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2014 Tax Reporting - Individual Mandate and Premium Tax Credit

Under the Affordable Care Act (ACA), the federal government, state governments, insurers, employers, and individuals share the responsibility for health insurance coverage beginning in 2014. Many people already have qualifying health insurance coverage (called minimum essential coverage or MEC) and do not need to do anything more than maintain that coverage. But if a taxpayer or an individual for whom the taxpayer is liable, fails to obtain MEC for one or more months, then, the taxpayer is liable for the individual shared responsibility payment when filing his/her federal income tax return unless an exemption applies. For 2014, the annual payment amount is capped at \$2,448 per individual and \$12,240 for a family with five or more members. New IRS draft forms have been released to claim individual mandate exemptions, pay the individual mandate penalty, and determine the correct premium tax credit for subsidized exchange purchasers.

Individual Mandate - Reporting on 2014 Tax Return Filing

The individual shared responsibility provision (the individual mandate) requires individuals and family members to either:

- Have qualifying health insurance coverage (MEC), or
- Have an exemption from the responsibility to have MEC, or
- Make a shared responsibility payment when filing the 2014 federal income tax return in 2015.

Individuals will be required to either (1) report MEC, (2) report exemptions, or (3) make an individual mandate payment when filing the 2014 federal income tax return. For more information about MEC, see the IRS [MEC chart](#) and see questions 14-20 of the [IRS Questions and Answers](#). For more information on exemptions, see the IRS exemptions [chart](#) and see questions 21-24 of the [IRS Questions and Answers](#).

Calculating the Individual Mandate Payment (if due)

For 2014, the annual payment amount is:

- The greater of:
 - 1% of household income that is above the tax return filing threshold for the applicable filing status, or
 - The family's flat dollar amount, which is \$95 per adult and \$47.50 per child, limited to a family maximum of \$285.
- Capped at the cost of the national average premium for a bronze level health plan available

through the marketplace in 2014. For 2014, the annual national average premium for a bronze level health plan available through the marketplace is \$2,448 per individual (\$204 per month per individual), but \$12,240 for a family with five or more members (\$1,020 per month for a family with five or more members). See [Rev. Proc. 2014-46](#) and a chart on the 2014 [federal tax filing requirement thresholds](#).

For taxpayers earning less than \$10,150, there is no penalty. For those making between \$10,150 and \$19,650, the penalty will be a flat fee of \$95 (\$285 family max). And for those making more than \$19,650, the 2014 penalty will be 1% of annual income (capped at \$2,448 individual and \$12,240 family max). Taxpayers will owe 1/12th of the annual payment for each month the individual and dependent(s) don't have either coverage or an exemption. Married individuals filing jointly are jointly liable. The percentages and flat dollar amounts increase over the first three years. In 2015, the income percentage increases to 2% of household income and the flat dollar amount increases to \$325 per adult (\$162.50 per child under 18). In 2016, these figures increase to 2.5% of household income and \$695 per adult (\$347.50 per child under 18). After 2016, these figures increase with inflation.

The following are examples of how the penalty calculation will apply. For more detailed examples, see the individual shared responsibility provision [final regulations](#).

Example 1 - Single individual with \$40,000 income: Jim, an unmarried individual with no dependents, does not have MEC for any month during 2014 and does not qualify for an exemption. For 2014, Jim's household income is \$40,000 and his filing threshold is \$10,150. To determine his payment using the income formula, subtract \$10,150 (filing threshold) from \$40,000 (2014 household income), and the result is \$29,850. One percent of \$29,850 equals \$298.50. Jim's flat dollar amount is \$95. Jim's annual national average premium for bronze level coverage for 2014 is \$2,448. Because \$298.50 is greater than \$95 and is less than \$2,448, Jim's payment for 2014 is \$298.50, or \$24.87 for each month he is uninsured (1/12 of \$298.50 equals \$24.87). Jim will make his shared responsibility payment for the months he was uninsured when he files his 2014 income tax return, which is due in April 2015.

Example 2 - Single individual with \$250,000 income: Assume same facts as Example 1 above, but Jim's household income is \$250,000. His payment for 2014 would be \$2,398.50, or \$199.87 for each month he is uninsured [$\$250,000 - \$10,150 = \$239,850$; $1\% \times \$239,850 = \$2,398.50$; $\$2,398.50 > \95 and $< \$2,448$; $1/12$ of $\$2,398.50 = \199.87]. If his household income was \$500,000 his payment for 2014 would be \$2,448, or \$204 for each month he is uninsured [$\$500,000 - \$10,150 = \$489,850$; $1\% \times \$489,850 = \$4,898.50$; $\$4,898.50 > \95 and $> \$2,448$; $1/12$ of $\$2,448 = \204].

Example 3 - Married couple with 2 children, \$70,000 income: Eduardo and Julia are married and have two children under 18. They do not have MEC for any family member for any month during 2014 and no one in the family qualifies for an exemption. For 2014, their household income is \$70,000 and their filing threshold is \$20,300. To determine their payment using the income formula, subtract \$20,300 (filing threshold) from \$70,000 (2014 household income). The result is \$49,700. One percent of \$49,700 equals \$497. Eduardo and Julia's flat dollar amount is \$285, or \$95 per adult and \$47.50 per child. The family's annual national average premium for bronze level coverage for 2014 is \$9,792 ($\$2,448 \times 4$). Because \$497 is greater than \$285 and is less than \$9,792, Eduardo and Julia's payment is \$497 for 2014, or \$41.41 per month for each month the family is uninsured (1/12 of \$497 equals \$41.41). Eduardo and Julia will make their shared responsibility payment for the months they and their children were uninsured when they file their

2014 income tax return, which is due in April 2015.

IRS Draft Forms Released

The IRS has released preliminary, unofficial drafts of forms to incorporate the individual mandate. See line 61 of draft [Form 1040](#) and line 38 of draft Form [1040-A](#). Preliminary, unofficial drafts have also been released for use by taxpayers to file for the health coverage exemption ([Form 8965](#)) and the premium tax credit ([Form 8962](#)). Individual mandate exemptions are claimed on Form 8965 and subsidized exchange purchasers will file Form 8962. The release of these forms has increased concerns about the complex connection between the healthcare law and taxes. For example, the Form 8962, intended to ensure households are getting the correct [tax credit](#) that the law provides, requires complicated month-by-month computations for some taxpayers. Taxpayers are to receive an information statement from their exchange showing the amount of premiums and advance credit payments by January 31, 2015. Then they are expected to use this information to compute their premium tax credit on Form 8962 and to reconcile the advance credit payments made on their behalf with the amount of the actual premium tax credit. Anyone who receives advance credit payments in any amount or plans to claim the premium tax credit must file a federal income tax return. Taxpayers accustomed to filing a simplified 1040EZ will not be able to do so next year if they received tax credits in 2014. Many subsidized exchange purchasers may be surprised to find there may be consequences at tax time and that there is no limitation on collection efforts in cases where consumers get too big a tax credit.

More changes to the 2014 income tax returns and instructions and guidance on filing requirements are still to come to reflect reporting on MEC, exemptions, premium tax credit issues, and payment of an individual mandate penalty. Conner Strong & Buckelew will provide alerts and updates as new information is issued on these important topics. We are also actively developing tools, resources and service solutions to assist plan sponsors with their compliance obligations. Questions related to tax reporting obligations for individual taxpayers should be directed to a tax advisor or accountant.

Should you have questions about this or any aspect of federal health insurance reform, contact your Conner Strong & Buckelew account representative toll free at 1-877-861-3220. For a complete list of Legislative Updates issued by Conner Strong & Buckelew, visit our online [Resource Center](#).



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