

Income Responses to the Affordable Care Act: Evidence from the Premium Tax Credit Notch

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Abstract. This paper examines the extent to which taxpayers responded to a notch in the Affordable Care Act's Premium Tax Credit subsidy schedule for taxpayers who purchase health insurance through government Marketplaces. Because these subsidies fall to zero when modified adjusted gross income is 400% of the Federal Poverty Level (FPL), a notch is generated for some taxpayers. Using data from tax returns filed in 2013-2014, we find clear evidence of bunching at 400% of FPL, though some taxpayers remain in strictly dominated regions on the other side of the notch. The observed bunching suggests an income elasticity of 0.5, but the modest amount of overall bunching and larger implied elasticities for those who were eligible for larger subsidies, used paid tax-preparers, and received an advance on their subsidy are consistent with large adjustment costs. We further find some evidence that the responses are driven by avoidance through both increased deductions and reduced labor earnings.

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