BOAL & Associates PC
CERTIFIED PUBLIC ACCOUNTANTS

Penalty for Failure to Maintain Health Coverage

Beginning in 2014, a non-exempt taxpayer who fails to maintain minimum essential healthcare coverage must pay an annual tax penalty through their tax return filing. The term minimum essential coverage means a government sponsored program including Medicare, Medicaid, CHIP, Tricare, Veterans' health care program, and The Peace Corps volunteer health plan. The term also includes an eligible employer sponsored plan, coverage under a health plan offered in the individual market within a state, coverage under a grandfathered health plan, and other coverage such as coverage under a state health benefits risk pool. The maximum tax penalty increases between 2014 and 2015, and in 2016 is fully phased-in. After 2016, the penalty will be indexed for inflation.

2014

For each month during which a non-exempt taxpayer fails to maintain minimum essential coverage in 2014, the applicable penalty is equal to 1/12th of the **GREATER** of:

$95 for **EACH** household member age 18 or older and
$47.50 per child under 18 (up to 3 household members)
OR
1% of household income for the taxable year.

2015

For each month during which a non-exempt taxpayer fails to maintain minimum essential coverage in 2015, the applicable penalty is equal to 1/12th of the **GREATER** of:

$325 for **EACH** household member age 18 or older and
$162.50 per child under 18 (up to 3 household members)
OR
2% of household income for the taxable year.

2016

For each month during which a non-exempt taxpayer fails to maintain minimum essential coverage in 2016, the applicable penalty is equal to 1/12th of the **GREATER** of:

$695 for **EACH** household member age 18 or older and
$347.50 per child under 18 (up to 3 household members)
OR
2.5% of household income for the taxable year.

Although the requirement to maintain minimum essential health coverage generally applies to all individuals, certain individuals are excluded from the requirement. Those excluded are individuals who:

- Have a religious exemption (but must obtain paper certification)
- Are not lawfully present (not US citizens or nationals)
- Are members of an Indian tribe
- Are incarcerated

In addition, there are exemptions to the penalty for failure to maintain health coverage. Exemptions to the applicable individual penalty for failure to maintain minimum essential coverage apply to the following individuals:

- Taxpayers with income below the tax filing requirement
- Individuals who are without coverage for less than 3 months
- Individuals who are deemed unable to afford coverage because the required contribution for the month would exceed 8% of household income for the taxable year.
- Individuals who are determined by the Secretary of Health and Human Services to have suffered a hardship with respect to the capacity to obtain coverage under a qualified health plan.

Refundable Tax Credits/Subsidies
Beginning in 2014, individuals who meet specified income, coverage, and other criteria are eligible to receive refundable tax credits or subsidies to enable them to purchase a qualified health plan. In order to receive a credit or subsidy, health insurance <u>must</u> be purchased through the Insurance Exchange (HealthCare.gov or state equivalent). To find out if you are eligible for a credit, log on to the Kaiser Family Foundation website at kff.org, and click on the Health Insurance Subsidy Calculator.