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Maximum Individual Mandate Tax for 2014

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Beginning in 2014, most U.S. citizens and legal residents must pay an Individual Mandate tax if they do not have at least minimum essential coverage for themselves and their dependents, unless they qualify for one of the exemptions from the tax. For noncompliance in 2014, the annual penalty is the greater of $95 per person or 1% of modified adjusted gross income (MAGI). However, there is a cap on the maximum dollar amount for the percent of MAGI test, for higher-income individuals. The ACA limits the annual tax amount to the average cost of a bronze-level plan for the applicable family size for that year. The IRS issued guidance on July 24, 2014, setting these amounts at:

- **Per individual: $2,448 annually** (12 x $204 per month)
- **Per Family of five or more: $12,240 annually** (5 x $204 = $1,020 x 12 = $12,240).

Background on the Individual Mandate

Beginning in 2014, most U.S. citizens and legal residents must obtain "minimum essential health coverage" (MEC) for themselves and their dependents or pay the Individual Mandate Tax. MEC is not specifically defined, but the ACA gives examples of types of plans that will be considered MEC. These include:

- Government sponsored programs
  - Including Medicare Part A; Medicaid; CHIP; TRICARE
- "Eligible" Employer-sponsored plans
  - Governmental, not-for-profit or private sector employers
  - Insured employer group health plan, in the small or large group market
  - Self-insured employer group health plan
  - Employer plan offered to COBRA qualified beneficiaries or to retirees
  - Collectively bargained plans – both multiemployer and single employer
  - Employer plans offered by professional employer organization (PEO) or by a leasing company
- Plans in the individual market
- Grandfathered and non-grandfathered health plans

Exemptions from the Individual Mandate or the Tax

The Individual Mandate does not apply to the following categories of individuals:

- Those with a "religious-conscience exemption" (applies only to certain faiths)
- Those not lawfully present in the U.S. (undocumented aliens),
- Those who are incarcerated
- Individuals who are not lawfully present in the U.S. (undocumented)

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Additionally, the tax will not be imposed on the following categories of individuals even though they are otherwise subject to the mandate to have health coverage:

- Individuals for whom the premium for the lowest cost bronze policy is more than 8% of household income
- Individuals with income below the federal income tax filing threshold (this is about $10,000 for singles under age 65 and $20,000 for couples under age 65)
- Members of federally recognized American Indian tribes
- Individuals who were uninsured for short coverage gaps of less than three months
- Individuals who have received a "hardship" waiver from the Secretary
- Households that are unable to qualify for Medicaid in a state that has chosen not to expand
- Individuals who are residing outside of the United States or are bona fide residents of any possession of the United States.

The Individual Mandate Tax

Individuals who are subject to the Mandate – and who do not meet one of the specified exemptions from the tax - must pay the tax if they fail to comply. For noncompliance in 2014, the annual tax is the greater of $95 per person or 1% of modified adjusted gross income (MAGI). These amounts increase in 2015 and 2016 as follows:

- 2015: The greater of $325 or 2% of modified AGI
- 2016: The greater of $695 or 2.5% of modified AGI

Additionally, the following limits apply to the amount of the annual tax:

- Fixed Dollar Amount Cap: For a family the maximum fixed dollar penalty is three times the individual dollar amount. For example, in 2014 this will be 3 x $95 = $285.
- Percentage of Income Cap: For higher-income individuals for whom the tax will be a percentage of MAGI instead of the fixed dollar amount, the maximum annual amount is limited to the average cost of a bronze level plan for that year (for the applicable family size). This is the amount that is specified in the July 24, 2014, IRS guidance, which is $2,448 per individual and $12,240 for a family of five or more.

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