of pocket, amounting to 32 percent of income (figure 4). They would likely also face a deductible of thousands of dollars (Holahan, Simpson, and Wengle 2025).

FIGURE 4

The Cliff Is Larger for Those Charged Higher Premiums

Net premium for a 60-year-old in a benchmark plan in Cheyenne, Wyoming, with and without PTC enhancements, 2025



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Source: Authors' calculations using "Rev. Proc. 2024-35," IRS, 2024; and premiums from "Health Insurance Marketplace Calculator," KFF, October 29, 2024, <https://www.kff.org/interactive/subsidy-calculator/>.

Notes: PTC = premium tax credit. Income is for an individual tax-filer. Premiums in 2026 are expected to be higher. See Stacey Pogue, Billy Dering, JoAnn Volk, and Kevin Lucia, “Early 2026 Rate Filings Show Marketplace Policy Changes Contribute to Eye-Popping Rate Increases,” CHIR, June 26, 2025, <https://chir.georgetown.edu/early-2026-rate-filings-show-marketplace-policy-changes-contribute-to-eye-popping-rate-increases-2/>.

Older adults not yet eligible for Medicare are especially harmed because the ACA permits higher gross premiums based on age.¹⁰ Under age-rating rules, premiums are generally almost twice as expensive for a 50-year-old and three times as expensive for a 64-year-old compared with a 24-year-old.¹¹ This group includes people who have left the workforce and no longer have employer-sponsored insurance. The cliff affects this group disproportionately: of PTC recipients with incomes above 400 percent of FPL, 42 percent are 55 or older (USDOT 2025). Of the small number of enrollees with income over 800 percent of FPL, about half are 55 or older (USDOT 2025).

Premiums also tend to be high in rural areas, and they vary widely across states (Banthin, Skopec, and Simpson 2024; Holahan, Wengle, and O’Brien 2022). Enrollees in Alaska, West Virginia, and Wyoming pay significantly higher premiums relative to other states. This again translates to more harm from the cliff. For example, 21 percent of PTC recipients in Wyoming have income past the cliff, compared to 14 percent nationwide (USDOT 2025).

With the enhancements in effect, the 60-year-old in Cheyenne earning \$65,000 would have their contribution capped at 8.5 percent of income, or \$5,525. This is the central logic of the no-cliff PTC—higher-income people pay more, but the amount is limited relative to income.

The Cliff Is Harmful for Small Businesses

The Marketplace is a crucial source of insurance outside of employer-sponsored coverage for the self-employed and small business owners, especially among those with incomes above the cliff. KFF estimates that 38 percent of adults younger than age 65 with incomes above 400 percent of FPL are self-employed, compared with 7 percent of adults under age 65 overall.¹² Treasury data shows that 3.3 million self-employed workers and small business owners ages 21 to 64 enrolled in Marketplace coverage in 2022, including 285,000 with incomes above 400 percent of FPL (USDOT 2024). This represents 28 percent of total Marketplace enrollment for consumers ages 21 to 64 and 18 percent of all self-employed workers and small business owners; by comparison, the Marketplace covered just 6 percent of the rest of the population. This share is even higher in some states: in Florida, North Carolina, and Wyoming, at least a quarter of self-employed workers and small business owners enrolled in the Marketplace (USDOT 2024). With Marketplace enrollment growth since 2022, the Center on Budget and Policy Priorities estimates that the number of self-employed workers and small business owners enrolled in the Marketplace has increased from 3.3 million to 5 million.¹³

Cliffs Are Widely Considered Bad Tax Policy

There is broad agreement among tax policy experts that eligibility cliffs in the tax system trigger negative behavioral effects and economic distortions (Maag et al. 2012; Viswanathan 2016).¹⁴ Cliffs create perverse incentives to work less or otherwise make suboptimal decisions to retain benefits or reduce tax liability (Roll, Despard, and Miller 2025; Viswanathan 2016).¹⁵ They also diminish horizontal equity—the principle that similarly situated taxpayers should be treated similarly (Viswanathan 2016).

Because of this, many tax provisions include gradual phaseouts, such as the Earned Income Tax Credit, the Child Tax Credit, and the recently created additional senior deduction.¹⁶ Other notable examples include the American Opportunity Tax Credit, the Lifetime Learning Credit, and the Saver’s Credit.¹⁷ The income bracket system has the same effect by operating on a marginal basis.¹⁸ The cliff in the unenhanced PTC defies this principle.

The PTC Reconciliation Requirement Makes the Cliff Especially Harmful

Even more than other tax benefits, the PTC is ill-suited to a cliff because it is typically paid in advance based on projected income and then “reconciled” with the actual PTC on the tax return.¹⁹ Advance payment is essential, since most consumers cannot pay the full premium out of pocket. For consumers within the income eligibility range, the amount that must be paid back is never more than a small fraction of the income change. But consumers who cross the income cliff may owe back thousands of dollars after only a very small change in income. The surprise tax bills that result are especially large for those charged higher gross premiums, meaning older people and those in high-premium (often rural) areas.

Such increases in income can be impossible to predict—they could result from an end-of-year bonus, for example. KFF estimates that 9 percent of households with income between 100 and 400 percent of FPL in the first three months of the year end the year with income above 400 percent of FPL, and that 15 percent of adults ages 19 to 64 with incomes near the cliff have high income volatility.²⁰ This risk of large paybacks may deter people from enrolling. In 2019, taxpayers who ended the year with incomes between \$100,000 and \$200,000 and owed back PTC faced an average repayment of about \$6,400.²¹

Conclusion

There are good reasons to focus public benefits on lower-income people who most need them. However, health coverage is so expensive that even middle-income earners need help affording it. The federal government provides this help to almost every American, whether via public insurance programs or tax benefits for employer-sponsored coverage. The PTC cliff would deny similar assistance to those who rely on the Marketplace, leaving middle-income Americans with health insurance premiums in the tens of thousands of dollars.

The enhanced PTC includes a phase-out that targets the credit to those who need it, taking into account both income and the premiums people face. A cliff on top of that phase-out is both redundant and, as the analysis presented here demonstrates, harmful to many who need help.

Notes

¹ Jasmine Li and Anna Wilde Matthews, “The ACA Subsidies at the Center of the Government Shutdown Fight,” *The Wall Street Journal*, October 1, 2025, <https://www.wsj.com/politics/policy/government-shutdown-aca-subsidies-obamacare-762ed9a9>; and Cheyenne M. Daniels, “Johnson Says Obamacare Debates Shouldn’t Be Focus in Shutdown Showdown,” *Politico*, September 28, 2025, <https://www.politico.com/news/2025/09/28/johnson-obamacare-debates-00583652>.

² Sophie Gardner and Kelly Hooper, “Shutdown Triggers Chaos for Hospital-at-Home Program,” *Politico*, October 14, 2025, <https://www.politico.com/newsletters/politico-pulse/2025/10/14/shutdown-triggers-chaos-for-hospital-at-home-programs-00606476>; Karina Cuevas and William Brangham, “Why Health Care Tax Credits Are a Sticking Point in Shutdown Negotiations,” *PBS News*, September 29, 2025, <https://www.pbs.org/newshour/show/why-health-care-tax-credits-are-a-sticking-point-in-shutdown-negotiations>; and Meredith Lee Hill and Benjamin Guggenheim, “House Centrists Attempt Quiet Rescue of Obamacare Subsidy Talks,” *Politico*, September 23, 2025, <https://www.politico.com/news/2025/09/23/problem-solvers-obamacare-subsidies-00577400>.

³ The calculations in this paper use the values in effect in 2025 for PTC parameters, premiums, and FPL, since complete information on 2026 premiums is not yet available. Using the 2026 figures would yield similar results, with some differences. For example, premiums without the PTC would be somewhat larger, and the PTC would cut off at a somewhat higher income level.

⁴ Katie Thomas, Reed Abelson, and Jo Craven McGinty, “New Health Law Frustrates Many in Middle Class,” *The New York Times*, December 20, 2013, <https://www.nytimes.com/2013/12/21/business/new-health-law-frustrates-many-in-middle-class.html>.

⁵ Dean Clancy, “The Pandemic Is Over — Let Biden’s Health Insurance Handouts Expire,” *The Hill*, September 18, 2025, <https://thehill.com/opinion/healthcare/5509018-biden-tax-credits-expire/>.

- ⁶ Claxton, Gary, Matthew Rae, and Aubrey Winger, “Employer-Sponsored Health Insurance 101,” *KFF*, October 8, 2025, <https://www.kff.org/health-costs/health-policy-101-employer-sponsored-health-insurance/>; “Tax Expenditures,” *US Department of the Treasury*, February 8, 2025, <https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures>; “Medicare and Medicaid by the Numbers,” *CMS.gov*, July 2025.
- ⁷ “Questions and Answers on the Premium Tax Credit,” Internal Revenue Service, accessed October 14, 2025, <https://www.irs.gov/affordable-care-act/individuals-and-families/questions-and-answers-on-the-premium-tax-credit>.
- ⁸ “Federal Tax Expenditures for the Tax Exclusion for Employer-Sponsored Health Insurance Premiums and Marketplace Premium Tax Credit, 2022,” *US Department of the Treasury, Office of Tax Analysis*, December 5, 2024, <https://home.treasury.gov/system/files/131/ESI-PTC-Expenditure-2022-12052024.pdf>.
- ⁹ “Health Insurance Marketplace Calculator,” *KFF*, October 29, 2024, <https://www.kff.org/interactive/subsidy-calculator/>.
- ¹⁰ Matt McGough, “If Enhanced ACA Tax Credits Expire, Older Marketplace Enrollees Face Steepest Premium Hikes,” *KFF*, October 6, 2025, <https://www.kff.org/quick-take/if-enhanced-aca-tax-credits-expire-older-marketplace-enrollees-face-steepest-premium-hikes/>.
- ¹¹ “Market Rating Reforms,” *CMS*, accessed October 15, 2025, <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/state-rating#age>.
- ¹² Justin Lo and Cynthia Cox, “Who Might Lose Eligibility for Affordable Care Act Marketplace Subsidies If Enhanced Tax Credits Are Not Extended?,” *KFF*, March 3, 2025, <https://www.kff.org/affordable-care-act/who-might-lose-eligibility-for-affordable-care-act-marketplace-subsidies-if-enhanced-tax-credits-are-not-extended/>.
- ¹³ Gideon Lukens, “5 Million Small Business Owners and Self-Employed Workers Likely Enrolled in ACA Marketplace in 2025,” *Center on Budget and Policy Priorities*, June 12, 2025, <https://www.cbpp.org/research/health/5-million-small-business-owners-and-self-employed-workers-likely-enrolled-in-aca>.
- ¹⁴ “Effective Marginal Tax Rates/Benefit Cliffs,” *ASPE*, accessed October 15, 2025, <http://aspe.hhs.gov/topics/poverty-economic-mobility/marginal-tax-rate-series>.
- ¹⁵ “Effective Marginal Tax Rates/Benefit Cliffs,” *ASPE*.
- ¹⁶ “One, Big, Beautiful Bill Act: Tax Deductions for Working Americans and Seniors.” *IRS*, FS-2025-03, July 14, 2025, <https://www.irs.gov/newsroom/one-big-beautiful-bill-act-tax-deductions-for-working-americans-and-seniors>; “How Do Phaseouts of Tax Provisions Affect Taxpayers?” *Tax Policy Center*, January 2024. <https://taxpolicycenter.org/briefing-book/how-do-phaseouts-tax-provisions-affect-taxpayers>; “The Earned Income Tax Credit,” *Center on Budget and Policy Priorities*, April 28, 2023. <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>; and “What Is the Child Tax Credit?,” *Tax Policy Center*, August 2025, <https://taxpolicycenter.org/briefing-book/what-child-tax-credit>.
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- ¹⁹ “Estimated Total Premium Tax Credits Received by Marketplace Enrollees,” *KFF*, accessed on October 14, 2025, <https://www.kff.org/affordable-care-act/state-indicator/average-monthly-advance-premium-tax-credit-aptc/>.
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- ²¹ Data is from “Table 1.4. All Returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2019 (Filing Year 2020),” which can be found at “SOI Tax Stats: Individual Statistical Tables by Size of Adjusted Gross Income,” *IRS.gov*, accessed October 16, 2025, <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>.

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