

On Thursday, June 25, 2015, the United States Supreme Court decided in a 6-3 decision to continue to allow both the state and federal-run health care exchanges (implemented by the Affordable Care Act) to offer tax credits (premium subsidies) to individuals who qualify, regardless of whether those tax credits were offered by a state-run exchange or a federally-run exchange. For the government, employers and individuals, this means business as usual.

Background

In *King v. Burwell*, the plaintiffs argued that the way the law was written, only a health care exchange run “by the State” could give tax credits to individuals. They reasoned that because the law did not expressly give the federal exchange the same authority it gave the state exchanges to administer tax credits, the premium subsidies should not be made available to individuals in states whose marketplaces are run by the federal government. This was a significant challenge to the Affordable Care Act because only 14 states have set up their own health care exchanges while the rest of the states have relied on the federal exchange to facilitate or administer their exchange programs.

The question the Supreme Court was asked to answer focused on the phrase “an exchange run by the State” and whether that meant only state exchanges could offer tax credits or whether that phrase was also intended to give the federal exchange permission to give tax credits. Chief Justice John Roberts wrote the majority opinion of the Court, concluding that the phrase referring to the exchanges run “by the State” should be read in the broader context of the Affordable Care Act as a whole and should not be limited to a strict reading of the term by itself. The opinion goes on to explain that in order to have the health care marketplace run as Congress had intended, that tax credits should not be limited to only state-run exchanges but should also allow the federal exchange to provide tax credits as well. Chief Justice Roberts explained his rationale by stating, “Congress passed the Affordable Care Act to improve health insurance markets, not to destroy them. If at all possible, we must interpret the Act (the Affordable Care Act) in a way that is consistent.”

Moving Forward

This Supreme Court decision confirms the previous interpretation of the Affordable Care Act and does not change the rules for individual subsidies offered by either the state or federal exchanges. The decision also does not change any provisions under the Affordable Care Act for employers in terms of the Employer Mandate and complying reporting provisions.

Please contact your HORAN account representative with any questions.

The information contained in this document is informational only and is not intended as, nor should it be construed as, legal or accounting advice. Neither HORAN nor its consultants provide legal, tax nor accounting advice of any kind. We make no legal representation nor do we take legal responsibility of any kind regarding regulatory compliance. Please consult your counsel for a definitive interpretation of current statute and regulation and their impact on you and your organization. Thank you.