AFFORDABLE CARE ACT TAX CREDIT EXTENSION ISSUE BRIEF

RE: Enhanced Premium Tax Credit Extension
DA: Wednesday, December 17, 2025

Introduction:

ACA subsidies will lapse at the end of this year, leaving 24 million vulnerable Americans with a difficult decision: pay higher premiums or drop healthcare coverage altogether.

Background: The Affordable Care Act established Health Insurance Marketplaces to increase competition and expand options for individuals buying their own health insurance. Each state operates its own Marketplace either directly or through a quasi-governmental entity. The Marketplace offers health plans categorized into bronze, silver, gold, and platinum tiers, differing only in the cost-share structure between beneficiaries and insurers—not in the quality of care. Bronze plans feature the lowest monthly premium and highest out-of-pocket costs, while Platinum plans charge the highest premiums in exchange for deductibles, copays, and coinsurances. Low-income households can find out if they are eligible for Medicaid and the Children's Health Insurance Program (CHIP) through the Marketplace. Small businesses can purchase coverage for their employees through Small Business Health Options Program (SHOP).

Subsidies Under the ACA: Beyond plan selection, the Marketplace also offers two primary subsidies: Premium Tax Credits (PTCs) and Cost-Sharing Reductions (CSRs). PTCs lower premiums while CSRs reduce out-of-pocket and prescription costs. PTCs can be applied to any metal tier for individuals who meet income requirements established by the law. In 2021, the American Rescue Plan Act (ARPA) introduced Enhanced Premium Tax Credits, which temporarily expanded coverage to individuals making above 400 percent of the federal poverty level and provided additional subsidies to individuals who qualify for regular tax credits. Enhanced tax credits were subsequently extended through the end of 2025 by the Inflation Reduction Act. Together, these laws eliminated the subsidy cliff by allowing people with incomes over the 400 percent of FPL threshold to qualify for financial support.

CSRs, by contrast, are designed to reduce out-of-pocket costs for enrollees of the silver plan. Once CSRs are applied, out-of-pocket costs are comparable to levels in gold or platinum plans. Under the Obama administration, the federal government reimbursed insurance companies for providing CSRs. However, the Trump administration halted direct payments in 2017 after a judge ruled they required explicit Congressional appropriation. Despite the pause in payments, insurers were still obligated to provide discounts. This resulted in a phenomenon known as "silver loading," where insurers significantly inflated silver plans to recoup losses.

Because PTCs are calculated using the premium of the benchmark plan (i.e. the second lowest-cost silver plan available through the Marketplace), silver loading automatically increases the value of tax credits provided by the federal government. As silver premiums rise, subsidies rise. After the PTC boost, gold and platinum plans became more affordable; many qualified for bronze plans with zero-dollar premiums. Ultimately, federal spending on larger subsidies exceeds the savings from ending CSR reimbursements, resulting in overall higher costs.

Senate Proposals Fail to Advance:

On December 11, 2025, the Senate rejected competing healthcare bills. A GOP proposal sought to replace tax credits with health savings accounts (HSAs), while the Democratic proposal would have extended enhanced subsidies for an additional three years. Neither measure received sufficient votes to advance. This vote was held as part of a deal to end the government shutdown.

The Republican bill, sponsored by Senators Cassidy (R-LA) and Crapo (R-ID), would redirect federal funds into HSAs. The Cassidy-Crapo bill aims to bypass insurance companies by converting subsidies into direct payment to enrollees. Eligibility would be limited to individuals enrolled in bronze or catastrophic plans with incomes below 700 percent of FPL. Enrollees 18 to 49 would receive $1,000, while those 50 to 65 would receive $1,500 to help cover healthcare costs. Democrats opposed the bill for three primary reasons. First, HSA funds could not be used for abortion or gender-affirming care. Second, enrollment would require verification of immigration status. Third, the bill would shift more financial risk onto families by pairing HSAs with high-deductible health plans; the average bronze plan deductible is $7,000, over five times the HSA deposit amount.

Senate Democrats proposed a clean extension enhanced PTCs. The bill received support from four GOP senators—Collins (R-MA), Hawley (R-MO), Murkowski (R-AK), and Sullivan (R-AK)—but still failed to pass. As a result, enhanced PTCs are set to expire on January 1, 2026, leading Marketplace premiums to double on average and potentially driving millions to drop coverage or enroll in low-quality plans.

Somewhere in the middle, several senators have voiced support for a short-term funding solution. Senators Collins (R-MA) and Moreno (R-OH) have proposed a two-year temporary extension of enhanced PTCs with stricter income caps to buy time for a long-term solution. Demorcats introduced a one-year extension last month in hopes of avoiding a relapse and allowing time for bipartisan negotiations.

House Action in the New Year:

On December 17, 2025, four moderate House Republicans—Representatives Fitzpatrick (R-PA), Lawler (R-NY), Bresnahan (R-PA), and Mackenzie (R-PA)—joined with Democrats to force a vote next year on extending enhanced tax credits. Representing competitive districts, these lawmakers cited constituent concerns about rising healthcare costs. Under discharge petition rules, the measure is expected to receive a floor vote after Congress reconvenes in January.

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The same day, the House voted to advance a GOP package that includes restoring appropriations for CSRs. According to the Congressional Budget Office, this would reduce the federal deficit by $35.6 billion over ten years, lower ACA silver plan premiums by 11%, and decrease the overall number of Marketplace enrollees by 100,000 between 2027 and 2035.

Currently, CSRs are funded through silver loading because insurance companies have hiked up the premium of silver plans to offset the absence of federal payments. Restoring CSRs would reduce benchmark silver plan costs and, in turn, lower premium tax credits. According to KFF, enrollees in bronze and gold plans—particularly middle-income individuals earning between 200 and 400 percent of FPL—would face higher premiums, resulting in an upward effect on the uninsured rate.

The Bottom Line:

The expiration of enhanced subsidies will cause premiums to surge, forcing many families to forgo health coverage. State and local governments will face higher healthcare costs driven by increased uncompensated care, particularly for rural and safety-net hospitals. Self-employed individuals and small business owners will also be affected by higher monthly premiums. The imminent expiration of enhanced tax credits will create an immediate financial shock for residents and healthcare systems as 2026 rolls around. Absent federal action, states are left to absorb the costs and deal with the consequences.