

Balance sheet

Affordable Care Act Penalties

By Roger Maag

The Affordable Care Act takes a carrot and stick approach to motivating people to buy health insurance. The carrot is an offer of health insurance subsidies to help offset the cost of buying and using health insurance. The stick is the threat of the shared responsibility payment, a tax penalty for not having health insurance coverage. The following are some items you should know about the health insurance penalty.

- The amount of the shared responsibility payment is a percentage of your household income and increases each year. There is also a minimum penalty for each year of no coverage ensuring that even low income taxpayers will feel the pinch of the penalty if they do not have health insurance.

	2014	2015	2016	After 2016
Percentage of income penalty	1% of income above filing threshold	2% of income above filing threshold	2.5% of income above filing threshold	2.5% of income above filing threshold
Minimum individual penalty	\$95	\$325	\$695	\$695 + inflation adjustment



- You do not pay the penalty on your entire income, only on a portion of it. Before calculating the penalty as a percentage of your income, you subtract the amount of the filing threshold from you income. The filing threshold is the amount of income that requires filing a federal income tax return for any given year. The threshold changes each year and can be found in publication 501 at the IRS forms and publications page. The filing threshold for 2015 is \$10,300 for single filers and \$20,600 for married filing jointly.
- The penalty is levied month-by-month even though it is only collected annually upon filing your tax return. You are only penalized for the months you do not have health insurance. If you have a gap in coverage of less than three consecutive months, you will not be required to pay a penalty. If you are uninsured for three months or more, your penalty will be prorated so you are only penalized on the months you were uninsured. If you have insurance for even one day in a month, the entire month is counted as though you had health insurance.
- You are responsible for paying the penalty for anyone you claim as a dependent on your federal tax return if those dependents do not have health insurance.
- Figuring the health insurance penalty for a family is more complicated than for an individual and special rules apply. The minimum penalty for children is only half the amount of the adult minimum penalty. The minimum penalty for families maxes out at three times the individual minimum penalty.
- The penalty maxes out at the national average cost for bronze-tier health plans sold on health insurance exchanges during the year. In states where health insurance rates are higher than average, your maximum penalty will almost certainly be less than the cost of health insurance on your state's health insurance exchange. If you are a high income person living in a state where health insurance rates are considerably below the national average, there is a chance that your penalty will be more than the cost of buying a bronze health plan.
- The Affordable Care Act exempts many people from the individual mandate to buy insurance. For example, if your share of the cost for health insurance premiums is more than eight percent of your income, it is considered unaffordable; you will not have to pay the penalty.
- The shared responsibility payment is paid to the IRS when you file your federal income taxes.

If you have any questions regarding the Affordable Care Act Penalties, please contact our office.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.