

Penalties on individuals for remaining uninsured in the 2010 health reform legislation

The recently enacted health care overhaul legislation contains an "individual mandate"—a requirement that U.S. citizens and legal residents have qualifying health coverage or be subject to a tax penalty. This will give you an overview of the penalty provisions enforcing the individual mandate.

Under the new law, effective for tax years beginning after Dec. 31, 2013, non-exempt U.S. citizens and legal residents will be required to maintain minimum essential coverage or pay a penalty. Those failing to maintain minimum essential coverage in 2016 will be subject to a penalty equal to the greater of: (1) 2.5% of household income over the threshold amount of income required for income tax return filing (generally, in 2010, the filing threshold is \$9,350 for a single person or a married person filing separately and \$18,700 for married filing jointly); or (2) \$695 per uninsured adult in the household. The fee for an uninsured individual under age 18 will be one-half of the adult fee for an adult. The total household penalty can't exceed 300% of the per adult penalty (\$2,085), nor exceed the national average annual premium for the "bronze level" health plan offered through the Insurance Exchange that year for the household size.

The per adult annual penalty is phased in as follows: \$95 for 2014; \$325 for 2015; and \$695 in 2016. For years after 2016, the \$695 amount will be increased annually by the cost-of-living adjustment. The percentage of income will be phased in as follows: 1% for 2014; 2% in 2015; and 2.5% beginning after 2015. If a taxpayer files a joint return, the individual and spouse would be jointly liable for any penalty payment. The penalty, which will apply to any period the individual does not maintain minimum essential coverage (determined monthly), will be assessed through the Internal Revenue Code.

Exemptions will be granted for financial hardship, religious objections, American Indians, those without coverage for less than three months, aliens not lawfully present in the U.S., incarcerated individuals, those for whom the lowest cost "bronze plan" option exceeds 8% of household income, those with incomes below the tax filing threshold, and those residing outside of the U.S.

If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to contact us. Our contact information can be found on our web page www.tkcpa.com.