

Released: Feb. 2, 2015

Where Tax Returns Intersect with Health Insurance

Those without health insurance in 2014 might want to file their income tax returns early to realize the financial implications of continuing to be uninsured.

MANHATTAN, Kan. – With January coming to a close, taxpayers have likely received all documents to file their income tax returns for 2014. Those without health insurance in 2014 will face a penalty of \$95 per individual or 1 percent of their annual household income above the tax-filing threshold—whichever is the greater amount—when filing tax returns this year.

Because Feb. 15 is the health insurance marketplace deadline to enroll in a plan for 2015, taxpayers might want to file their returns early to understand the financial implications of not having health insurance. The Affordable Care Act requires Americans to have health insurance for at least nine months of the year, or they will face penalties.

Elizabeth Kiss, family resource management specialist for K-State Research and Extension, said people should understand that in addition to being at risk for uncovered medical expenses if you are uninsured, there are penalties assessed for those without insurance. Those penalties are prorated for every month you and your family members remain uninsured.

“If you decided not to follow the mandate in 2014, you may want to in 2015, because the penalties will get bigger every year for not being covered by health insurance,” Kiss said.

People might have heard the \$95 penalty for being uninsured in 2014 and were willing to pay this rather than paying for a health insurance plan, she said. However, these people might not have heard the 1 percent part.

For example, a person who made \$40,000 in 2014 and didn’t have health insurance would pay a penalty of 1 percent of his or her income, rather than the \$95 flat penalty rate. That 1 percent is calculated using income above the tax-filing threshold, which is \$10,150 for an individual under age 65. The income above the threshold in this case is \$29,850, and 1 percent of that would mean a penalty of \$298.50 for this person.

Using the 1 percent method, the payment amount is capped at the cost of the national average premium for a bronze level plan available through the marketplace in 2014. For 2014, that is \$2,448 per individual, or \$204 per month. It is \$12,240 for a family with five or more members, which figures out to \$1,020 per month.

However, Kiss said almost 90 percent of those applying for plans in the marketplace would receive financial assistance in paying for those premiums. This means their actual cost may be as low as \$50 or \$100 per month.

Those whose income does not require the 1 percent penalty will pay \$95 per person and half of that, \$47.50 per child under age 18. The maximum penalty per family using this method is \$285.

The IRS website (<http://www.irs.gov/Affordable-Care-Act/Individuals-and-Families/ACA-Individual-Shared-Responsibility-Provision-Calculating-the-Payment>) has more information about calculating penalties for being uninsured in 2014. HealthCare.gov (<https://www.healthcare.gov/fees-exemptions/fee-for-not-being-covered/>) also has information available regarding penalties.

Plan ahead

The nearly two-week window between now and Feb. 15 is important, Kiss said, because those who haven't already chosen a health insurance plan in the marketplace for 2015 would need to do so by the Feb. 15 deadline to avoid a penalty to be paid by April 2016 for tax year 2015.

Filing tax returns early might cause some who had initially planned to remain uninsured to take action for 2015, she said. Waiting until April to file means they would miss the chance to reconsider in time to enroll in a plan in the marketplace. Once open enrollment ends Feb. 15, it will be more difficult to obtain health insurance.

In 2015, the penalty for being uninsured will go up to \$325 per person, \$975 per family or 2 percent of household income above the tax-filing threshold, whichever is greater.

The penalty growth continues in 2016 and beyond. Those uninsured in 2016 will pay the greater amount of \$695 per individual or 2.5 percent of household income above the tax-filing threshold.

Other than the marketplace, people can also get health insurance through an employer, a private insurer, Medicare, TRICARE, Veteran's Affairs, Indian Health Service or KanCare, Kansas' Medicaid program. Having coverage through one of these ways will keep people from paying the tax penalty, Kiss said.

She added that because of the intersection of the health insurance mandate and tax returns, taxpayers should consider seeking expert assistance in filing for 2014.

"If you don't normally do your own taxes, you might not want to start this year, and even if you do, you might need to consult with someone," she said. "If you're not familiar with or maybe you've never used the free tax preparation help that comes through the IRS, you might want to think about that for this year."

Those who have received assistance paying for their health insurance premiums should have received a 1095-A form that will be used in helping prepare their tax forms, Kiss said.

The IRS Volunteer Income Tax Assistance program offers free help to people who generally make \$53,000 a year or less, have disabilities, are older adults or speak limited English. Another program called Tax Counseling for the Elderly offers free tax help for seniors age 60 and older. Log on to the IRS website for more information or to find free sites near you (<http://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers>).

Also available from the IRS is Free File (<http://www.irs.gov/uac/Free-File:-Do-Your-Federal-Taxes-for-Free>), which is free online federal tax preparation software available for those with incomes of \$60,000 or less.

If obtaining insurance through the marketplace, log on to HealthCare.gov (<https://www.healthcare.gov/>), and sign up before Feb. 15. To learn more about how to enroll in the marketplace or KanCare, call the marketplace, 800-318-2596, at any time.

More information about the ACA in Kansas is available through K-State Research and Extension (<http://ksre.ksu.edu/issuesinhealthreform/>).

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