

Federal Individual Mandate Penalty

Presentation to Vermont Individual Mandate Working Group

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STATE
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About State Health Value Strategies

State Health and Value Strategies (SHVS) assists states in their efforts to transform health and health care by providing targeted technical assistance to state officials and agencies. The program is a grantee of the Robert Wood Johnson Foundation, led by staff at Princeton University's Woodrow Wilson School of Public and International Affairs. The program connects states with experts and peers to undertake health care transformation initiatives. By engaging state officials, the program provides lessons learned, highlights successful strategies, and brings together states with experts in the field. Learn more at www.shvs.org.

Questions? Email Heather Howard at heatherh@Princeton.edu.

About Jason Levitis

Jason Levitis is principal at Levitis Strategies LLC, a healthcare consultancy focusing on the Affordable Care Act's tax provisions and state innovation waivers. He provides technical assistance to states in partnership with State Health and Value Strategies. He is also a nonresident fellow at the Brookings Institution and a senior fellow at Yale Law School's Solomon Center for Health Law and Policy. Until January 2017, he led ACA implementation at the U.S. Treasury Department.

Background

- Federal mandate took effect in 2014, with ACA's other major coverage provisions
- 2017 tax cut bill eliminated mandate penalty, effective 2019
- 2018: NJ and DC enacted mandates closely tracking federal mandate, effective 2019
- Basic structure: Individuals must hold qualifying coverage or qualify for an exemption each month, or else make a payment



Penalty Calculation: Big Picture

- Zero at low incomes
- Increases with income and number uninsured
- No one pays more than cost of coverage
- Prorated for part-year coverage



Penalty Calculation: Nuts and Bolts

- Penalty = greater of a flat dollar amount and an income-based amount, capped at the cost of coverage
- Flat dollar amount
 - \$695 per adult (half that for children)
 - Up to \$2,085
- Income-based amount
 - 2.5% of income over filing threshold (\$12K/\$24K)
- Cap
 - Nat'l average bronze premium for 21-year-old (about \$3,800 per person)
 - Only those with very high incomes affected (e.g., \$164K for a single person)
- Prorated based on months without coverage

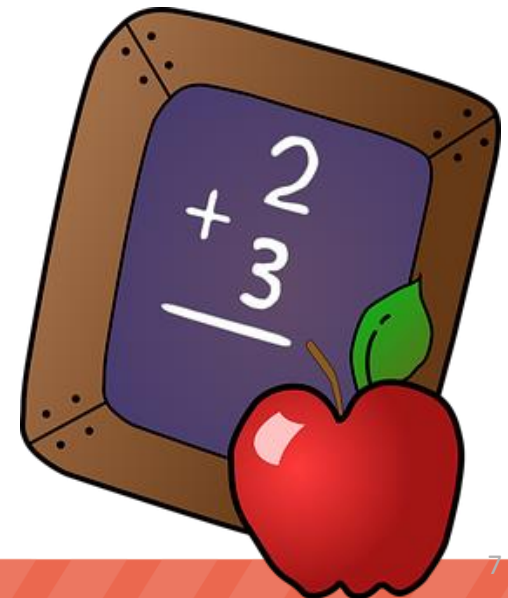


All values for 2018

Penalty Calculation: Examples

- Example 1: Single individual with \$50K income (412% of FPL)
 - Flat dollar amount = \$695
 - Income-based amount = $2.5\% \times (\$50K - \$12K) = \$950$
 - Cap = \$3,800
 - Penalty = **\$950** (\$79 per month)
- Example 2: Married couple with 2 kids, \$80K income (319% of FPL)
 - Flat dollar amount = $2 \times \$695 + 2 \times \$347.50 = \$2,085$
 - Income-based amount = $2.5\% \times (\$80K - \$24K) = \$1,400$
 - Cap = $4 \times \$3,800 = \$15,200$
 - Penalty = **\$2,085** (\$174 per month)

All values for 2018



At what income does the penalty begin?

Three key exemptions:

1. Filing threshold exemption:

- Single adult: \$12K (99% of FPL)
- Married couple with 2 kids: \$24K (96% of FPL)

2. Affordability exemption:

- Covers most adults < 138% of FPL, higher for kids

3. Hardship exemption:

- Authority to exempt additional groups, including income-based




All values for 2018

Administration

- Penalty collected through individual income tax system
- Single line on Form 1040 has check-box for full-year coverage, space for penalty amount
- Exemptions claimed on Form 8965
- To aid compliance, issuers and other coverage providers report fact of coverage on Forms 1095-B and others



Individual Mandate on Form 1040

<p>• All others: Single or Married filing separately, \$6,350 Married filing jointly or Qualifying widow(er), \$12,700 Head of household, \$9,350</p>		<p>48 Foreign tax credit. Attach Form 1116 if required 48</p> <p>49 Credit for child and dependent care expenses. Attach Form 2441 49</p> <p>50 Education credits from Form 8863, line 19 50</p> <p>51 Retirement savings contributions credit. Attach Form 8880 51</p> <p>52 Child tax credit. Attach Schedule 8812, if required 52</p> <p>53 Residential energy credits. Attach Form 5695 53</p> <p>54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/> 54</p> <p>55 Add lines 48 through 54. These are your total credits 55</p> <p>56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- 56</p>			
<p>Other Taxes</p> 		<p>57 Self-employment tax. Attach Schedule SE 57</p> <p>58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919 58</p> <p>59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required 59</p> <p>60a Household employment taxes from Schedule H 60a</p> <p>b First-time homebuyer credit repayment. Attach Form 5405 if required 60b</p> <p>61 Health care: individual responsibility (see instructions) Full-year coverage <input type="checkbox"/> 61</p> <p>62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s) 62</p> <p>63 Add lines 56 through 62. This is your total tax 63</p>			
	<p>Payments</p> <p>If you have a qualifying child, attach Schedule EIC.</p>		<p>64 Federal income tax withheld from Forms W-2 and 1099 64</p> <p>65 2017 estimated tax payments and amount applied from 2016 return 65</p> <p>66a Earned income credit (EIC) 66a</p> <p>b Nontaxable combat pay election 66b</p> <p>67 Additional child tax credit. Attach Schedule 8812 67</p> <p>68 American opportunity credit from Form 8863, line 8 68</p> <p>69 Net premium tax credit. Attach Form 8962 69</p> <p>70 Amount paid with request for extension to file 70</p> <p>71 Excess social security and tier 1 RRTA tax withheld 71</p> <p>72 Credit for federal tax on fuels. Attach Form 4136 72</p> <p>73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/> 73</p> <p>74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments 74</p>		
			<p>75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid 75</p> <p>76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/> 76a</p>		

How did DC and NJ change the penalty?

- Low-income exemption:
 - DC exempts everyone with Medicaid-eligible income (< 200% of FPL, sometimes more)
 - (NJ has regulatory authority to create income-based exemption)
- Penalty cap:
 - Both tie to state-average bronze premium instead of national average
- Collection:
 - Both may allow liens and levies





Thank You

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Model Legislation:

<http://shvs.org/resource/model-legislation-for-state-individual-mandate/>
