

**Massachusetts Department of Revenue
Preliminary Data on the Individual Mandate
Tax Year 2007**

Individual Mandate Background for Tax Year 2007

Under the health care reform law, Massachusetts residents age 18 and over are required to have health insurance, if it is affordable to them. In Tax Year 2007, taxpayers must show proof of insurance as of December 31, 2007 on their income tax returns. Taxpayers who can afford health insurance but lack coverage lose the benefit of their personal exemption (valued at \$219 for an individual).

In order to verify whether individuals have health insurance, DOR created a new Schedule HC for taxpayers to complete. To assist taxpayers with private insurance (purchased either on their own or obtained through an employer) in filling out Schedule HC, insurance carriers and certain employers were required to issue a Form MA 1099-HC to every policyholder containing the requisite information needed to complete the Schedule HC. Every issuer was also required to send an electronic report to DOR with the same information provided to the taxpayer for verification purposes.

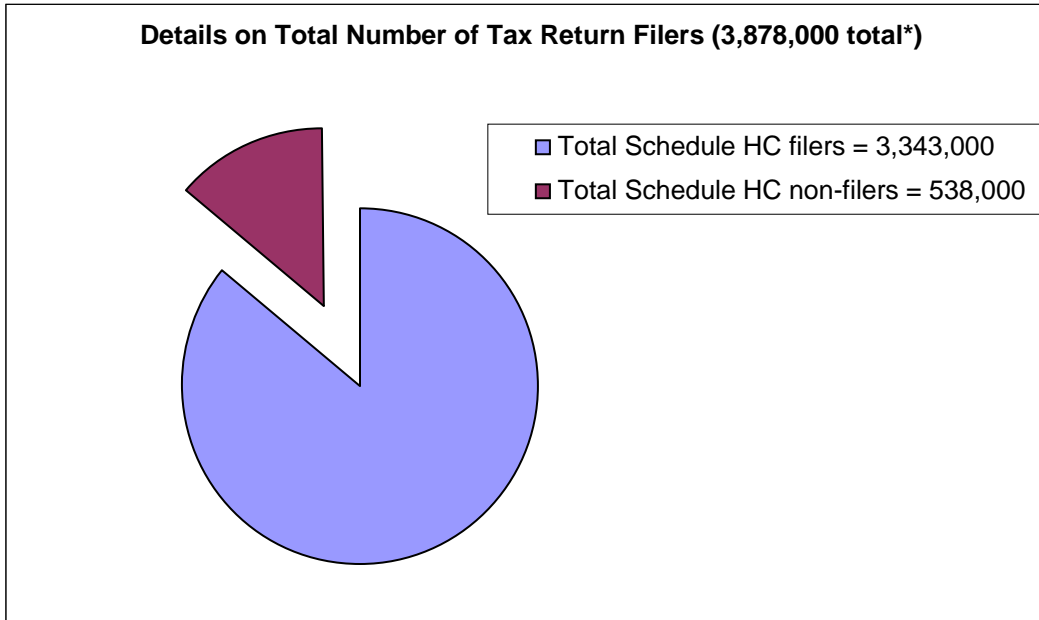
Any individual insured by MassHealth or Commonwealth Care did not receive a Form MA 1099-HC. These taxpayers are instructed to check the appropriate box on the Schedule HC to indicate coverage under MassHealth or Commonwealth Care. DOR will verify this information using an enrollment file provided by MassHealth and the Connector.

Preliminary Results for Tax Year 2007

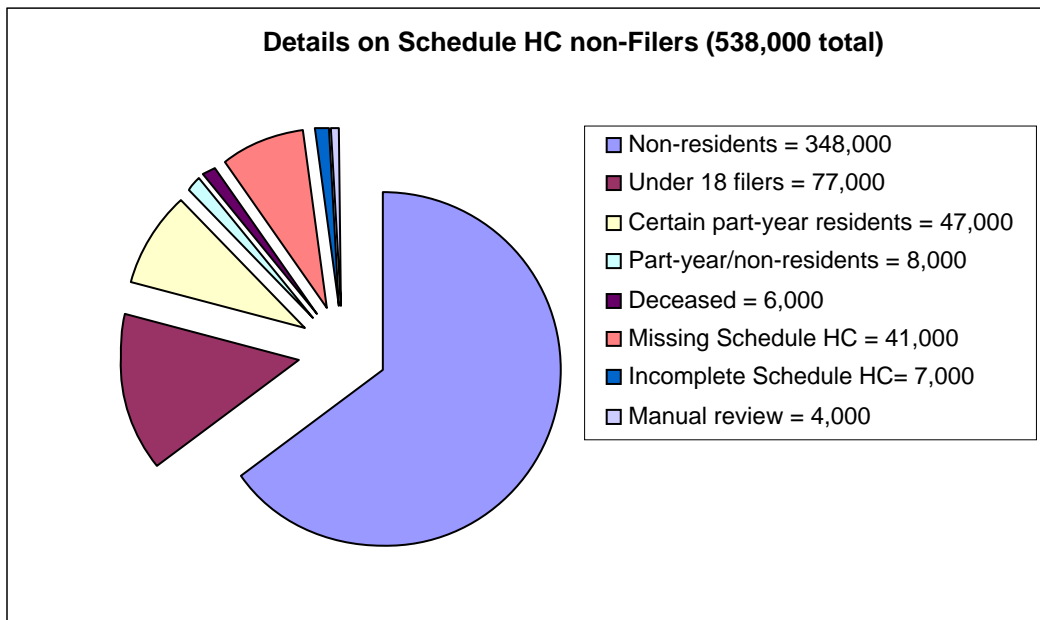
The following DOR preliminary data highlights actual data on reported compliance with the individual mandate for Tax Year 2007. The data represents approximately 86% of the tax returns expected to be filed for Tax Year 2007. It does not include the estimated 450,000 returns that have yet to be processed or those expected through October from taxpayers who requested tax filing extensions. Nor does it reflect the health insurance status of certain individuals who are not required to file a tax return in Massachusetts (such as those with income below the filing threshold), or individuals who evade filing requirements.

Furthermore, the data in this document is based on self-reported information provided by the taxpayer on the Schedule HC and has not yet been verified by DOR. Taxpayers who misreported health insurance information may subsequently amend their filings, and when the post-filing verification process occurs later in the year, the numbers in this document could change if the reported coverage cannot be substantiated. The verification process includes the following: matches of Schedule HC data against the insurance information provided by insurance carriers and employers as well as the enrollment files of MassHealth and Commonwealth Care; consultation with the Division of Health Care Finance and Policy to ensure that those with religious exemptions did not receive health services funded by the Health Safety Net Trust Fund; and the application of auditing procedures with respect to taxpayer claims that insurance was not affordable.

Charts 1 & 2: These charts show the difference between total tax return filers and tax filers subject to the individual mandate and counted as having filed a complete Schedule HC. The difference represents the number of individuals who are either not subject to the individual mandate (non-residents, certain part-year residents, under 18 and deceased taxpayers), or who are subject to the mandate but did not file a Schedule HC or filed it with incomplete information.



- Detail may not add to total due to rounding.



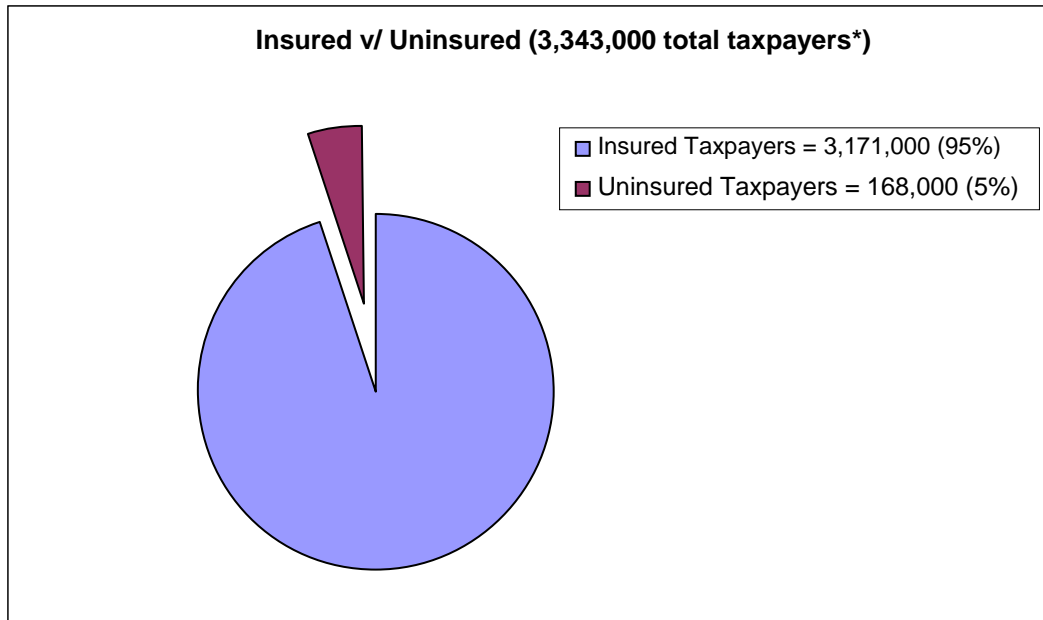
Non-residents, certain part-year residents and part-year/non-resident categories: The individual mandate applies only to Massachusetts residents. Non-residents and part-year residents may need to file a tax return on income earned in or attributable to

Massachusetts. However, non-residents and part-year residents who moved into Massachusetts after October 30, 2007 (within 63 days of December 31, 2007) are not required to file a Schedule HC. The part-year/non-residents category includes taxpayers who are both part-year residents and non-residents during the same year. For example, in the case of an individual who is a Massachusetts resident for the first six months of the year and moves to New Hampshire the last six months of the year but continues to work in Massachusetts, the individual must file as a non-resident and a part-year resident in Massachusetts.

Missing Schedule HC and incomplete Schedule HC categories: DOR is currently corresponding with taxpayers 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 penalty on all returns where taxpayers fail to respond within the required timeframe.

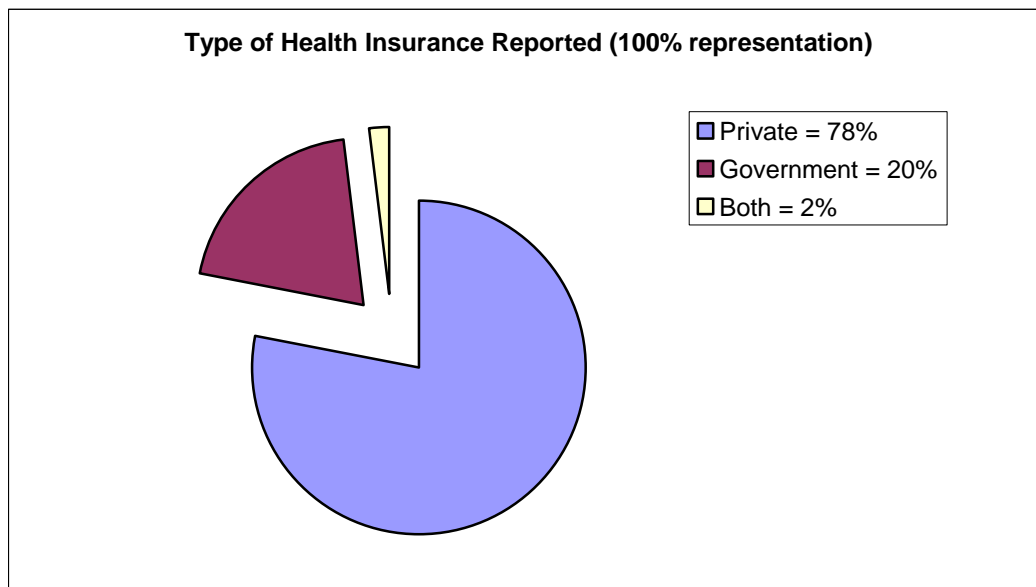
Manual review category: This category includes taxpayers who filed a complete Schedule HC that requires further manual review by DOR to accurately count their health insurance status at this time.

Chart 3: This chart shows the health insurance status (as of December 31, 2007) for taxpayers subject to the individual mandate and counted as having filed a complete Schedule HC.



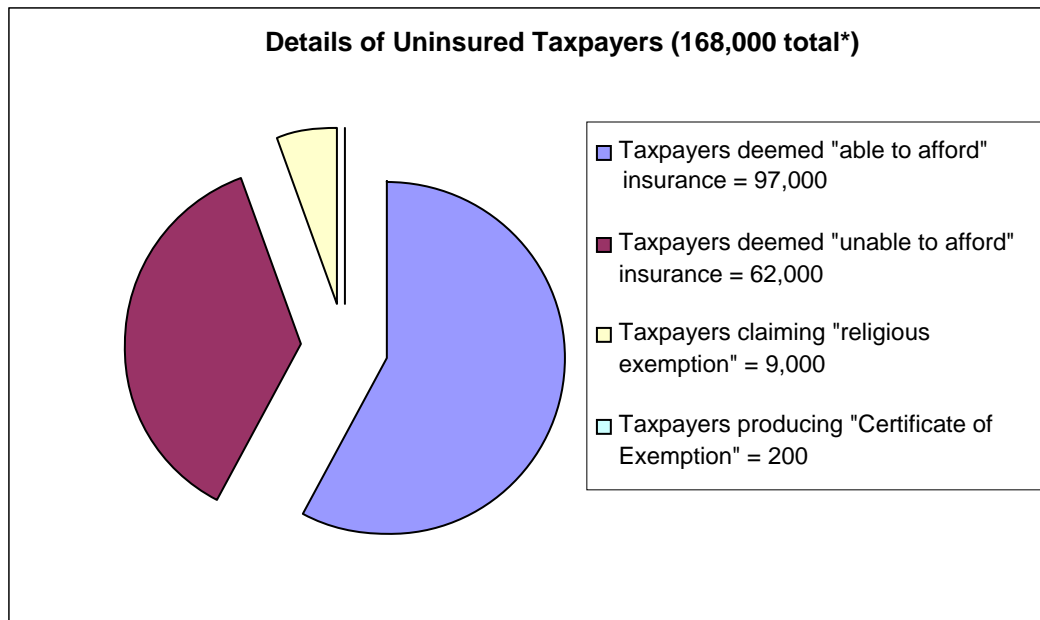
* Detail may not add to total due to rounding.

Chart 4: This chart shows the type of health insurance reported by insured taxpayers.



Note: The “both” category represents individuals who indicated they had both government and private health insurance. This category generally reflects individuals on Medicare with either supplemental or replacement coverage provided by a private insurer.

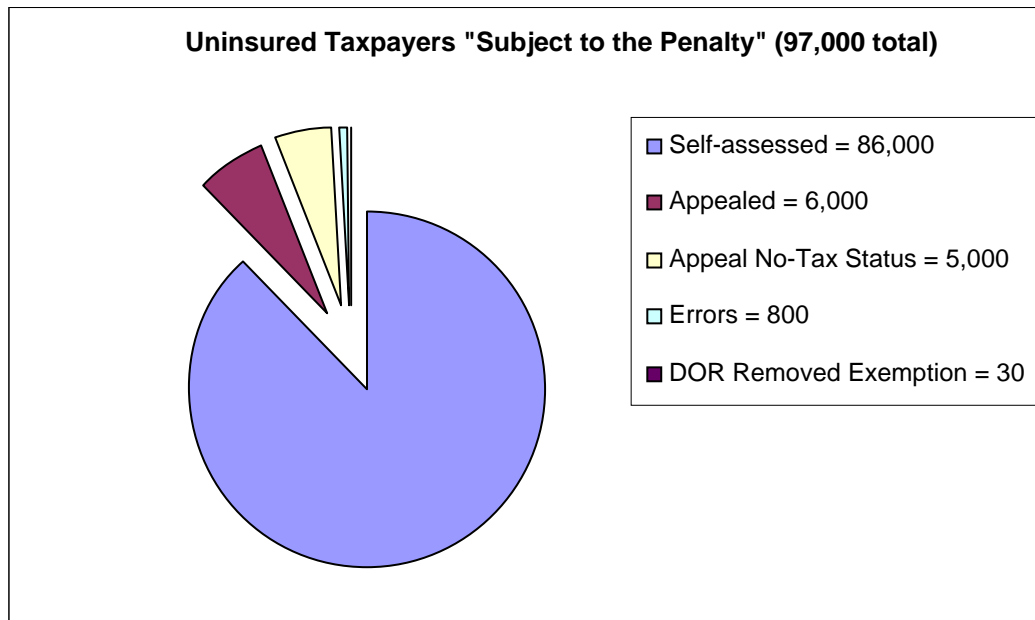
Chart 5: This chart shows the number of taxpayers who indicated they did not have health insurance as of December 31, 2007. It encompasses uninsured taxpayers who were deemed either able to afford health insurance or unable to afford health insurance, based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority and incorporated in the 2007 tax returns. It also includes taxpayers who obtained a Certificate of Exemption from the Connector stating that no health insurance was affordable or claimed a religious exemption from the requirement to purchase health insurance based on sincerely held religious beliefs.



* Detail may not add to total due to rounding.

Religious exemption: Overall, roughly 9,600 taxpayers claimed a religious exemption; however, 634 of them indicated that they had received medical health care in the previous year. Consequently, they were not in fact eligible to claim a religious exemption. The applicability of the individual mandate was subsequently determined by their ability to afford health insurance, based on the affordability schedules included in the tax returns.

Chart 6: This chart shows the number of uninsured taxpayers who were deemed able to afford health insurance based on the affordability schedules in the tax returns and thus subject to the penalty. These taxpayers had two options: attempt to secure relief from the penalty by pursuing a hardship appeal to the Connector, or self-assess (*i.e.*, pay) the penalty.



* Detail may not add to total due to rounding.

Self-assessed: DOR is currently corresponding with taxpayers who self-assessed the penalty to remind them of increased penalties next year and highlight opportunities to purchase affordable health insurance.

No Tax Status appeals: If a taxpayer's adjusted gross income does not exceed certain thresholds (\$8,000 for single filers, \$15,850 plus \$1,000 per dependent for joint filers) for the taxable year, he or she qualifies for No Tax Status and is not required to pay Massachusetts income tax. However, they must still file tax returns. DOR received a small number of appeals from taxpayers who qualified for No Tax Status. Since No Tax Status nullifies the penalty for noncompliance with the individual mandate, DOR did not process these appeals. Rather, DOR sent letters to these individuals letting them know that their appeals would not be processed and that no further action was required.

Error: This category includes returns that are pending further manual review by DOR.

DOR removed exemption: Based on a manual review of the return and specifically the taxpayer's responses to the affordability questions, the taxpayer could have afforded health insurance (either through their employer, the government, or on their own). Instead of appealing or self-assessing the penalty, however, the taxpayer incorrectly took the benefit of their full personal exemption. Therefore, DOR subsequently adjusted the return and removed the exemption. DOR also notified taxpayers of this action.