

Tax Cuts and Jobs Act: Law, Explanation & Analysis - Individual Health Insurance Mandate under the Affordable Care Act

Effective for months beginning after December 31, 2018, the amount owed by any taxpayer under the individual health insurance mandate "*shared responsibility payment*" for lack of minimum essential health insurance for themselves and their dependents is zero.

(No other Affordable Care Act tax or provision is affected)

Background

Beginning in 2014, a penalty was imposed on applicable individuals for each month they failed to maintain "minimum essential coverage" for themselves and their dependents under the provisions of the Affordable Care Act (commonly known as Obama Care). This penalty is also referred to as a "shared responsibility payment," and the requirement to maintain minimum essential coverage is known as the "individual mandate." The monthly penalty amount for a taxpayer is equal to 1/12 of the greater of:

- a flat dollar amount equal to the applicable dollar amount for each of the individuals who were not properly insured by the taxpayer, up to a maximum of 300 percent of the applicable dollar amount, or
- an applicable percentage of income (Code Sec. 5000A(c)(2)).

The *flat dollar amount* is the sum of the applicable dollar amounts for each individual lacking minimum essential coverage that the taxpayer is required to insure (Code Sec. 5000A(c)(2)(A)). The applicable dollar amount is: \$95 for 2014, \$325 for 2015, \$695 for 2016, \$695 for 2017, and \$695, adjusted for inflation in later years (Code Sec. 5000A(c)(3); Rev. Proc. 2016-55). Due to the 300 percent limitation, the maximum penalty for purposes of the flat dollar amount is: \$285 in 2014, \$975 in 2015, and \$2,085 in 2016 and 2017.

The *applicable percentage of income* is an amount equal to a percentage of the excess of the taxpayer's household income over the taxpayer's filing threshold for the tax year. The percentages are: one percent for tax years beginning in 2014, two percent for tax years beginning in 2015, and 2.5 percent for tax years beginning after 2015 (Code Sec. 5000A(c)(2)(B)). For purposes of this calculation, household income has the same meaning as used in determining the filing threshold exemption from the penalty (Code Sec. 5000A(c)(4)(B)).

Compliance Tip

Individuals with coverage during the year should continue to receive a reporting form.

- Marketplace Exchanges are to provide Form 1095-A, *Health Insurance Marketplace Statement*, if the Marketplace provided coverage.
- An individual with employer or other health coverage ought to receive Form 1095-B, *Health Coverage* (indicating coverage provided), or Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage* (indicating coverage offered or not offered, and coverage provided).

These forms remain useful in applying the shared responsibility rules primarily by showing which months (if any) the individual maintained coverage during the year. Presumably, Exchanges will continue to issue Form 1095-A after 2018 since these are necessary for premium tax credit purposes.

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