

Penalty for Not Having Health Insurance Surprises Many

Many taxpayers are surprised by the size of the penalty being imposed for not having health insurance in 2015. This may be a wake-up call for many who didn't realize the penalty is being phased in over a three-year period between 2014 and 2016, and the increases are substantial each year.

The penalty is determined by two methods, the flat dollar amount or a percentage of the taxpayer's income, and the penalty is the greater of the two amounts.

The flat dollar amount is the sum of fixed dollar amounts for the year that apply to each member of the taxpayer's family. However, there is a cap on the total flat dollar amount, which is equal to three times the adult penalty for the year. The table below shows the amount per family member and maximum flat dollar amounts for each of the three penalty phase-in years.

Year	2014	2015	2016
Adult Family Member	\$ 95.00	\$325.00	\$ 695.00
Member Under Age 18	\$ 47.50	\$162.50	\$ 347.50
Maximum Flat Dollar Penalty	\$285.00	\$975.00	\$2,085.00

Example: In 2015, a family of three (two married adults and one child) all went without insurance for the entire year. Their flat dollar amount penalty would be \$812.50 (\$325 + \$325 + 162.50).

The percentage-of-income penalty is a little more complicated, as the income used in the computation is the taxpayer's household income reduced by the taxpayer's tax return filing threshold for the year. Household income is the adjusted gross income from the tax returns for the year of all members of the taxpayer's family who must file a tax return for income tax purposes.

The table below shows the percentage-of-income penalty for each of the three penalty phase-in years.

Year	2014	2015	2016
Percentage of income	1.0%	2.0%	2.5%

Example: Suppose the family in the previous example has a household income of \$80,000 and their filing threshold is \$20,600. The income used in the computation would be \$59,400 (\$80,000 - \$20,600), and the percentage-of-income penalty would be \$1,188 (\$59,400 x .02).

In our example, the taxpayer's penalty for 2015 would be the greater of the two methods, which is \$1,188. This substantially penalizes higher-income taxpayers, who can more readily afford health care insurance.

Another surprise to some taxpayers is that even if only one member of the family is uninsured, the percentage-of-income penalty applies if it is larger than the flat dollar amount for that one employee.

The penalties are actually computed by the month, so if a taxpayer is uninsured for five months, for example, then 5/12 of the penalty will apply.

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