



# NAVIGATING HEALTHCARE REFORM

January, 2015

## ACA In The News: The Individual Mandate and Your 2014 Tax Filing

The Affordable Care Act (ACA) requires most individuals to obtain acceptable health insurance coverage for themselves and their family members or pay a penalty. This rule, which took effect in 2014, is often referred to as the “individual mandate.” Because the individual mandate was applicable in the 2014 tax year, this is the first year individuals will have to disclose their medical status on their 2014 tax filing.

### INDIVIDUAL MANDATE

The Individual Mandate requires most Americans to have qualified health insurance as of January 1, 2014. Coverage can be obtained through employer-sponsored plans, government programs such as Medicare or Medicaid, private plans or through the new federal or state marketplaces (exchanges). All U.S. citizens who

do not qualify for an exemption are subject to the individual mandate, regardless of whether they live in the U.S. or abroad.

EXEMPTIONS FROM THE INDIVIDUAL MANDATE		
Individuals who cannot afford coverage	Taxpayers with income below the filing threshold	Members of federally recognized Indian tribes
Individuals who experience a hardship	Individuals who experience a short gap in coverage	Religious conscience objectors
Members of a health care sharing ministry	Incarcerated individuals	Individuals not lawfully present in the U.S.

*The ACA provides nine categories of individuals who are exempt from the penalty. An individual who is eligible for an exemption for any one day of a month is treated as exempt for the entire month. Individuals must apply for these exemptions by filing an application with the Exchange.*

### TAX PENALTY FOR UNINSURED

The penalty will be assessed against an individual for any month during which he or she does not maintain “minimum essential coverage” (MEC) beginning in 2014 (unless an exemption applies). The requirement to maintain MEC applies to all individuals of all ages (including children), unless that individual falls within a specific exception or is exempt. An individual is treated as having coverage for a month if he or she has coverage for any one day of that month.

### WHAT IS MINIMUM ESSENTIAL COVERAGE

MEC includes coverage under:

- A **government-sponsored program**, such as coverage under the Medicare or Medicaid programs, CHIP, TRICARE and certain types of Veterans’ health coverage;
- An **eligible employer-sponsored plan** (including COBRA and retiree coverage), defined as any plan offered by an employer to an employee which is a governmental plan or a plan or coverage offered in the small or large group market within a state (a self-funded plan can also qualify as an eligible employer-sponsored plan);
- A **health plan purchased in the individual market**; or
- A **grandfathered health plan**.

MEC also includes any additional types of coverage that are designated by Health and Human Services (HHS) or when the sponsor of the coverage follows a process to be recognized as MEC. HHS has designated other types of coverage such as student health coverage and state high risk pools, Refuge Medical Assistance supported by the Administration for Children and Families, and Medicare Advantage plans as MEC.

## HOW MUCH IS THE PENALTY?

The penalty for not obtaining acceptable health insurance coverage will be phased in over a three-year period, and is the *greater of two amounts*—the “flat dollar amount” and “percentage of income amount.” For purposes of calculating the penalty, income is the taxpayer’s household income minus the taxpayer’s exemption (or exemptions for a married couple) and standard deductions.

<b>2014</b>	\$95/adult and \$47.50/child <b>OR</b> 1% of income
<b>2015</b>	\$325/adult and \$162.50/child <b>OR</b> 2% of income
<b>2016 and later</b>	\$695/adult and \$347.50/child <b>OR</b> 2.5% of income

Families will pay half the penalty amount for children, up to a family cap of three times the annual flat dollar amount.

*Example – Single: If a single person’s 2014 taxable income was \$22,500, her 1% would be \$225, far more than the individual penalty of \$95 per adult. Therefore, she would be penalized the \$225 because it is the greater of two fees.*

*Example – Family: If a single-income household with two adults and three children brings in \$27,000, their 1% fee would be \$270, but their flat fee would be \$285. Their penalty would be \$285, as it is the greater of the two options. (\$95 + \$95 + \$47.50 + \$47.50 + \$47.50 = \$332.50. Because \$332.50 is greater than the family cap of three times the annual flat dollar amount, the flat dollar amount of \$285 applies.)*

Also, the penalty is capped at the national average of the annual bronze plan premium. [IRS Rev. Proc. 2014-46](#) provides the 2014 national average of bronze plan premiums to be used when calculating the cap. The monthly national average bronze plan premium for 2014 is \$204 per individual, and \$1,020 for a family with five or more members (or, annually, \$2,448 for individuals and \$12,240 for a family with five or more members).

## 2014 INDIVIDUAL TAX FILING

Starting in 2015, individuals filing a tax return for the previous tax year will indicate which members of their family (including themselves) are exempt from the individual mandate. For family members who are not exempt, the taxpayer will indicate whether they had insurance coverage. For each non-exempt family member who doesn’t have coverage, the taxpayer will owe a payment. Spouses who file a joint return are jointly liable for the penalties that apply to either or both of them. Any individual who is eligible to claim a dependent will be responsible for reporting and paying the penalty applicable to that dependent. Any individual that did not have coverage for the entire 2014 calendar year or is claiming an exemption will need to also complete Form 8965.

**What's New** For information about any additional changes to the 2014 tax law or any other opinions affecting Form 1040 or its instructions, go to [www.irs.gov/form1040](http://www.irs.gov/form1040).

**Health care: individual responsibility.** You must either:

- Indicate on line 61 that you, your spouse (if filing jointly), and your dependents had health care coverage throughout 2014.
- Claim an exemption from the health care coverage requirement for some or all of 2014 and attach Form 8965, or
- Make a shared responsibility payment if, for any month in 2014, you, your spouse (if filing jointly), or your dependents did not have coverage and do not qualify for a coverage exemption. See the instructions for line 61 and Form 8965 for more information.

**Premium tax credit.** You may be eligible to claim the premium tax credit if

**Medicaid waiver payments.** If you are an individual care provider who received certain payments under a Medicaid waiver program for caring for someone who lives in your home with you, you may be able to exclude these payments from your income. See the instructions for line 21.

If you reported these payments on your return for 2013 or an earlier year, see [www.irs.gov/Individuals/Current-Medicaid-Waiver-Payments-May-Be-Excludable-From-Income](http://www.irs.gov/Individuals/Current-Medicaid-Waiver-Payments-May-Be-Excludable-From-Income). You may want to file Form 1040X to amend that prior year return.

**Expired tax benefits.** At the time these instructions were prepared for printing, certain tax benefits had expired. These included the deduction for educator ex-

the amount is reduced if your gross income is more than:

- \$152,525 if married filing separately.
- \$254,200 if single.
- \$279,650 if head of household.
- \$305,050 if married filing or qualifying widow(er).

See the instructions for line 42.

**Limit on itemized deduction** may not be able to deduct all of itemized deductions if your gross income is more than:

- \$152,525 if married filing separately.
- \$254,200 if single.
- \$279,650 if head of household.
- \$305,050 if married filing or qualifying widow(er).

household, \$9,100	55	Add lines 48 through 54. These are your <b>total credits</b> . . . . .	55
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56
<b>Other Taxes</b>	57	Self-employment tax. Attach Schedule SE . . . . .	57
	58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 . . . . .	58
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required . . . . .	59
	60a	Household employment taxes from Schedule H . . . . .	60a
	b	First-time homebuyer credit repayment. Attach Form 5405 if required . . . . .	60b
	61	Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/> . . . . .	61
	62	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions, enter code(s) . . . . .	62
	63	Add lines 56 through 62. This is your <b>total tax</b> . . . . .	63
<b>Payments</b>	64	Federal income tax withheld from Forms W-2 and 2014 estimated tax payments and amount applied from prior year . . . . .	64
	65	2014 estimated tax payments and amount applied from prior year . . . . .	65
If you have a	66a	Earned income credit (EIC) . . . . .	66a

<http://www.irs.gov/pub/irs-pdf/f1040.pdf>

The IRS will generally assess and collect individual mandate penalties in the same manner as taxes. However, the ACA imposes certain limitations on the IRS’ ability to collect the penalty. As a result, it is likely that any assessable penalty under the individual mandate will be subtracted from the tax refund that the individual is owed, if any.

**If you have questions regarding the appropriate forms to use, and instructions on how to complete your 2014 tax filing, visit [www.irs.gov](http://www.irs.gov), or contact your tax advisor/CPA.**