PPACA: Individual Mandate Penalty

The Affordable Care Act requires nearly all Americans to purchase health insurance that meets its standard of essential health benefits or pay a penalty. Premium credits and cost-sharing subsidies will be available to low-income individuals for the cost of health benefits. Individuals who choose not to buy health insurance will be subject to a tax penalty.

Paying the Penalty
The penalty amount is determined by factors including taxable income, number of dependents, and joint filing status. Here’s the breakdown:

For individuals (whichever is greater)

<table>
<thead>
<tr>
<th>Year</th>
<th>Penalty Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$95 or 1% of income above tax filing threshold ($9,500 in 2011)</td>
</tr>
<tr>
<td>2015</td>
<td>$325 or 2% of income above tax filing threshold</td>
</tr>
<tr>
<td>2016</td>
<td>$695 or 2.5% of income above tax filing threshold</td>
</tr>
</tbody>
</table>

Note: Penalty for dependents under age 18 is one half of the individual amount.

For families (whichever is greater)

<table>
<thead>
<tr>
<th>Year</th>
<th>Penalty Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$285 or 1% of income above tax filing threshold</td>
</tr>
<tr>
<td>2015</td>
<td>$975 or 2% of income above tax filing threshold</td>
</tr>
<tr>
<td>2016</td>
<td>$2085 or 2.5% of income above tax filing threshold</td>
</tr>
</tbody>
</table>

For sample penalty calculations, click here »

The percentage of income is determined by first subtracting the taxpayer's filing threshold from the taxpayer's income. The result is then multiplied by the applicable percentage (CRS, page 2). Starting in 2017, inflation will drive the minimum penalty each person will pay each year.

Refusing to Pay
The penalty will be paid to the IRS along with an individual’s taxes. The IRS cannot criminally
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prosecute individuals who refuse to pay the penalty. Also, the IRS cannot file a notice of federal tax lien (NFTL) or “levy any property in an effort to collect the penalty” (CRS, page 7). However, the government could deduct the penalty amount from any IRS tax-funded checks or other government payments.

For more information on how the government plans on collecting delinquent payments, click here »

Chief Justice John Roberts acknowledged that the penalty amount “will be far less than the price of insurance, and, by statute, it can never be more.” He, also, went on to add that some Americans may find it a “reasonable financial decision” to pay the penalty rather than purchase insurance.

**Exemptions, Exemptions**

Individuals who are not required to file a tax return, or whose income is below the federal poverty line are among those who will be exempt from the mandate’s penalty. For 2012 poverty thresholds, click here »

Other exemptions include:

- Financial hardship
- Religious objections
- Those without coverage for less than three months
- Undocumented immigrants
- Incarcerated individuals
- Members of Indian tribes
- Those not able to pay for coverage that exceeds 8% of household income

**Yes, It Can Be Pro-Rated**

Do you think the penalty can be avoided if a client has coverage for part of the year? Not necessarily. As listed in the exemption section, there is no penalty for a single gap in coverage of less than 3 months. However, not having insurance that meets essential benefit requirements for 3 or more months will lead to a penalty.

**Survey Says**

In a 2012 September report, the Congressional Budget Office (CBO) estimated that by 2016 only about 6 million of the 30 million uninsured will choose to pay the penalty over buying health coverage. To read the report, click here »

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Individual Mandate Penalty

**Sources**

BlueCross BlueShield of Rhode Island: [PPACA Individual Mandate & Subsidy](#)

Congressional Research Service (CRS): [The PPACA Penalty Provision and the IRS](#)

Factcheck.org: How Much is the Obamacare "Tax"

Factcheck.org: Imprisoned for Not Having Health Care?

Minnesota.gov: [Summary of Health Care Affordability Provisions of the ACA](#)

NFIB: [Individual Mandate of the Healthcare Law](#)

Public Law 111-148: [PP. 242-249](#)

SCOTUS Decision, [Opinion of Roberts, C.J. pp. 6, 35-36](#)

The Henry J. Kaiser Family Foundation: [Summary of New Health Reform Law](#)