

# What tax preparers working with low and moderate income people should know about Schedule HC and the health insurance mandate tax penalties for 2008

All individuals age 18 and older filing a MA resident tax return have to complete Schedule HC, and some people who were uninsured in 2008 may have to pay a penalty. However, low and moderate income taxpayers who were uninsured because they could not afford insurance should not be penalized. The following is a summary of some of the rules and procedures designed to protect those who truly couldn't afford insurance in 2008.

## **No penalty if taxpayer income is below threshold amount**

- Taxpayers with adjusted taxable income no higher than 150% of the federal poverty level for their family size will not have to pay a penalty even if they were uninsured in 2008. (Schedule HC, Line 6)
  - A table showing 150% of poverty level by family size in 2008 is shown on page HC-3 of the instructions for Schedule HC (Table 1: Federal Poverty Level, Annual Income Standards)
  - Family size is based on filing status: single, married filing jointly or separately, and number of tax dependents claimed. (Schedule HC instructions for line 1c. Family Size on page HC-2).

## **No penalty if enrolled in certain government programs at any point in 2008**

- Taxpayers enrolled in Medicare, Veterans Administration Programs, Tri-Care or certain other government health insurance programs *at any point* in 2008 are not subject to penalty. (Schedule HC, Line 5)
- MassHealth, and Commonwealth Care are recorded on Schedule HC, Line 3 and do not count as "other government health insurance" on Line 5. The Health Safety Net does not count either. (Instructions for line 5 page HC-3).

## **No penalty unless uninsured for 4 or more consecutive months**

- For tax year 2008, there is a tax penalty only if the taxpayer had 4 or more consecutive months without insurance. (Schedule HC, Line 8).
- In order to fill out line 8, taxpayers with income over the 150% of poverty threshold need information about each month in 2008 they were insured for 15 or more days in a month:-
  - By Jan 31, 2009 insurance carriers sent out copies of a 1099 HC form showing each month in which the insured person (and any spouse or dependent on the same plan) were covered
  - Individuals who were insured through MassHealth or Commonwealth Care received a 1099 HC only if their income on record with these agencies in 2008

was more than 150% of the poverty level. See Instructions for Line 8 on page HC-3 for obtaining a 1099 HC from these agencies.

- Individuals who did not receive a 1099 HC from a carrier can usually find the required information on their insurance card: the name of the insurance company and the subscriber number. Instructions for line 3, page HC-2.

### **No penalty if insurance was not affordable based on worksheets in Schedule HC instruction book**

- If a taxpayer was not enrolled in Medicare or certain other programs at any point in 2008, has adjusted taxable income higher than 150% of the poverty level, was without insurance for 4 or more consecutive months, and does not have a religious or other exemption (lines 9 and 10 of Schedule HC), then the taxpayer must complete the affordability worksheets.
- The affordability worksheets are on pages HC-4 to HC-6 and are necessary to complete lines 11 to 13 of Schedule HC.
- A taxpayer is subject to a penalty for being without insurance, **only if** available insurance was affordable. If no insurance was affordable based on the worksheets, there is no penalty.

### **No penalty if taxpayer appeals and can successfully show hardship**

- If insurance was affordable based on the worksheets, the taxpayer can request a hardship appeal. No penalty will be assessed while the appeal is pending, but if the appeal is dismissed or denied, the penalty will apply. See instructions on page HC-9.
  - A taxpayer can appeal by checking a box on the tax form. Schedule HC, page 3.
  - After the return is filed, the taxpayer will be mailed a form asking for more information about his or her appeal, failure to return the form will result in the appeal being dismissed. (Supporting information should not be sent with the state tax return itself).
    - Most appeals for tax year 2007 were dismissed for failure to return the follow-up form.
    - Most taxpayers who returned the form with supporting documents for tax year 2007 had their appeal granted without a hearing.
  - If you are providing tax preparation assistance and a taxpayer checks the box for a hardship appeal, please also give the taxpayer the attached fact sheet telling him/her what to expect in the appeal process.
  - The attached fact sheet also contains telephone numbers and website with information on insurance options for taxpayers still uninsured in 2009.
    - PLEASE REFER UNINSURED TAXPAYERS