HOUSE RESEARCH
Bill Summary

FILE NUMBER: H.F. 410 **DATE:** March 9, 2015
Version: As introduced

Authors: Davids and others

Subject: Credit for ACA penalty for failure to have health insurance

Analyst: Joel Michael, joel.michael@house.mn; Nina Manzi, 651-296-5204

This bill provides a refundable income tax credit equal to the penalty imposed on a Minnesota taxpayer under the federal Affordable Care Act (ACA) for the failure to carry minimum essential health insurance coverage. For a part-year resident or a nonresident, the credit equals the proportion of their income that is derived from Minnesota sources (or for a nonresident that is taxable by Minnesota).

Effective date: tax year 2015

Background information. A key feature of the ACA is the requirement that individuals carry health insurance. This is often referred to as the individual mandate (its legal name is the individual shared responsibility provision). It complements the ACA's requirement that insurance companies provide coverage without regard to pre-existing conditions. The individual mandate is intended to minimize the effects of adverse selection, which is the tendency for individuals who have conditions that are more likely to involve high medical costs to buy insurance and potentially dominate the market, when their health risks cannot be taken into account in either the availability or pricing of insurance, and, conversely, the tendency for individuals who do not anticipate having high medical costs to be less likely to buy insurance. Adverse selection could make health insurance unaffordable or uneconomical to individuals with average health risks.

Who is exempt from the individual mandate? The ACA provides a list of nine statutory exemptions:

1. Members of religious sects that conscientiously oppose accepting any insurance benefits
2. Members of health care sharing ministries
3. Members of Indian tribes
4. Individuals with income below the federal income tax return filing requirement

Section

5. Individuals who have short coverage gaps (less than three consecutive months without insurance)
6. Hardship exemption
7. The minimum premium cost exceeds eight percent of household income
8. Individuals who are incarcerated (other than those held pending resolution of charges)
9. Individuals who are U.S. citizens living abroad, certain resident aliens, or illegally in the U.S.

How is the penalty calculated? Calculation of the penalty amount is complicated. Taxpayers are required to complete IRS Form 8965 to calculate the amounts. Calculations are based on a percentage of income up to a maximum amount and whether the coverage is for an individual or a family. The penalty first applies in tax year 2014. The percentages and maximum amounts increase each year until the penalty is fully phased in for tax year 2016. After 2016 the maximum amount is adjusted annually for inflation. The table below shows the phase-in schedule.

Tax year	% of income	maximum*
2014	1%	$95
2015	2%	$325
2016	2.5%	$695
2017 and later	2.5%	indexed for inflation
*Individual maximums; family amounts are determined based on the number of people in the family, but the maximum is three times the individual maximum		