



The Individual Shared Responsibility Payment and Exemptions (November 2018)

The Affordable Care Act (ACA) requires all individuals to obtain minimum essential coverage (MEC), qualify for an exemption from the MEC requirement or pay a penalty for not having coverage. While Advanced Premium Tax Credits (APTCs) and cost-sharing reductions (CSRs) can help make coverage more affordable, some consumers may still find coverage unaffordable. Other consumers may have objections to or experience circumstances that prevent them from purchasing coverage. The ACA allows these consumers to apply for an exemption from paying the penalty.

NOTE: The Republican tax plan passed in December 2017 zeros out the penalty for not having MEC starting in 2019. For the 2018 tax year, individuals are still required to have MEC. Those who do not qualify for an exemption must pay the penalty.

What is the Individual Shared Responsibility Payment?

The individual shared responsibility payment is the technical name for the “penalty” for not having MEC. The penalty is assessed and paid when consumers file their federal income tax returns. So while the penalty is \$0 beginning with the 2019 plan year, consumers who did not have MEC during the 2018 plan year must still pay it.

How much is the Individual Shared Responsibility Payment?

The payment amount is either a percentage of a consumer’s income or a flat dollar amount, whichever is greater. The consumer will owe 1/12th of the annual payment for each month they (or their dependents) do not have coverage and are not exempt. The annual payment amount for tax years 2017 and 2018 is the **greater** of:

- 2.5% percent of the household income above the filing threshold, or
- A flat dollar amount of \$695 per adult and \$347.50 per child under age 18, up to a maximum of \$2,085 per household.

All payments are capped at the cost of the national average premium for a bronze level health plan available through the Marketplace. For 2018, the monthly national average premium for a bronze level health plan available through the Marketplace is \$283 per individual and \$1,415 for a family with five or more members.

What is an exemption?

An exemption is an exception to the ACA’s mandate that everyone have MEC. If an individual qualifies for an exemption, they will not be required to pay the “individual shared responsibility payment” for the months they do not have coverage.

How do consumers get exemptions?

Most exemptions are granted by the IRS and are available directly through a consumer’s federal income tax filing. However, some exemptions must be obtained from the marketplaces

in advance of tax filing. And a few exemptions can be obtained either way. However, consumers must report or “claim” all exemptions on their federal income tax return.

The only exception is the exemption automatically granted to consumers who do not file federal income taxes because they are not required to do so. And since the tax reform law increased the minimum filing threshold amount to \$12,000 for a single taxpayer, the number of individuals exempt from paying the penalty has increased.

How long do exemptions last?

Most exemptions are for a certain period of time ranging between a few months (*e.g.*, short coverage gap) to a full year. Hardship exemptions last for the duration of the hardship, including the month preceding and the month following the hardship. Most exemptions granted by the marketplace are effective from the time of application, while those granted directly by the IRS generally apply to the entire previous tax year. Some exemptions, however, work differently. Exemptions for members of an Indian tribe, are continuous unless the individual’s qualifying status changes. For residents with an income below 138% and who are residents of a state that did not expand Medicaid, the exemptions are granted for the calendar year. Meanwhile, the exemptions due to religious conscience for people under 21 last until the individual turns 21.

Which exemptions do the marketplaces grant?

For the tax year 2018, HHS greatly simplified the exemptions process. Virtually all exemptions can be claimed through the IRS. The only one that must be claimed through the marketplaces is for applicants with “religious conscience,” or who are members of certain religious sects or divisions.

To obtain this exemption, consumers must present documents and submit an exemption application to the marketplace, be determined eligible, and receive an Exemption Certificate Number (ECN) from the marketplace. The consumer enters their ECN on a supplemental IRS form when filing their taxes.

What exemptions does the IRS grant?

The IRS grants exemptions retrospectively for all other exemptions, including:

- hardships in obtaining coverage,
- having an income below 138% FPL and being a resident of a state that did not expand Medicaid,
- short coverage gaps,
- coverage being unaffordable based on **actual** income,
- having income below the tax filing threshold (if the consumer files federal income taxes),
- citizens living abroad and certain non-citizens,
- members of health care sharing ministries,
- members of Indian tribes and persons eligible for Indian Health Services,
- persons who are incarcerated,
- being a resident of a state that did not expand Medicaid with income below 138% FPL,
- gaining or losing a household member mid-year and thus not being able to check the full-year coverage box on income tax return.

These exemptions are claimed through a supplemental form when a consumer files their taxes. No separate application or documentation is necessary. However, consumers should keep any relevant documents in case of an audit.

More Information and Resources about the Penalty and Exemptions:

- [Marketplace Exemption Applications](#)
- [HealthCare.gov: Exemptions from the Requirement to have Health Insurance](#)
- [IRS: 2017 Instructions for Form 8965](#)
- [Shared Responsibility Provision – Internal Revenue Service](#)
- [CMS Guidance on Hardship Exemptions from the Individual Shared Responsibility Provision for Persons Experiencing Limited Issuer Options or Other Circumstances](#)
- [Changes to Hardship Exemptions for Tax Year 2018](#)