

Was Your No-Health-Insurance Penalty A Surprise?

Article Highlights:

- 2014 Uninsured Penalty Notices
- Flat Dollar Amount Penalty
- Percentage of Income Penalty
- Penalties Increase in 2015 and 2016

A tweet from an Indiana resident by the name of Benjamin Miller, including a picture of the IRS notice he received advising him that he owes \$2,344 as a penalty for not having health insurance, has gone viral and ignited a firestorm.

Mr. Miller stated in his post that he didn't buy health insurance because his premiums jumped by over \$1,000 to \$1,400 per month. Of course the increase in Mr. Miller's insurance premiums were most likely due to the mandatory provisions included in the health plan that were needed to meet the minimum essential coverage requirements of the Affordable Care Act (ACA).

Mr. Miller, like many uninsured taxpayers, probably didn't fully read the penalty provisions or didn't fully grasp them, which is understandable since they were written by attorneys. What Mr. Miller, and probably thousands of other taxpayers, overlooked when making the decision whether to buy insurance was the fact the penalty was the HIGHER of two computations, the flat dollar amount and the percentage of income amount. The flat dollar amount for 2014 was \$95 per adult and \$47.50 for a child, with a maximum of \$285 per family. This is where lots of people stopped reading and erroneously concluded that the penalty wouldn't be so bad when compared to the high premiums they were quoted, especially if they were relatively healthy and didn't feel a great need for insurance coverage. These taxpayers failed to consider the percentage of income penalty amount, which for 2014 is 1% of the taxpayer's household income after deducting his filing threshold (the sum of the filer's standard deduction and exemption amount for the filer and spouse, if any).

So even though the penalty was much higher than expected, Mr. Miller did save the difference (\$14,456) between the insurance premiums he would have paid and the penalty. Having been shown the penalty amount, we know that Mr. Miller's income is in excess of \$234,400 since the penalty is 1% of his income, and it likely won't break Mr. Miller's bank account to pay it.

If his penalty had been for 2015, Mr. Miller would be looking at a penalty about double the 2014 amount. The penalty is being phased in over a three-year period, and for 2015 the flat dollar amount is \$325 per adult and \$162.50 per child, with a maximum of \$975, while the percentage of income penalty jumps to 2%. Then in 2016 the flat dollar amount will jump to \$695 per adult and \$347.50 per child (maximum \$2,085) with the percentage of income penalty rate at 2.5%.

So if you are considering skipping health insurance coverage and paying the penalty, remember it amounts to the HIGHER of the flat dollar amount or the percentage of income.