

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

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**Abstract.** The effect of the Affordable Care Act (ACA) on economic behavior has been the subject of much public debate. This paper examines the extent to which taxpayers responded to the marginal income incentives implicit in the Premium Tax Credit subsidy schedule of the ACA for taxpayers who purchase health insurance through the government Marketplaces. Because these sizable 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, albeit many taxpayers remain in strictly dominated regions on the right 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 we do observe are driven by avoidance behavior by means of both deductions and labor supply.

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