

**Massachusetts Department of Revenue**  
**Individual Mandate**  
**2008 Preliminary Data Analysis**

**December, 2009**

In April 2006, Massachusetts enacted landmark health care reform legislation. The goal of health care reform is to make quality, affordable health care available to nearly all Massachusetts residents by expanding access to both private and public insurance coverage. In addition to expanding access to health insurance, the law also imposes an “individual mandate,” which requires Massachusetts residents age 18 and older to have health insurance if they can afford it. With few exceptions, individuals who can afford health insurance but lack coverage face tax penalties, which the Department of Revenue (DOR) is responsible for enforcing through the individual income tax process.

The penalties first went into effect in 2007, whereby individuals who were deemed able to afford health insurance but failed to comply as of December 31, 2007 were subject to the loss of their personal tax exemption (which translates to a \$219 penalty for an individual). For 2008 and beyond, adults who can afford health insurance are required to have coverage for each month in the tax year. However, there is no penalty in the case of a lapse in coverage of 63 days or less (extended to three months by administrative action in 2008 and 2009). Individuals who can afford to purchase health insurance but fail to comply are subject to penalties for each month of non-compliance in the tax year. By statute, the penalties may not exceed one-half of the least expensive monthly premium for which an individual would have qualified through the Commonwealth Health Insurance Connector Authority.

This document offers a preliminary summary of the health insurance status of adult tax filers based on information collected from completed returns filed and processed by DOR through October 5, 2009.<sup>1</sup> In Tax Year 2008, DOR expects to receive roughly 3.4 million individual income tax returns. The data in this report represent approximately 96% of the tax returns filed and processed to date. There are some caveats that the reader should keep in mind when reading this report. First, because the data relies on information reported by tax filers, they are subject to tax filer reporting errors and inconsistencies as well as post-filing verification, enforcement and audit efforts by DOR. Second, the data does not reflect the health insurance status of children, individuals who are exempt from filing a tax return or individuals who did not file despite being required to. Therefore, the Department encourages the reader to look to additional data sources for more conclusive evidence of levels of health insurance coverage in the Commonwealth.<sup>2</sup>

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<sup>1</sup> The Department is exploring opportunities to release more detailed data on the demographic characteristics of uninsured filers based on information reported on tax returns and other data sources available to DOR in the spring.

<sup>2</sup> See Long, S., Phadera, P., & Stockley, K. (2009, October). *Health Insurance Coverage in Massachusetts: Results from the 2008 and 2009 Massachusetts Health Insurance Surveys*. Boston, MA: Division of Health Care Finance and Policy; Long, S., & Phadera, P. (2009, October). *Estimates of Health Insurance*

Despite these data limitations, the preliminary results from this second year of implementation of the individual mandate are encouraging and provide further evidence about the direction of health care reform in Massachusetts.

**Key Findings:**

- The Department is once again pleased to report continued strong compliance with the health insurance tax filing requirement among Massachusetts tax filers, notwithstanding the added complexities of having to report coverage for each month in the tax year. To date, 98.3% of tax filers required to file health insurance information with their tax returns have complied with the filing requirement.
- Based on health insurance information from roughly 3.95 million adult tax filers, slightly over 3.8 million, or 96.4% of these filers, indicated on the return that they were insured at some point in 2008. In 2007, only 5% of the 3.93 million tax filers lacked health insurance as of December 31, 2007. These high rates of tax filer coverage reinforce other evidence that Massachusetts continues to maintain strong rates of health insurance coverage even despite the economic downturn.
- Of the 3.8 million adult tax filers to report coverage, close to 96%, or 3.65 million filers, reported coverage for the full year or the entire period for which the mandate applied to them.
- Of the 155,390 adult tax filers to report coverage for part but not all of 2008:<sup>3</sup>
  - Roughly 17%, or 26,962 filers, were deemed able to afford health insurance for the period they were uninsured. 22,646 of these filers were assessed a penalty, and 4,316 filers sought relief from the penalty by filing an appeal through the Health Connector.
  - 32%, or 50,230 filers, reported a lapse in coverage of three months or less and were thus exempt from a penalty.
  - 30%, or 46,733 filers, reported that their income in 2008 was at or below 150% of the federal poverty level and were thus exempt from a penalty.

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*Coverage in Massachusetts from the 2009 Massachusetts Health Insurance Survey.* Boston, MA: Division of Health Care Finance and Policy; Long, S., Cook, A., & Stockley, K. (2009, March). *Health Insurance Coverage and Access to Care in Massachusetts: Detailed Tabulations Based on the 2008 Massachusetts Health Insurance Survey.* Boston, MA: Division of Health Care Finance and Policy. U.S. Census Bureau; and Current Population Reports, P60-235, *Income, Poverty, and Health Insurance Coverage in the United States: 2007.* U.S. Government Printing Office: Washington, DC.

<sup>3</sup> There is no penalty for adults with income at or below 150% of the federal poverty level who lack insurance or for those who have lapses in coverage not exceeding three months. DOR was careful when designing the Schedule HC to avoid asking these individuals detailed questions about the affordability of health insurance which would have no bearing on whether or not they owed a penalty. Thus, these adults are not counted within categories of filers deemed able or unable to afford health insurance.

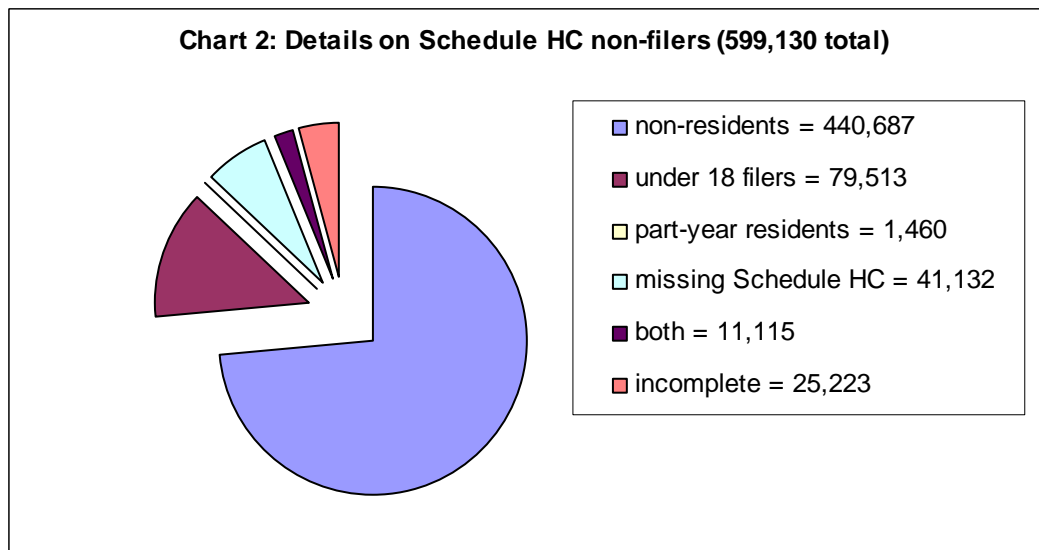
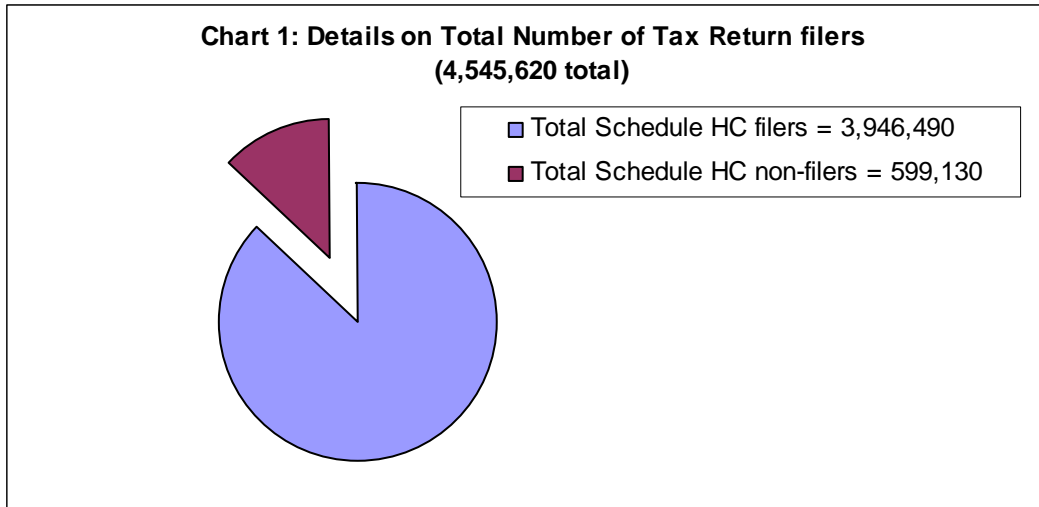
- 15%, or 23,908 filers, were deemed unable to afford health insurance and were thus exempt from a penalty.
  - 551 filers claimed a religious exemption or a certificate of exemption and were thus exempt from a penalty.
- Of the 140,208 adult tax filers who identified themselves as uninsured for all of 2008:<sup>4</sup>
    - Roughly 19%, or 25,994 filers, were deemed able to afford health insurance. 22,289 filers were assessed a penalty, and 3,705 filers requested an appeal.
    - 63%, or 88,396 filers, reported that their income in 2008 was at or below 150% of the federal poverty level and were thus exempt from a penalty.
    - 15%, or 21,012 filers, were deemed unable to afford health insurance and were thus exempt from a penalty.
    - 3%, or 4,806 filers, claimed a religious exemption or a certificate of exemption and were thus exempt from a penalty.
  - To date, the Department has assessed \$16.4 million in penalties on the 44,935 adult tax filers who lacked insurance for all or part of 2008 but had access to affordable health insurance. This is slightly less than total collections of 2007 health care tax penalties (over \$18 million), where there have been about 25% more taxpayers subject to the penalty (about 60,000)<sup>5</sup> and a longer period for enforcement and collections. Although the *maximum* penalties increased in 2008 compared to the flat penalty in 2007, actual penalties in 2008 are in fact imposed on a monthly basis and vary by income, age, and family size. Thus, for any given tax filer, they may be larger, smaller, or about equal to 2007 penalty amounts.
  - Through the end of September, DOR has collected and deposited \$12.9 million (\$9.4 million in FY09; \$3.5 million in FY10) of the \$16.4 million in 2008 penalty assessments in the Commonwealth Care Trust Fund. The difference between assessments and actual collections represents payments that have yet to be processed, tax filers with payment agreements, and late payments.

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<sup>4</sup> See footnote #2.

<sup>5</sup> In 2007, roughly 118,000 adult tax filers were uninsured as of December 31, 2007 but deemed able to afford health insurance and potentially subject to a penalty. However, about 43%, or 51,000 filers, had sufficiently low incomes to qualify for No Tax Status or Limited Income Credit, which resulted in no penalty or a reduced penalty for tax filers in these categories. Additionally, about 6,000 appeals were forwarded to the Health Connector for review.

**Charts 1 & 2:** These charts show the difference between total tax return filers and adult tax filers subject to the individual mandate and counted as having complied with the tax filing requirement. Tax filers subject to the individual mandate are required to file a Schedule HC (for health care) with their income tax return documenting their compliance with the individual mandate. The difference between total tax return filers and Schedule HC filers represents the number of individuals who are either not subject to the individual mandate (non-residents, certain part-year residents, under 18), or who are subject to the mandate but did not file a Schedule HC or filed it with incomplete information.

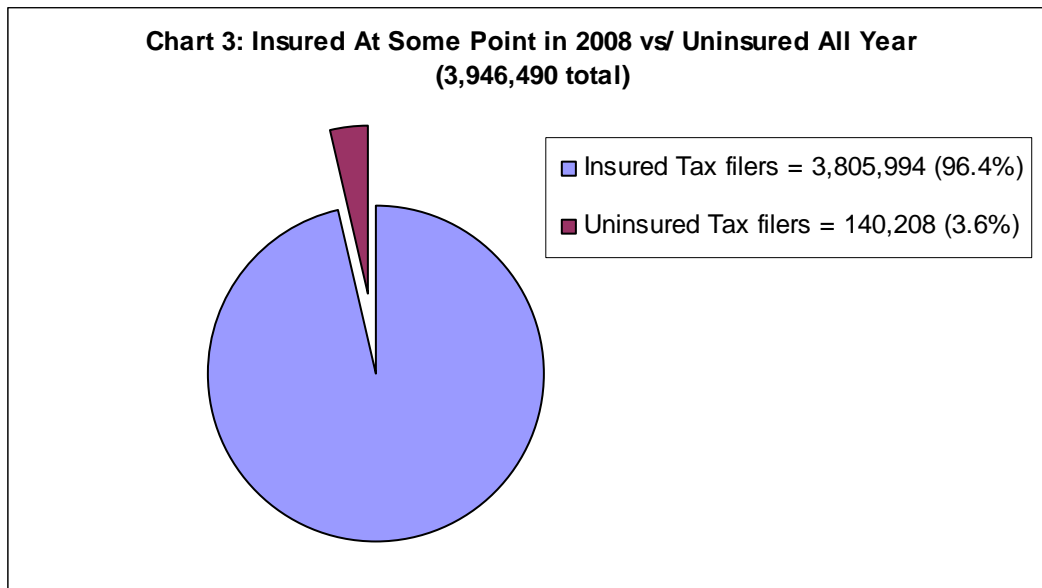


*Non-residents, certain part-year residents and both categories:* The individual mandate applies only to Massachusetts residents. Therefore, non-residents with Massachusetts source income who need to file a tax return are not required to file a Schedule HC. Likewise, certain part-year residents who move into or out of Massachusetts within a certain period may need to file a return but are not required to file a Schedule HC. The both category includes tax filers who are both part-year residents and non-residents

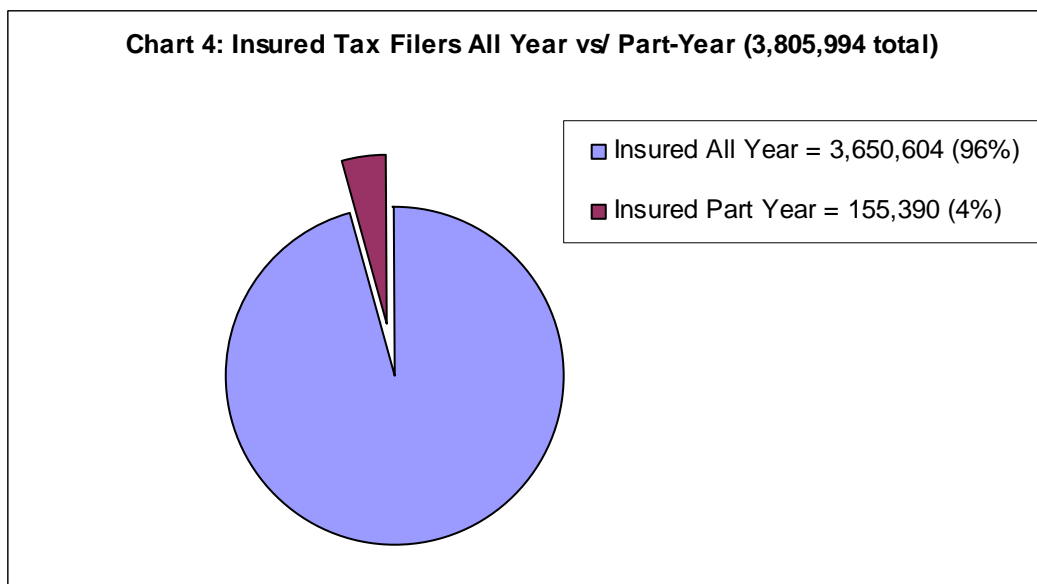
during the same year, and depending on their individual circumstance, may need to file a tax return but are not required to file a Schedule HC.

*Missing Schedule HC and incomplete Schedule HC categories:* DOR is currently corresponding with tax filers who either did not file a Schedule HC or filed it with insufficient information to determine the applicability of the individual mandate. DOR assesses the maximum penalty on all returns where tax filers fail to respond within the required timeframe, which tax filers can dispute.

**Charts 3 & 4:** These charts show the health insurance status of adult tax filers in 2008 based on information provided by the taxpayer on the Schedule HC. Unlike the first year of the individual mandate where tax filers had to show proof of insurance for one day (as of December 31, 2007), the second year requirements had taxpayers indicate whether they were insured for all of 2008, part of 2008 or not insured at all in 2008.

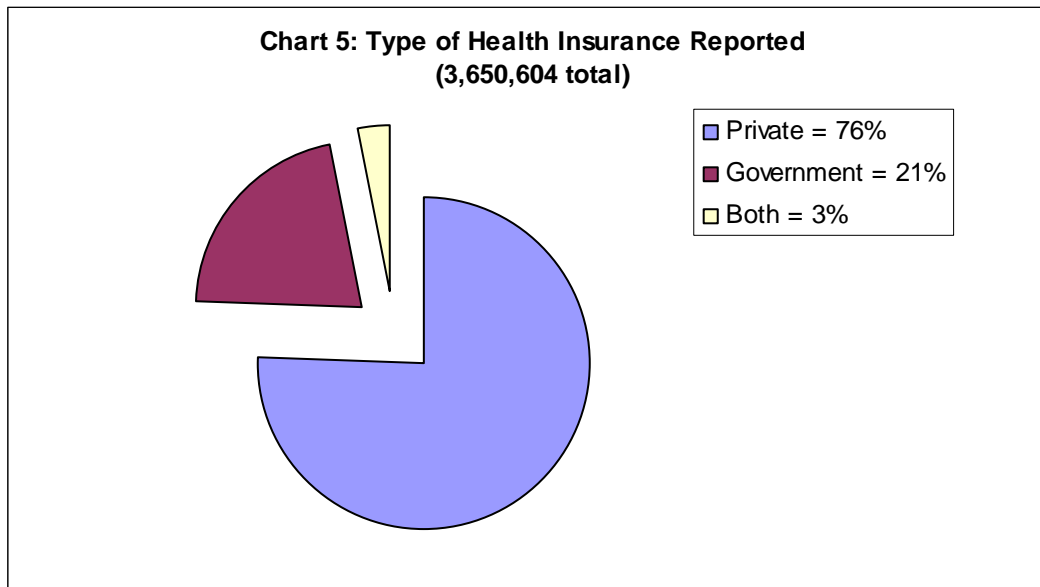


**Note:** The *Uninsured* category includes 10,333 part-year residents who lacked insurance for the entire period that the mandate applied to them.



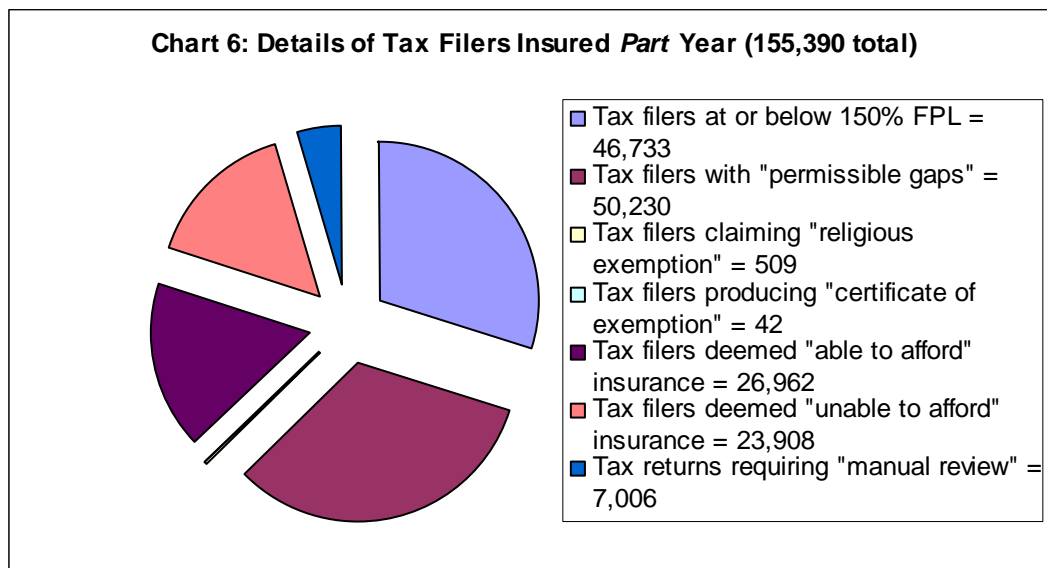
**Note:** Insured *All Year* includes 48,725 part-year residents who reported full-year coverage, which means they met the requirements of the mandate for the entire period that the mandate applied to them. Insured *Part-Year* includes 28,524 part-year residents who indicated insurance for some but not all of the period for which the mandate applied to them.

**Chart 5:** This chart shows the type of health insurance reported by insured tax filers who indicated full-year coverage in 2008.



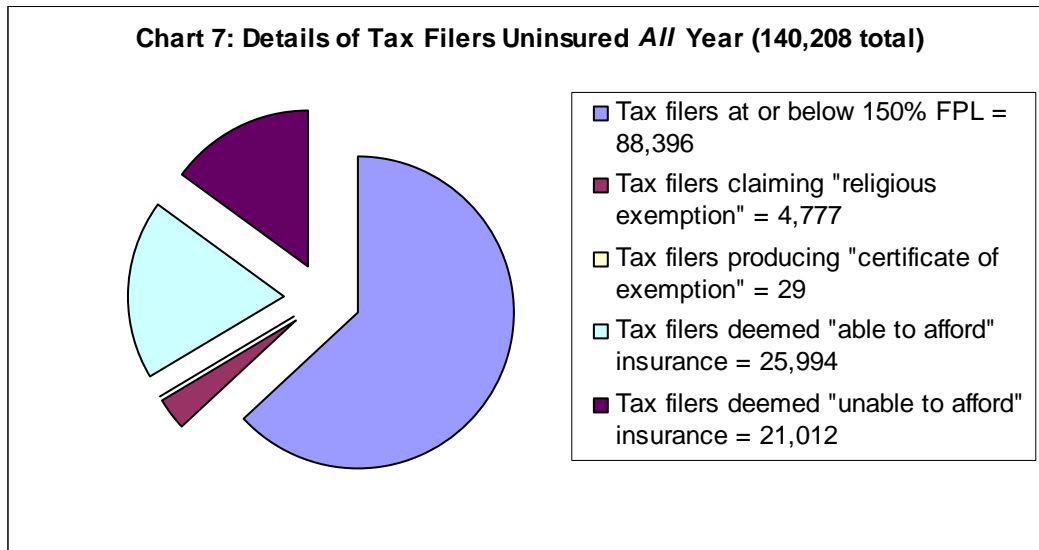
**Note:** The “both” category represents tax filers who indicated they had both government and private health insurance either concurrently or consecutively. In either case, the taxpayer reported that the combination of coverage resulted in full-year coverage.

**Chart 6:** This chart shows the number of adult tax filers who indicated on their tax return that they were insured for part of 2008 and whether they were exempt from or subject to a penalty for the period they lacked coverage. These tax filers are exempt from penalty for the period they lacked coverage if 1) their income in 2008 was at or below 150% of the federal poverty level (\$15,612 for singles); 2) they claim an exemption based on sincerely held religious beliefs (however, they may not assert this exemption if they actually received medical health care in the taxable year); 3) they receive a “Certificate of Exemption” from the Health Connector stating that health insurance was not affordable for them; 4) they had a permissible lapse in coverage of three months or less, or 5) they cannot afford coverage (through employer-sponsored insurance, government-subsidized insurance, or direct purchase of private insurance), based on the affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority and incorporated in the 2008 tax returns. A tax filer is subject to a penalty if none of the above exemptions apply (categorized below as tax filer “able to afford” insurance).

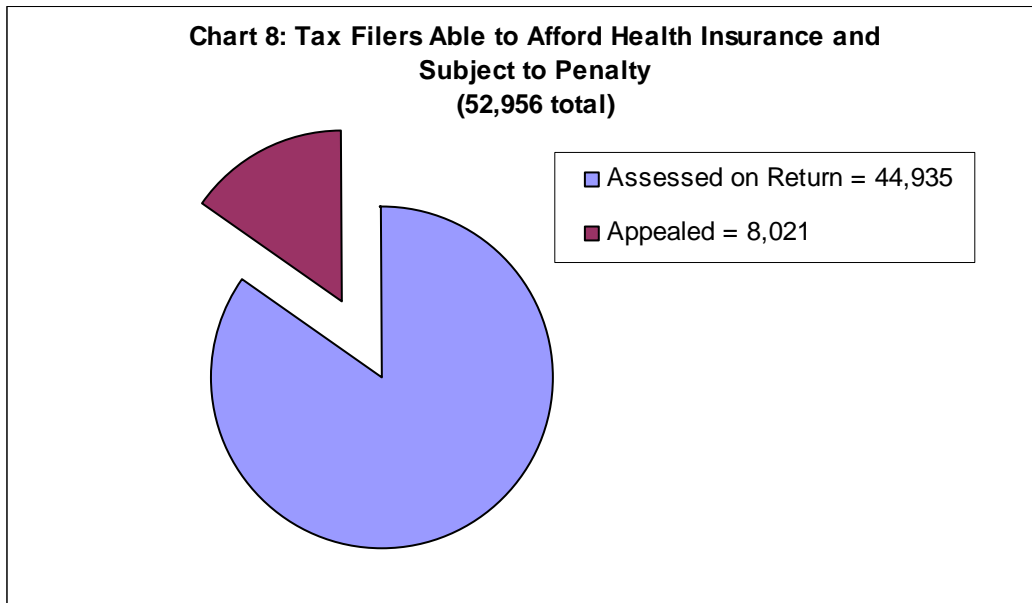


*Manual Review category:* This category includes tax filers who reported coverage at some point in 2008; however, manual review is required by DOR to accurately reflect the applicability of the individual mandate.

**Chart 7:** This chart shows the number of tax filers who indicated on their tax return that they were uninsured for all of 2008 and whether they were exempt from or subject to a penalty. The grounds for exemption from the penalty are the same as those listed above for those with insurance for part of the year (with respect to the period that they were uninsured). A tax filer is subject to a penalty if none of the above exemptions apply (categorized below as tax filer “able to afford” health insurance).



**Chart 8:** This chart shows the number of adult tax filers who lacked insurance either for all of 2008 or part of 2008 (with a lapse in coverage of four or more months) and were deemed able to afford health insurance based on the affordability schedules in the tax returns and thus subject to a penalty. These tax filers had two options: attempt to secure relief from the penalty by pursuing a hardship appeal to the Health Connector, or have a penalty assessed on the return.



*Assessed on return:* DOR is corresponding with tax filers who were assessed a penalty on the return to remind them of increased penalties next year and highlight opportunities to purchase affordable health insurance. Consistent with a similar mailing last year to uninsured tax filers who incurred the penalty, some tax filers have contacted DOR as a result of this notice to indicate that they mistakenly indicated that they lacked insurance and that they actually had health insurance coverage. In these cases, the tax filer would request an abatement (i.e., amend their return) to reflect their correct status and, upon approval, have the penalty reversed.

*Appeals:* Taxpayers who have been deemed able to afford health insurance may appeal the imposition of the penalty by claiming that, based on their individual circumstances, a hardship prevented them from purchasing health insurance. If they indicate on their tax returns that they intend to file an appeal, no penalty is imposed pending the outcome of the appeal. The determination of whether to allow an appeal is made by the Health Connector, based on standards set in its regulations.