

Navigating the Premium Tax Credit Maze: Unlocking Healthcare Subsidies for International Students in the U.S.

Abstract

This paper presents a comprehensive analysis of the Premium Tax Credit (PTC) eligibility for international students in the United States, focusing on those holding F-1 and F-2 visas. It clarifies that under the Affordable Care Act (ACA), the criterion of lawfully present, rather than tax residency as determined by the Substantial Presence Test (SPT), is the critical determinant for PTC eligibility. The study exposes the intricacies and misunderstandings surrounding tax credit qualification and advocates for legislative clarification, improved guidance from tax authorities, and proactive educational initiatives by academic institutions. It calls upon policymakers, educators, and legal scholars to collaborate in reforming the tax code and implementing support systems, ensuring that international students can fully access healthcare benefits. This pursuit of equity in healthcare affordability is essential to upholding the United States' reputation as a nurturing environment for the global academic community.

Keywords: Affordable Care Act; healthcare affordability; international students; lawfully present; nonresident alien; premium tax credit; substantial presence test

I. Introduction

A. Contextualization of the U.S. as a leading destination for international students

The United States is renowned as a leading destination for international students, drawn to its high-caliber academic institutions known for stringent academic standards, innovative pedagogy, and significant contributions to research and knowledge (Institute of International Education). In 2022, these institutions hosted about one million international students, underscoring the U.S.'s role as a hub for global academic talent (Institute of International Education, 2022).

These students enhance the cultural and intellectual diversity of the academic milieu. They are a boon to the economy, contributing billions through tuition, living expenses, and ancillary services (National Association of Foreign Student Advisers (NAFSA), 2022). Despite their economic impact, international students navigate complex financial challenges, particularly regarding the Affordable Care Act's (ACA) Premium Tax Credit (PTC) — a subsidy to make healthcare more affordable for eligible taxpayers (IRS, 2022; Patient Protection and Affordable Care Act, 42 U.S.C. § 18001, 2010).

Lawfully present non-citizens, including student visa holders, are allowed to access the Health Insurance Marketplace under the ACA (U.S. Department of Health & Human Services, 45 C.F.R. § 152.2). Nonetheless, the confluence of immigration status and tax laws presents a convoluted set of eligibility requirements, compounded by the Substantial Presence Test (SPT) for determining tax residency, especially for those transitioning to resident alien status (IRS, 2022; Publication 519).

This study examines the complex legal and administrative aspects of PTC eligibility for international students in the U.S., focusing on F-1 and F-2 visa holders. It endeavors to clarify the eligibility criteria, highlight the obstacles in accessing the PTC, and offer recommendations to simplify the process to improve this vital group's financial and healthcare circumstances within the academic community.

B. Introduction to the Premium Tax Credit (PTC) under the Affordable Care Act (ACA) and its relevance to healthcare affordability

At the core of the Affordable Care Act (ACA) is the Premium Tax Credit (PTC), a pivotal initiative aimed at enhancing the affordability of health insurance for individuals with moderate incomes, functioning on a sliding scale to subsidize the cost of premiums within the Health Insurance Marketplace (IRS, 2022; Patient Protection and Affordable Care Act, 42 U.S.C. § 18001, 2010). This element is central to the ACA's mission to broaden healthcare access, a crucial part of the social safety net for both residents and visitors.

International students, who often face significant healthcare expenses in the U.S., may find financial relief through the PTC, which is accessible to non-citizens who are lawfully present, including those on F-1 and F-2 visas, potentially easing the economic stress associated with health coverage during their education (U.S. Department of Health & Human Services, 45 C.F.R. § 152.2). Recognizing the importance of the PTC is essential, especially for international students who may lack a local support network and for whom this policy could equalize access to preventive care and medical services, allowing them to concentrate on their scholarly pursuits without the burden of healthcare expenses.

Yet, navigating the PTC claim process involves overcoming hurdles related to income, filing status, insurance coverage, and the complexities of immigration status, posing a multifaceted dilemma for international students. This examination aims to unravel these complexities, providing insight into the PTC's impact on international students and contributing to the broader conversation on better integrating this demographic into the U.S. healthcare system's structure.

C. The complexity of tax credit eligibility for international students and their dependents on F-1 and F-2 visas

The pursuit of educational opportunities in the United States by international students is often accompanied by the challenge of understanding and navigating the U.S. tax system—a system replete with complexities that can confound even the most astute individuals. International students on F-1 visas and their dependents with F-2 visas are considered "lawfully present" in the U.S. They may be eligible for the Premium Tax Credit (PTC), provided they meet certain conditions unrelated to the duration of their stay in the U.S. (Siskin & Lunder, 2016).

Initially, international students are classified as nonresident aliens for tax purposes, a status that limits their access to certain tax benefits. However, their "lawfully present" status under the Affordable Care Act (ACA) allows them to potentially benefit from the PTC, which aims to make health insurance more affordable, if they fulfill other requirements such as having a household income within a certain range and not being claimed as a dependent by someone else (IRS, 2022; Publication 974).

This eligibility is irrespective of whether they pass the Substantial Presence Test (SPT) and become resident aliens for tax purposes. The PTC's rules accommodate the unique circumstances of F-1 and F-2 visa holders, ensuring they can access the health insurance they need without the added financial burden as long as all other criteria set by the ACA are met (45 C.F.R. § 152.2).

This study aims to unravel the complexities surrounding the PTC eligibility for international students, offering a comprehensive overview of the criteria and illuminating the legal and administrative intricacies that shape access to this essential financial support.

D. Significance of the study in addressing the gap between eligibility and benefit realization

The significance of this study lies in its targeted examination of the disconnect between the theoretical eligibility for the Premium Tax Credit (PTC) and the practical realization of this benefit by international students and their dependents on F-1 and F-2 visas. Despite being theoretically entitled to the PTC under the Affordable Care Act (ACA) provisions, numerous international students are embroiled in a web of regulatory complexities that inhibit their ability to claim what is rightfully available (IRS, 2022; Publication 974).

This gap in benefit realization is not merely a bureaucratic oversight but a substantive issue that impacts the financial stability and healthcare access of a substantial and vulnerable population within the academic community. The ACA's intentions to broaden healthcare affordability can only be fully actualized when the beneficiaries—international students in this context—can navigate the system with sufficient understanding and support.

By shedding light on the specific challenges that international students face in claiming the PTC, the study contributes to the broader discourse on tax policy and healthcare reform. It highlights the need for policy adjustments that consider the unique circumstances of international students, advocating for streamlined processes and more explicit guidance that facilitates easier access to the PTC. Furthermore, this research underscores the role of academic institutions and policymakers in bridging the knowledge gap that international students often encounter regarding tax laws and healthcare provisions in the U.S. (IRS, 2022; Publication 519).

In providing a detailed exploration of the PTC eligibility criteria as they apply to international students, this study not only seeks to empower this demographic with the knowledge to secure necessary healthcare coverage but also to catalyze policy changes that align with the principles of equity and inclusivity. The anticipated outcome is a more navigable tax system for international students, ensuring that the PTC fulfills its intended role as a pillar of support for all eligible individuals within the U.S. healthcare system.

II. Background

A. Overview of the U.S. international student demographic and their economic impact

The international student community in the United States represents a microcosm of global academia, bringing together young scholars from every corner of the world. These students, often on F-1 and F-2 visas, contribute not only to the rich tapestry of cultural and intellectual diversity within American universities but also play a significant role in the U.S. economy. For the academic year 2022, the United States hosted approximately one million international students, solidifying

its position as a leading destination for higher education (Institute of International Education, 2022).

The economic impact of this demographic is profound. According to the NAFSA Association of International Educators, international students and their families contributed approximately \$34 billion to the U.S. economy during the 2021-2022 academic year, through tuition, room and board, and other living expenses (NAFSA, 2022). These contributions extend beyond the confines of campus, benefiting local economies, supporting jobs, and fueling industries related to education and housing.

Despite these substantial economic contributions, international students often face financial challenges, particularly regarding healthcare costs—a fundamental aspect of living expenses frequently overlooked in discussions about their economic impact. The ACA's PTC provision is a critical factor in offsetting these costs. However, the actual uptake among international students is hindered by the complexity of eligibility criteria and the process involved in claiming this credit (IRS, 2022; Publication 974).

This study sets the stage for a discussion on the importance of ensuring that these students can fully access the financial benefits, such as the PTC, which can significantly affect their economic well-being and ability to participate fully in their educational experience.

B. Description of the ACA and the PTC framework

The Affordable Care Act (ACA), enacted in March 2010, represents a significant overhaul of the U.S. healthcare system, aiming to enhance health insurance quality, increase affordability, lower the uninsured rate, and curb healthcare costs (Patient Protection and Affordable Care Act, 42 U.S.C. § 18001). A vital element of the ACA is the Premium Tax Credit (PTC), designed to subsidize the cost of health insurance for individuals with moderate incomes, making it more accessible through the Health Insurance Marketplace (26 U.S.C. § 36B).

To claim the Premium Tax Credit (PTC), taxpayers must file IRS Form 8962 along with their tax return (IRS, 2022; Instructions for Form 8962). This form reconciles the credit amount based on actual income with any advance payments of the credit received throughout the year. Specifically, the PTC reduces the monthly insurance premium for eligible taxpayers, with the amount determined by their household income in relation to the federal poverty line and the cost of benchmark insurance plans in their locality (IRS, 2022; Publication 974). To be eligible for the PTC, individuals must have a household income that falls between 100% and 400% of the federal poverty level, cannot be claimed as a dependent by another taxpayer, and must not have access to other qualifying health coverage (26 U.S.C. § 36B(c)(1)).

Under the ACA, non-citizens who are "lawfully present" in the U.S. and meet all other requirements are eligible for the PTC, which includes individuals on F-1 and F-2 visas (45 C.F.R. § 152.2). The Substantial Presence Test (SPT) is not a disqualifying factor for these individuals; instead, it is a means of determining tax residency status, which can affect the tax benefits for which they are eligible (IRS, 2022; Publication 519).

The legal intricacies of the PTC are multifaceted, encompassing a range of provisions and regulations that can influence eligibility. One such complexity is the condition that individuals must not be eligible for other minimum essential coverage, which could potentially exclude some international students on certain visas (e.g., F-1 visa) who are covered by a qualifying student health plan (IRS, 2022; Publication 974).

This analysis delves into the legal nuances of the ACA and the PTC, highlighting the relevant statutory and regulatory provisions that dictate eligibility and the operational dynamics of the credit. It emphasizes the crucial role these legal determinants play in international students' access to the PTC and paves the way for a broader discussion on the obstacles these students encounter within the U.S. healthcare framework.

C. Taxation challenges faced by international students in the U.S.

International students in the United States grapple with a unique set of taxation challenges that stem from their non-citizen status. These challenges are multifaceted, touching on issues of residency status, income reporting, and eligibility for tax benefits, including the Premium Tax Credit (PTC) (IRS, 2022; Publication 519).

Upon arrival, international students are typically classified as nonresident aliens for tax purposes. This classification comes with a specific set of rules for income reporting and tax liability. For instance, nonresident aliens are taxed only on their U.S.-source income and are not subject to tax on their worldwide income, as resident aliens are (IRS, 2022; Publication 519). However, they are

also ineligible for certain tax benefits that U.S. residents can claim, including the standard deduction and, in some cases, several tax credits (IRS, 2022; Publication 974 and Publication 519).

The Substantial Presence Test (SPT) is a pivotal factor in determining when an international student shifts from nonresident to resident alien status for tax purposes, generally occurring after five calendar years in the U.S. (IRS, 2022; Publication 519). This transition has significant implications for their tax situation, as it changes how their income is taxed and opens up eligibility for various tax credits. However, navigating this transition is complex and often requires careful analysis of tax treaties, visa statuses, and the intricacies of the ACA regulations (IRS, 2022; Publication 519).

Moreover, international students with dependents on F-2 visas face additional hurdles. While lawfully present in the U.S., these dependents may not have independent income or a filing requirement. Yet, their PTC eligibility is closely tied to the tax situation of the F-1 visa holder. This interconnectedness adds another layer of complexity to an already challenging tax landscape (IRS, 2022; Publication 974).

III. Legal Framework Governing PTC Eligibility

A. Eligibility criteria for PTC under the ACA, focusing on “lawfully present” individuals

The Premium Tax Credit (PTC) is a refundable credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Health Insurance Marketplace. Under the Affordable Care Act (ACA), one of the critical conditions for PTC eligibility is that the applicant must be 'lawfully present' in the United States (26 U.S.C. § 36B and 45 CFR § 1.36B-2).

The term “lawfully present” encompasses a wide range of immigration statuses, including those held by non-citizens who are legally residing in the U.S., such as holders of F-1 and F-2 visas. These individuals must also meet other eligibility criteria, which include having a household income that falls between 100% and 400% of the federal poverty level, not being claimed as a dependent by another taxpayer, and not having access to affordable health insurance through an employer or a spouse’s employer (26 U.S.C. § 36B(c)(1)). Please see Appendix A for the most recent PTC development due to the American Rescue Plan Act of 2021 and the Inflation Reduction Act of 2022.

Furthermore, the ACA stipulates that individuals cannot be eligible for government-sponsored programs like Medicare or Medicaid. They must also not be incarcerated, except for those pending disposition of charges, to qualify for the PTC (45 CFR § 155.305). These conditions ensure that the PTC serves those who need it most and do not have other means to affordable health coverage.

For international students, the intersection of immigration and tax law presents a complex eligibility matrix. While being “lawfully present” allows them to enter the Health Insurance Marketplace, their specific visa status may affect their eligibility for the PTC. For instance, F-1 and F-2 visa holders may be considered “nonresident aliens” in their initial years in the U.S. and are not eligible for various tax credits. However, once they pass the Substantial Presence Test, they become “resident aliens” for tax purposes and may qualify for the credit (IRS, 2022; Publication 519).

The IRS provides additional guidance on treating “lawfully present” individuals in relation to the PTC, clarifying that individuals who are non-citizens with a lawful presence may claim the PTC (IRS, 2022; Publication 974). This includes the necessity of filing taxes and reporting their income accurately to determine the correct amount of credit they are entitled to.

B. The Substantial Presence Test (SPT) and its implications for F-1 and F-2 visa holders

The Substantial Presence Test (SPT) is utilized by the Internal Revenue Service (IRS) to ascertain the tax residency status of foreign nationals, determining whether they are nonresident or resident aliens for tax purposes. It considers the duration of their physical presence in the United States over a three-year period (IRS, 2022; Publication 519).

For F-1 and F-2 visa holders, the SPT includes a specific provision: students on F-1 visas and their dependents on F-2 visas are exempt from the SPT for the first five calendar years of their presence in the U.S. During this period, they are classified as nonresident aliens for tax purposes (IRS, 2022; Publication 519).

However, this exemption from the SPT does not equate to ineligibility for the Premium Tax Credit (PTC). The ACA extends eligibility for the PTC to non-citizens who are "lawfully present" in the United States, which includes F-1 and F-2 visa holders (45 CFR § 152.2). Therefore, even if F-1 and F-2 visa holders do not meet the SPT and are considered nonresident aliens, they may still qualify for the PTC if they fulfill the other requirements set forth by the ACA, such as having a household income between 100% and 400% of the federal poverty line, not being eligible for other

minimum essential coverage, and not being claimed as a dependent by another taxpayer (26 U.S.C. § 36B(c)(1)).

The SPT's relevance to F-1 and F-2 visa holders primarily impacts other areas of tax law, such as eligibility for certain deductions and credits that are exclusive to resident aliens (IRS, 2022; Publication 519). It is essential to distinguish between these general tax provisions and the specific PTC rules under the ACA.

IV. Need for Legal Reform

A. Recommendations for legal reform to streamline PTC claiming processes

The current complexities of the PTC claiming process for lawfully present non-citizens, such as international students and their dependents on F-1 and F-2 visas, underscore the need for targeted legal reform. The following recommendations aim to streamline this process, ensuring the PTC fulfills its role as a facilitator of healthcare affordability for all eligible individuals:

1. **Simplify the Eligibility Criteria:** Legal provisions should be clarified to explicitly state the eligibility of all lawfully present individuals, including those on F-1 and F-2 visas, for the PTC without ambiguity. The IRS should provide clear guidelines and examples to assist taxpayers and tax professionals in interpreting the rules (IRS, 2022; Publication 974).
2. **Educate International Students:** There should be a concerted effort by educational institutions, in partnership with the IRS, to provide accessible resources and workshops that educate international students on their tax rights and responsibilities, including the claiming of the PTC (IRS, 2022; Publication 519).

3. **Revise IRS Publications:** IRS publications that address the tax situations of international students should include comprehensive sections on the PTC, detailing the claiming process and the interplay of tax credits with students' visa statuses (IRS, 2022; Publications 519 and 974).
4. **Create a Dedicated PTC Form for Non-Citizens:** The IRS should consider developing a dedicated tax form or worksheet specifically for lawfully present non-citizens claiming the PTC. This would provide a tailored approach that accounts for the unique circumstances of international students and their dependents.
5. **Establish a Centralized Support System:** A centralized support system, such as a helpline or online portal, should be established by the IRS to address the specific queries of international students regarding the PTC and other tax-related issues.
6. **Advocate for Policy Changes:** Stakeholders, including academic institutions and immigration advocacy groups, should collaborate to advocate for policy changes that support the fair treatment of international students in tax matters, ensuring that the benefits of the ACA are equitably accessible.

By implementing these reforms, the legal framework governing the PTC can become more inclusive and navigable for international students. Such changes would not only empower this demographic to make informed decisions about their healthcare coverage but also reflect a commitment to upholding the principles of equity and inclusiveness that are foundational to the ACA.

B. The role of educational institutions in supporting international students' tax credit claims

Educational institutions hold a pivotal position in facilitating international students' navigation of the U.S. tax system and their ability to claim entitled benefits such as the Premium Tax Credit (PTC). The following points delineate the proactive steps these institutions can take to support their international student populations:

1. **Tax Education Programs:** Universities and colleges should incorporate tax education into their orientation programs for international students. These programs would provide valuable information on tax filing requirements, including how to claim the PTC, and could be delivered in partnership with tax professionals or IRS representatives.
2. **Resource Centers:** Establish on-campus centers or online portals dedicated to providing tax assistance to international students. These centers could offer guidance on completing tax forms, understanding individual eligibility for tax credits, and addressing the specific challenges related to F-1 and F-2 visa statuses.
3. **Collaboration with Legal Experts:** Develop partnerships with legal experts specializing in tax law to offer workshops, seminars, and individual consultations tailored to the needs of international students.
4. **Advocacy and Policy Engagement:** Educational institutions should engage in advocacy efforts aimed at reforming tax policies that affect international students. By lobbying for more straightforward and more equitable tax codes, universities can play a significant role in policy development.
5. **Communication with Parents and Dependents:** Provide resources and communications not just to the students but also to their dependents, including those on F-2 visas, who may be eligible for the PTC as part of the tax household.

6. **Liaison with the IRS:** Act as a liaison between international students and the IRS, facilitating communication and clarification of tax obligations and entitlements. This could include organizing IRS visits to campus during tax season.

By assuming an active role in tax education and support, educational institutions can significantly ease the burden on international students, allowing them to make full use of the tax benefits for which they are eligible, thereby contributing positively to their financial well-being and healthcare affordability.

V. Conclusion

A. Recapitulation of the key findings and their significance

The exploration of the Premium Tax Credit (PTC) eligibility for international students on F-1 and F-2 visas within the U.S. tax system has led to several key findings:

1. **Lawful Presence as a Criterion:** The ACA allows for individuals who are “lawfully present” in the U.S. to be eligible for the PTC, which includes F-1 and F-2 visa holders. This finding underscores the need for tax regulations and guidance to be communicated to international students who are navigating the complexities of the U.S. healthcare system.
2. **Substantial Presence Test (SPT):** While the SPT determines tax residency, it does not impede the eligibility of F-1 and F-2 visa holders for the PTC, contrary to common misconceptions. This clarifies that international students can access health insurance subsidies without waiting to pass the SPT.
3. **Educational Institutions' Role:** The active involvement of educational institutions in guiding international students through the process of claiming the PTC is vital. This study

has highlighted the need for institutions to provide robust support and resources to international students.

4. **Need for Legal Reform:** There is a clear necessity for legal reform to simplify the PTC claiming process for international students. Recommendations include clarifying eligibility criteria, revising IRS publications, and creating dedicated support systems.

The significance of these findings lies in their potential to inform policy changes that make the U.S. tax system more accessible and equitable for international students. By facilitating a better understanding of the PTC and its eligibility requirements, the study contributes to enhancing healthcare affordability for a vulnerable segment of the academic community. Furthermore, these insights lay the groundwork for future research and legal scholarship to support integrating international students into the U.S. healthcare and tax systems.

B. Call to action for policymakers, educators, and legal scholars to address and advocate for the needs of international students in the tax domain

The insights garnered from this study serve as a clarion call to policymakers, educators, and legal scholars to undertake concerted efforts in addressing the tax-related challenges faced by international students in the U.S.:

1. **Policymakers:** It is incumbent upon federal and state policymakers to reevaluate the current tax statutes and healthcare policies to eliminate barriers that impede international students' access to the PTC. Legislation should be crafted and refined to ensure that the nuances of immigration status are adequately reflected in tax credit eligibility criteria.

2. **Educators:** Academic institutions must elevate their role beyond education and research to become advocates for their international student body. They should implement comprehensive tax assistance programs and leverage their influence to lobby for legislative changes that support these students' financial and healthcare needs.
3. **Legal Scholars:** There is a profound need for ongoing legal scholarship to dissect and address the intricate interplay between tax law and immigration status. Legal scholars are urged to produce research that illuminates the complexities of the tax system as it applies to international students and to propose innovative solutions to these legal intricacies.
4. **Tax Authorities:** The IRS and other tax authorities should prioritize creating accessible, multilingual resources and direct support channels to assist international students with tax compliance and credit claims. This includes clear, concise publications that delineate the steps to claim the PTC and outline the rights and responsibilities of international taxpayers.
5. **Advocacy Groups:** Non-governmental organizations must continue raising awareness about international students' financial and legal obstacles, championing reforms that facilitate a more inclusive and equitable tax system.

This call to action is not just about improving a bureaucratic process but about upholding the values of fairness and support essential to the academic community and the U.S. commitment to being a welcoming environment for international scholars. The collective action of these stakeholders can lead to meaningful changes that enhance the well-being of international students and, by extension, enrich the educational and cultural fabric of the nation.

References

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Appendix A

The Premium Tax Credit (PTC) operates as a fiscal instrument designed to enhance the affordability of health insurance. Established under the Affordable Care Act (ACA) in 2010, the PTC offers a sliding scale of subsidies for individuals and families with incomes between 100% and 400% of the Federal Poverty Line (FPL), facilitating their insurance purchase through the Marketplace. The American Rescue Plan Act of 2021 widened the eligibility spectrum, providing subsidies even to those earning beyond the 400% FPL threshold and increasing the subsidy amounts for those within the 400% boundary. Additionally, it capped the maximum premium contribution to 8.5% of an individual's income, a provision inclusive of those with higher earnings. Initially set to lapse at the onset of 2023, these expanded benefits have been extended through the Inflation Reduction Act until the year 2025, ensuring that taxpayers under the 400% FPL mark will benefit from moderated health plan premiums. The PTC's quantification takes into account the difference between the premiums of the second-lowest-cost silver plan available and the calculated contribution of the taxpayer, which is contingent on income. For individuals with more modest incomes, the tax credit is fully refundable. It is accounted for in Schedule 3 of the Form 1040 federal tax return when the proportion of household income allocated for premiums surpasses a specified benchmark.