

California Enacts Healthcare Mandate with Shared Responsibility Penalty

Beginning in 2020, California will impose an individual healthcare mandate on all residents. Residents will now be required to obtain qualifying healthcare coverage, unless they qualify for an exemption. Individuals and families who fail to obtain coverage will face financial penalties which will be collected on their California income tax returns.

Individual Shared Responsibility Penalty

California will impose the penalty for each month that an individual fails to enroll in and maintain minimum essential coverage for:

- the individual;
- the individual's spouse; or
- the individual's dependents.

The penalty for a tax year equals the lesser of:

- the total monthly penalty amounts for the year; or
- 1/12 of the state average premium for California Health Benefit Exchange bronze plans, multiplied by the number of months in which the failure occurred.

The monthly penalty equals 1/12 of the greater of:

- \$695 per adult plus \$347.50 per child that failed to maintain required coverage during the month, up to a maximum of \$2,085; or
- 2.5% of the excess of the individual's household income for the year over the amount of gross income that would trigger a state income tax return filing requirement.

The specified dollar amounts are subject to cost of living adjustments.

For tax years during which a similar federal penalty applies, California will reduce the state penalty. It will reduce the penalty, but not below zero, by the amount of the federal penalty imposed for each month during which a state penalty applies.

Exemptions from Imposition of Penalty

California will not impose a penalty on an individual for a month in which any of the following apply:

- the individual's required contribution, determined on an annual basis, for coverage for the month exceeds 8.3% of the individual's household income for the tax year; or
- the individual does not have enough income to trigger a return filing requirement for the tax year.

California also will not impose a penalty with respect to any household member for a month if:

- the last day of the month occurred during a period in which the household member did not maintain minimum essential coverage; but
- the period was a continuous period of three months or less.

Information Returns

Business and organizations that provide mandatory coverage to individuals will be required to file information returns with the Franchise Tax Board as well. The returns are due annually by March 31. Written statements to covered employees must now also be provided by businesses covered by the filing requirement. The statements are due annually by January 31. An entity that fails to file a required information return may be subject to a penalty of \$50 per covered individual for the tax year.

Summary

Despite the fact that a vast majority of Californians presently have insurance, the California Legislature voted to tax California residents anyway. According to the supporting documentation of Senate Bill 78, this penalty revenue will be used to fund health insurance subsidies so as to encourage more people to purchase health insurance and to provide health care to illegal immigrants.

The nonpartisan Legislative Analyst's Office warned this could indirectly result in increased state costs in Medi-Cal, and/or if the individual mandate actually succeeds and more Californians sign up for state health insurance, fewer Californians paying the penalty tax. Meaning less money to fund intended initiatives.

Data from the Affordable Care Act shows that the group most likely to owe the penalty are young, healthy people with jobs that pay \$30,000 to \$50,000 per year.

Reference Ch. 38 (S.B. 78), Laws 2019

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