

Tax Penalty For Not Having Insurance Ratchets Up In 2015

Article Highlights:

- Flat dollar amount penalty
- Percentage of income penalty
- Household income
- Modified adjusted gross income
- Tax filing threshold

The penalty for not having minimum essential health insurance for yourself and other members of your tax family takes a substantial jump in 2015. For 2014, the penalty was the **greater of** the flat dollar amount (\$95 for each adult plus \$47.50 for each child under age 18, but no more than \$285) **or** 1% of your household income minus your-tax filing threshold amount. For 2015, those amounts take a substantial jump to \$325 for each adult and \$162.50 for each child (but no more than \$975) or 2% of household income minus the amount of your tax-filing threshold.

Household income - Estimating the penalty requires you to project your household income for 2015. Household income includes the modified adjusted gross income (MAGI) for all members of your household for whom you claim a dependent exemption and who are required to file a tax return. As an example, say a parent has a teenage child who has a part-time job and earns \$7,000 for the year. This \$7,000 exceeds the child's filing threshold (standard deduction for a single individual plus exemption allowance, but since the parents are claiming the child as a dependent, the child cannot claim his or her own exemption). So the child would be required to file a tax return, and the parents would be required to include the child's MAGI when computing household income.

Modified adjusted gross income - MAGI is your regular adjusted gross income with untaxed Social Security benefits, non-taxable interest and dividends, and the foreign earned income exclusion added back.

Tax Filing Threshold - A taxpayer's tax filing threshold is the sum of the standard deduction and personal exemptions for the filer and spouse.

Figuring the penalty - Take for example a family of three, including Dad, Mom and their teenage child. The household income for the family is \$65,000, including the child's earnings of \$7,000, and they are subject to the penalty for the entire year of 2015.

- **The flat dollar amount** (per person) penalty is: **\$812.50** (\$325 + \$325 + \$162.50)
- **The percentage of income amount** is household income less their filing threshold times 2%. In this example the tax-filing threshold for 2015 would be \$20,600, which is the total of \$12,600 (standard deduction for married joint) plus \$4,000 each for the filer and spouse (personal exemptions). Note that although the dependent child's income is included in household income (because the child is required to file a return), the child's standard deduction and exemption allowance are not included in the filing threshold amount used in the calculation of the penalty. The percentage of income amount is **\$888** $((\$65,000 - \$20,600) \times 2\%)$

Thus, in this example, the annual penalty for not being insured for the entire year is \$888, the greater of the flat dollar amount or the percentage of income. When a

family is uninsured for less than a full year, the penalty would be applied on a monthly basis, which for the example would be \$74 per month.

If you have questions related to how the penalty might apply to your family, please give this office a call.