

Massachusetts Department of Revenue
Data on the Individual Mandate and Uninsured Tax Filers
Tax Year 2007

The Commonwealth's landmark health care reform law enacted in 2006 requires most adult residents 18 and over with access to affordable health insurance to obtain it. In Tax Year 2007, taxpayers had to show proof of coverage as of December 31, 2007 on their income tax returns. Individuals who could afford insurance but lacked coverage as of that date are subject to a penalty (loss of their personal exemption, a tax benefit of \$219 for an individual).¹ The Department of Revenue (DOR) is responsible for enforcing this new requirement through the individual income tax process.

In June of 2008, DOR released preliminary information on the health insurance status of individuals based on the tax filings received and processed at that time. This report provides updated health insurance information on reported compliance with the individual mandate for completed returns filed and processed by DOR through October 2008. It also presents information on certain demographic characteristics (age, income, gender and county of residence) of uninsured tax filers based on information reported on tax returns and other data sources available to DOR.

The data in this report are based on approximately 96 percent of expected tax returns for Tax Year 2007. It is important to note that the data represent self-reported information from tax filers on their tax forms and are thus subject to filer error.² The data are subject to post-filing verification and enforcement efforts, based on DOR audit criteria. Furthermore, the data do not reflect the health insurance status of individuals who do not file taxes (because they are either exempt from filing or fail to file) and/or whose health insurance status is not required to be disclosed on Schedule HC (*e.g.*, children).

Key Findings:

Insurance Coverage and Affordability Totals:

- For the first year of implementation of the individual mandate, taxpayers overwhelmingly complied with the health insurance tax filing requirement. Only 1.4 percent of tax filers required to file health insurance information with their tax returns failed to comply.

¹ For 2008 and beyond, adults who can afford health insurance are required to have coverage for the entire year, except for permitted 63-day gaps in coverage (extended to three months by administrative action in 2008). Those who do not comply face tax penalties for each month of non-compliance. By statute, the tax penalties may not exceed 50 percent of the monthly cost of the least expensive health insurance plan available to an individual through the Commonwealth Health Insurance Connector Authority. The Department of Revenue establishes the monthly tax penalty amounts applicable in each calendar year. The 2008 and draft 2009 tax penalties are available at www.mass.gov/dor.

² For example, after DOR sent mailings to individuals who self-assessed the penalty to highlight increasing penalties for 2008 and opportunities to purchase coverage, some notified DOR that their tax forms mistakenly indicated that they were uninsured and that they actually had health insurance coverage. In these instances, DOR restored their personal exemption (*i.e.*, these individuals were not penalized).

- Based on 96 percent of expected tax returns for Tax Year 2007, only 5 percent of the 3.93 million adult tax filers subject to the individual mandate and counted as having filed complete health insurance information reported being uninsured as of December 31, 2007. These data from tax filings reinforce considerable, separate evidence that Massachusetts has made dramatic progress in expanding health coverage under health care reform.³
- Slightly fewer than 3 percent of these tax filers, or about 118,000 adults, were uninsured but deemed able to afford health insurance (based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority) and potentially subject to a tax penalty. However, about 43 percent of these individuals had sufficiently low incomes to qualify for No Tax Status or a Limited Income Credit. No Tax Status effectively nullifies the 2007 tax penalty for lacking health insurance, while the Limited Income Credit may nullify or reduce the penalty. Additionally, about 6,000 appeals were forwarded to the Health Connector for review.
- To date, DOR has deposited \$16 million in penalties into the Commonwealth Care Trust Fund, which helps to offset the cost of providing health insurance coverage through Commonwealth Care.⁴
- Only 1.9 percent of these tax filers, or about 76,000 adults, were uninsured and deemed unable to afford health insurance (based on affordability schedules approved by the Board of the Commonwealth Health Insurance Connector Authority) and thus were not subject to the penalty. Overall, counting additional exemptions, slightly more than 2 percent of adult tax filers were exempt from the individual mandate.

Demographic Data on Uninsured:

The demographic makeup of tax filers indicating that they were uninsured on their 2007 tax returns is broadly consistent with separate health insurance status surveys indicating that younger, lower-income, unmarried men comprise a disproportionate share of the uninsured:

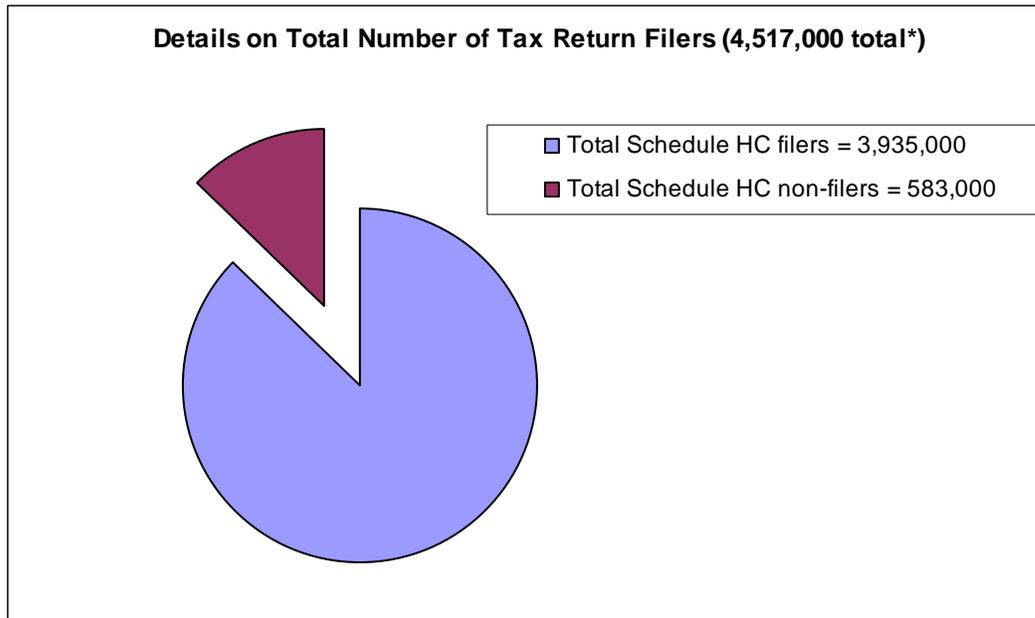
- Close to 60 percent of uninsured tax filers were under age 40.
- Of the uninsured tax filers for whom information about their gender was available, two-thirds were men.

³ See “Health Insurance Coverage in Massachusetts: Estimates from the 2008 Massachusetts Health Insurance Survey,” Massachusetts Division of Health Care Finance and Policy, December 18, 2008; Long, Sharon, “On the Road to Universal Coverage: Impacts of Reform in Massachusetts At One Year,” *Health Affairs*, June 2008; and “Income, Poverty and Health Insurance Coverage in the United States: 2007,” U.S. Census Bureau, August 2008.

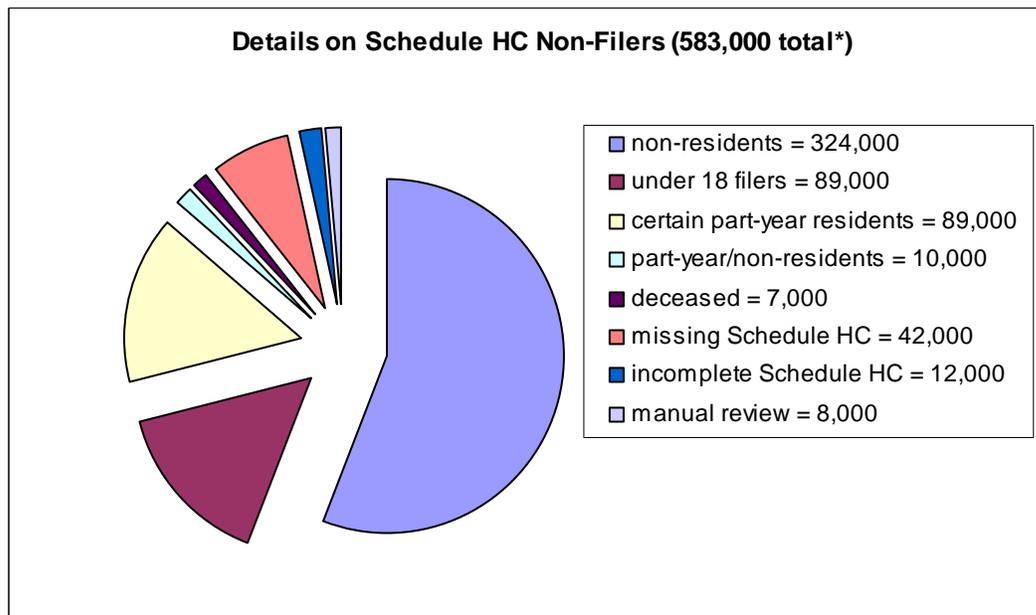
⁴ The fact that about 45,000 tax filers able to afford health insurance also qualified for No Tax Status or Limited Income Credits reduced the overall transfer to the Commonwealth Care Trust Fund. See discussion in main text.

- Single individuals without dependents comprised slightly more than half of tax filers without insurance. Overall, tax filers without dependents comprised 70 percent of the uninsured.
- Low-income individuals comprised a significant portion of the uninsured. For example, just over 50 percent of uninsured single tax filers without dependents – the predominant category of uninsured tax filers – had incomes below 150 percent of the federal poverty level.
- With few exceptions, the rate of uninsured tax filers showed little regional variation.

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 were either not subject to the individual mandate in 2007 (non-residents, certain part-year residents, under 18 and deceased taxpayers), or who were 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.



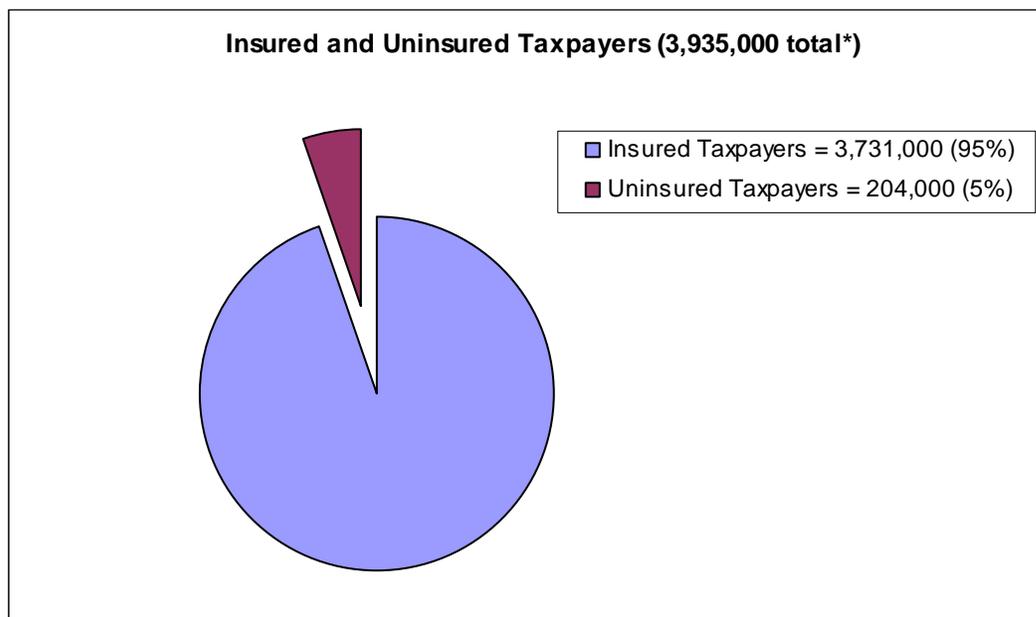
* Detail may not add to total due to rounding.

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 in 2007. The part-year/non-residents category includes tax filers 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 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 penalty on all returns where tax filers fail to respond within the required timeframe.

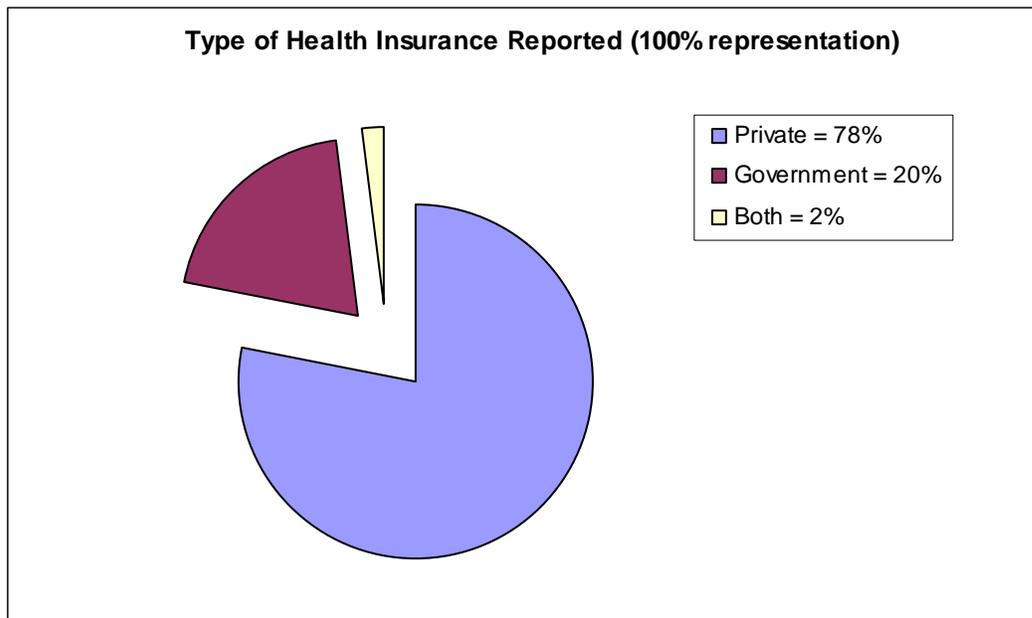
Manual review category: This category includes tax filers who filed a complete Schedule HC that requires further manual review by DOR to accurately count their health insurance status at this time.

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



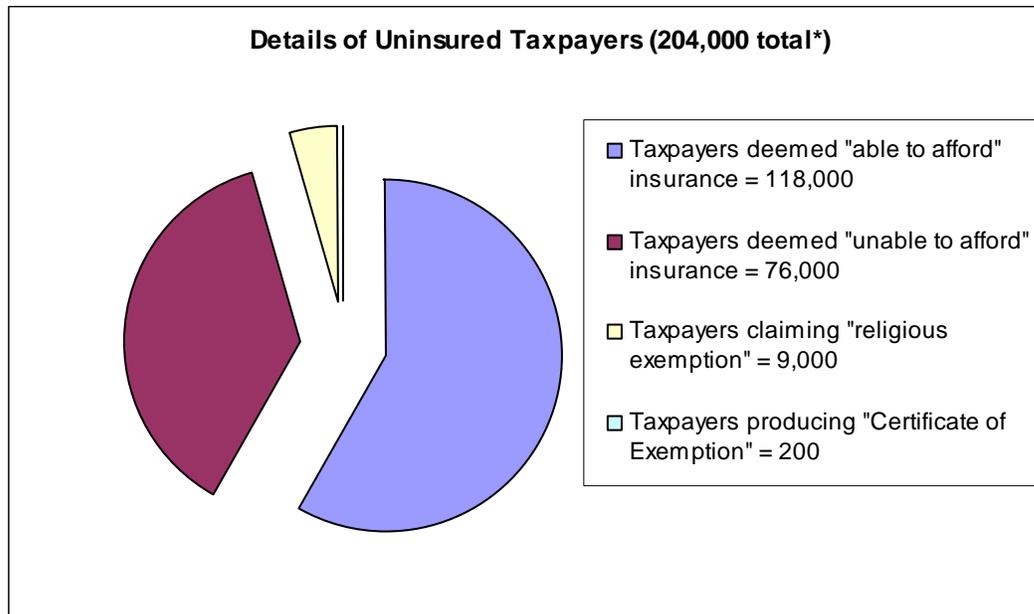
* Detail may not add to total due to rounding.

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



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.

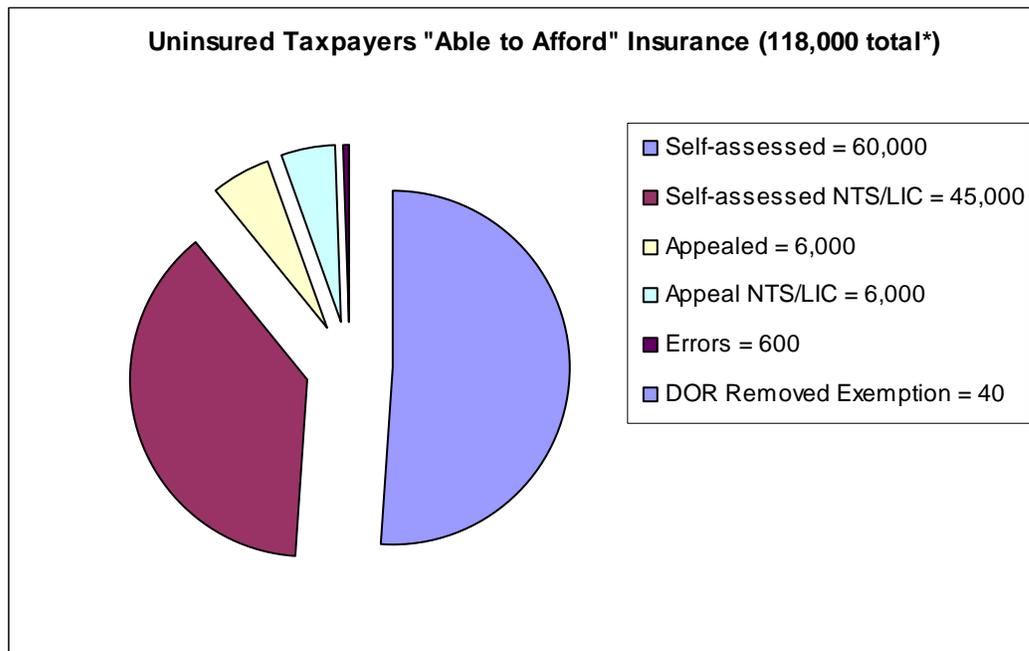
Chart 5: This chart shows the number of tax filers who indicated they did not have health insurance as of December 31, 2007. It encompasses uninsured taxpayers who were deemed either able to afford health insurance or unable to afford health insurance, based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority in 2007 and incorporated in the 2007 tax returns. It also includes tax filers who obtained a Certificate of Exemption from the Health Connector stating that no health insurance was affordable for them, or who 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, about 9,700 tax filers claimed a religious exemption. However, 700 of these individuals 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 tax filers who were deemed able to afford health insurance based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority in 2007 and incorporated in the 2007 tax returns. The Health Connector’s affordability schedules determine whether individuals are considered able to afford health insurance. Under these schedules, individuals are deemed “able to afford” health insurance if they had access to affordable employer-sponsored insurance, were eligible for government-subsidized health insurance or could have afforded to purchase private health insurance on their own. These taxpayers had two options: self-assess the penalty by foregoing their personal tax exemption, or attempt to secure relief from the penalty by pursuing a hardship appeal to the Health Connector.



* Detail may not add to total due to rounding.

Self-assessed: DOR is currently corresponding with tax filers who self-assessed the penalty to remind them of increased penalties in 2008 and highlight opportunities to purchase affordable health insurance.

Self-assessed No Tax Status (NTS) and Limited Income Credits (LIC): If a tax filer’s adjusted gross income does not exceed certain thresholds (\$8,000 for single filers, \$13,975 plus \$1,000 per dependent for head of household filers and \$15,850 plus \$1,000 per dependent for joint filers) for the taxable year, he or she qualifies for No Tax Status. Regardless of what tax calculations might otherwise show, these individuals are not required to pay Massachusetts income tax. Thus, foregoing the personal tax exemption had no impact on these individuals (*i.e.*, this tax status effectively nullifies the penalty for lacking coverage as of December 31, 2007).

Moreover, if a taxpayer does not qualify for No Tax Status, but his or her Massachusetts AGI does not exceed slightly higher income thresholds (\$14,000 for single filers, \$24,456

plus \$1,750 per dependent for head of household filers and \$27,738 plus \$1,750 per dependent for joint filers), he or she may qualify for the Limited Income Credit. In the event that someone within these income thresholds loses their personal tax exemption (because they could have afforded but lacked health insurance as of December 31, 2007), they may in turn have qualified for a larger Limited Income Credit that fully or partially offset the 2007 tax penalty.

Based on the different tax penalty rules for 2008 and beyond (*i.e.*, monthly penalties for lacking coverage based on up to half the cost of the lowest priced health plan available for an individual through the Health Connector), there is no penalty for tax filers with incomes at or below 150 percent of the federal poverty level in 2008 and 2009.

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, they retain their personal tax exemption at the time of filing, subject to an ultimate decision on their appeal. The determination of whether to allow an appeal is made by the Health Connector, based on standards set in its regulations.

Appeal No Tax Status and Limited Income Credits: As discussed above, qualifying for No Tax Status or the Limited Income Credit may nullify or reduce the penalty for noncompliance with the individual mandate. Thus, DOR did not process appeals filed by individuals in these tax categories. Rather, DOR sent letters to these individuals informing them that their appeals would not be processed and that no further action was required (these individuals retained their personal tax exemption).

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

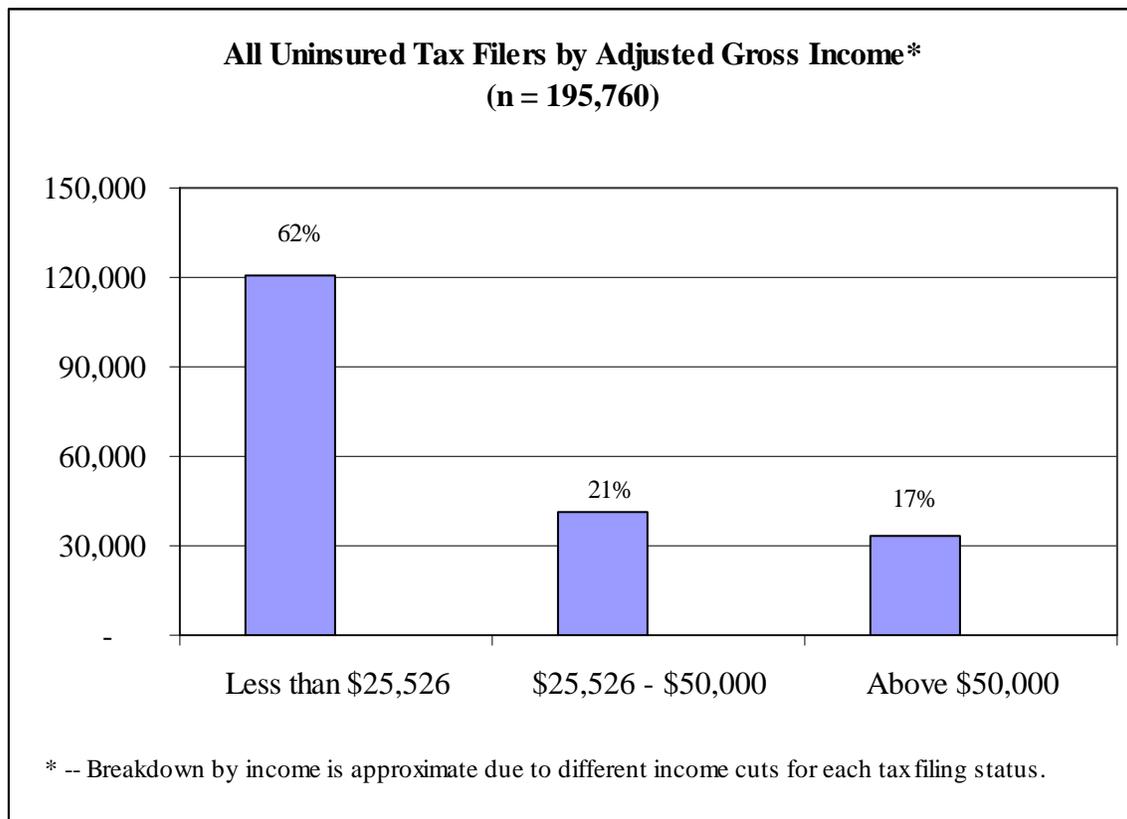
DOR removed exemption: Based on a manual review of the return and specifically the taxpayer's responses to the affordability questions, the taxpayer could have afforded health insurance (either through their employer, the government, or on their own). Instead of appealing or self-assessing the penalty, 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.

Demographic Data on Uninsured Tax Filers Tax Year 2007

The following charts provide information on the demographic characteristics of uninsured tax filers.⁵

Income

Chart 7: The following chart categorizes uninsured tax filers by income. The chart shows that uninsured tax filers were predominantly low-income.

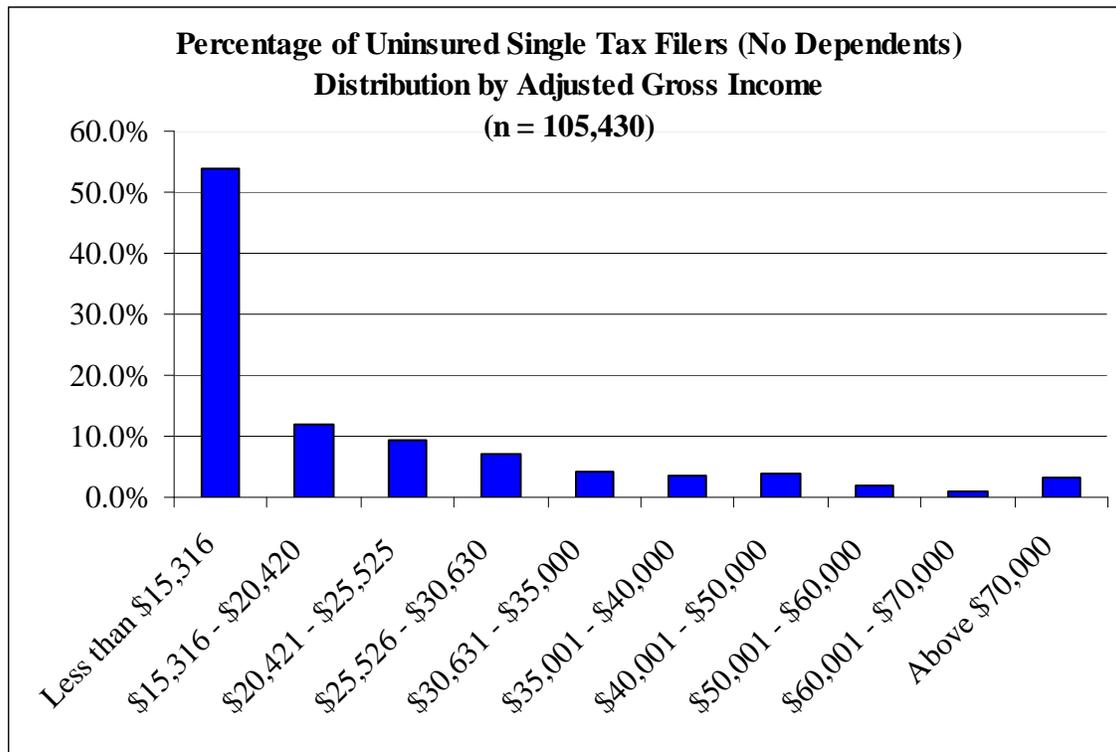


⁵ The total number of uninsured tax filers in the following charts (195,760) is different than the total number of uninsured tax filers shown in the preceding charts (204,000). This is principally because when compiling demographic data for the following charts, DOR did not include the roughly 9,000 uninsured tax filers who had claimed a religious exemption or received a Certificate of Exemption from the Health Connector.

Charts 8, 9, 10 and 11: The following charts categorize uninsured tax filers within the major tax filing categories based on their incomes: single individuals without dependents (54 percent of uninsured tax filers); head of household with dependents (11 percent of uninsured tax filers); married filing jointly without dependents (14 percent of uninsured tax filers); and married failing jointly with dependents (almost 16 percent of uninsured tax filers).⁶

Compared to uninsured single filers without dependents and head of household filers, uninsured married filers were more likely to be in higher income ranges. This is due to the fact that, as aggregate tax filing categories, single filers are weighted towards lower-income status, while married couples are weighted towards higher-income status. For example, based on 2005 Massachusetts tax status and income range data, 42 percent of single tax filers had incomes below \$15,000, and only 16 percent had incomes higher than \$50,000. By contrast, only 14 percent of married couples filing jointly had incomes below \$15,000, while 44 percent had incomes over \$80,000.

Chart 8:



⁶ Tax filers have several filing status options from which to choose when filing their Massachusetts income tax return. If more than one applies, filers may choose the one which results in their lowest tax obligation. Filing status determines whether tax filers are eligible for certain deductions, exemptions and credits. The primary tax filing status options are: single (generally for unmarried, divorced or legally separated tax filers); married filing a joint return with a spouse; married but each filing a separate return (less common than married filing jointly); and head of household (generally for unmarried tax filers who are caring for a child, parent or other close family member living in the same household). The head of household status is often the most advantageous filing status for single parents.

Chart 9:

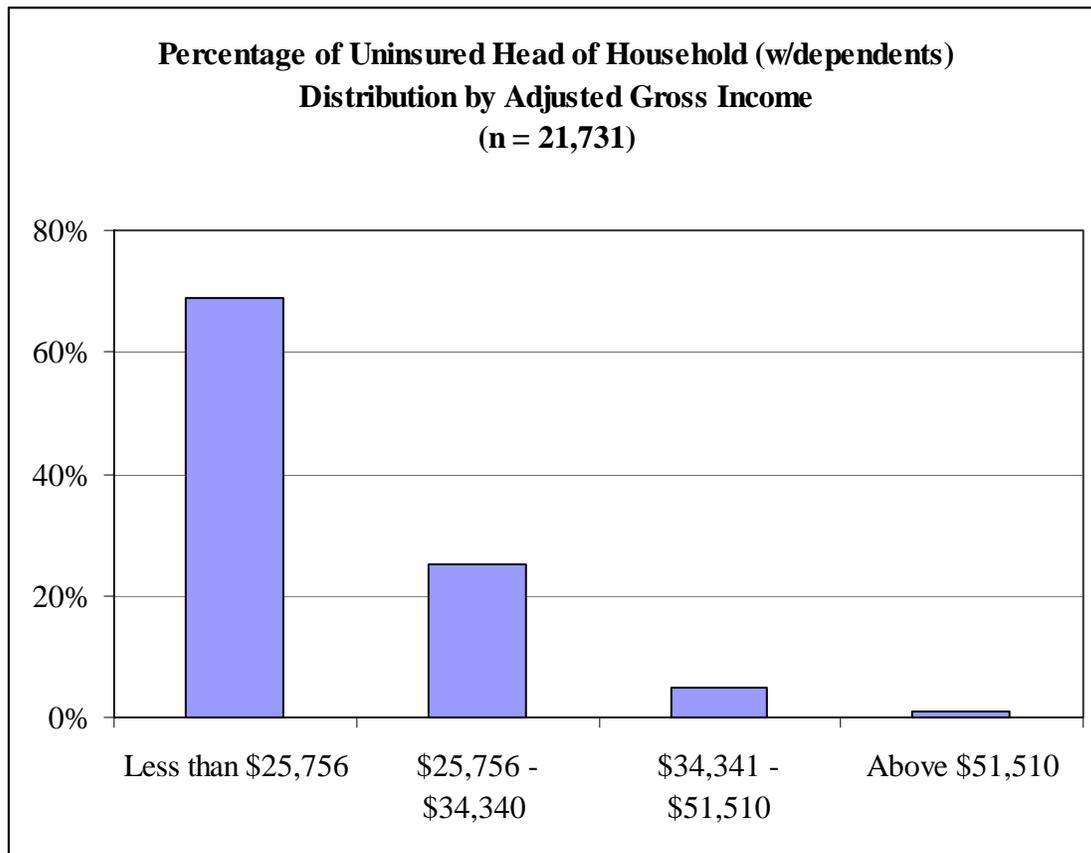


Chart 10:

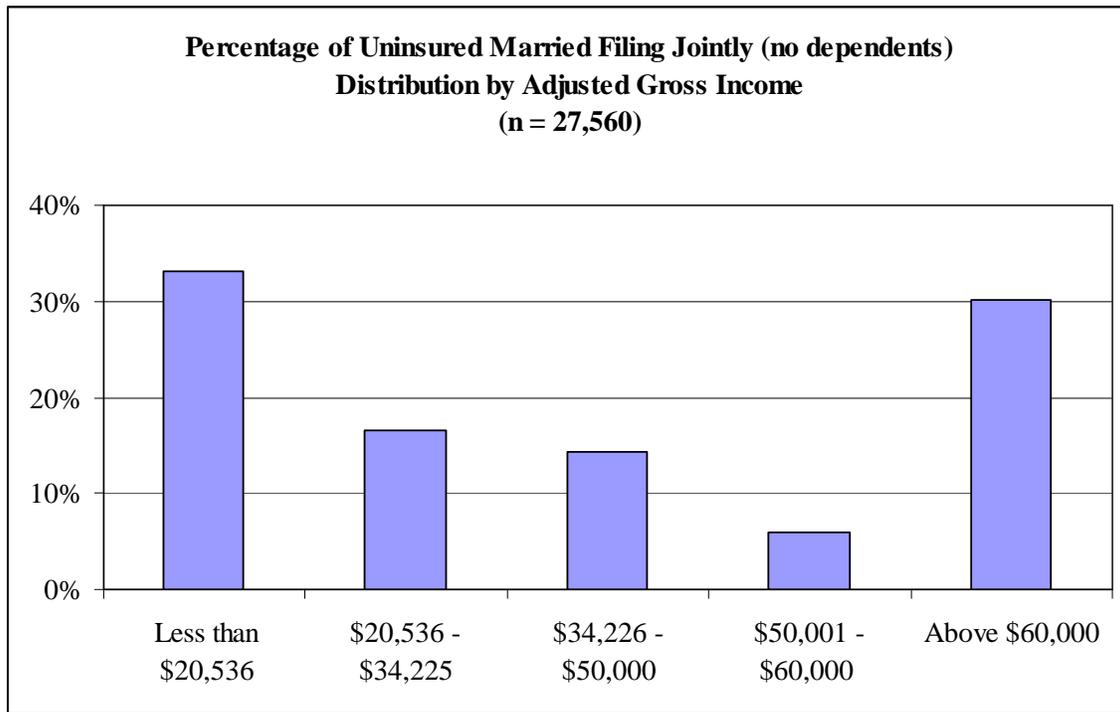
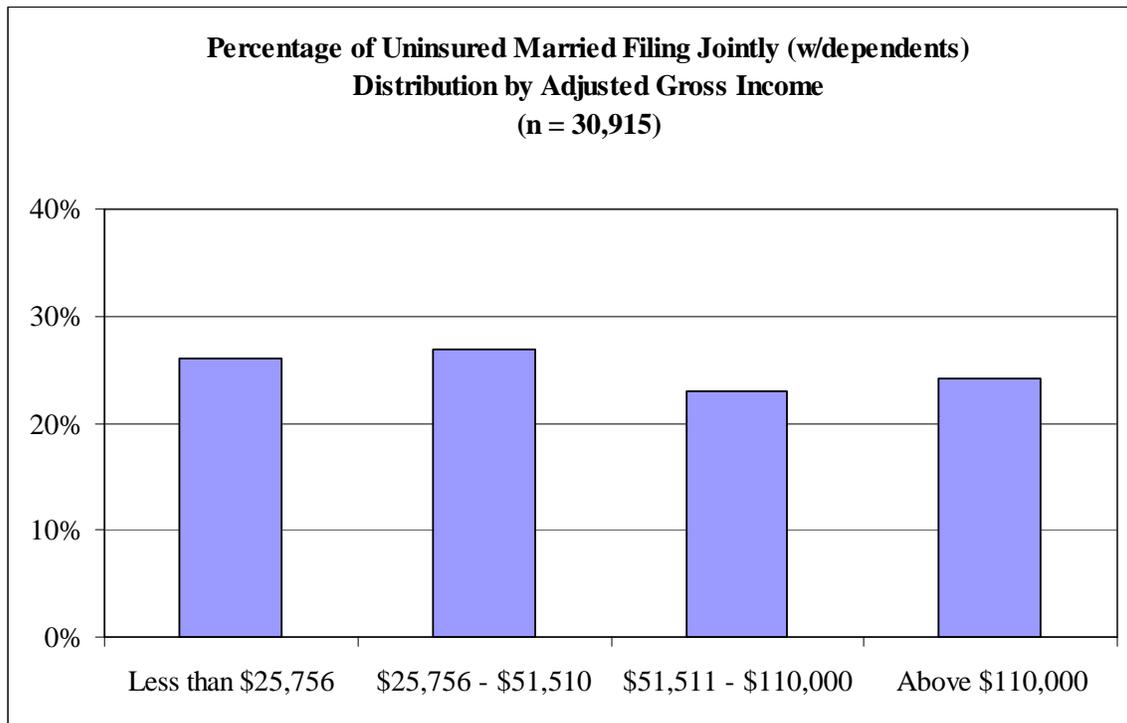


Chart 11:



Income and Affordability

Charts 12, 13, 14, 15 and 16: The following charts show the distribution of uninsured tax filers by income according to whether they reported being able or unable to afford health insurance (based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority). The charts again focus on the four major tax filings categories for the uninsured: single filers without dependents; head of household with dependents; married filing jointly with no dependents; and married failing jointly with dependents.

Chart 12:

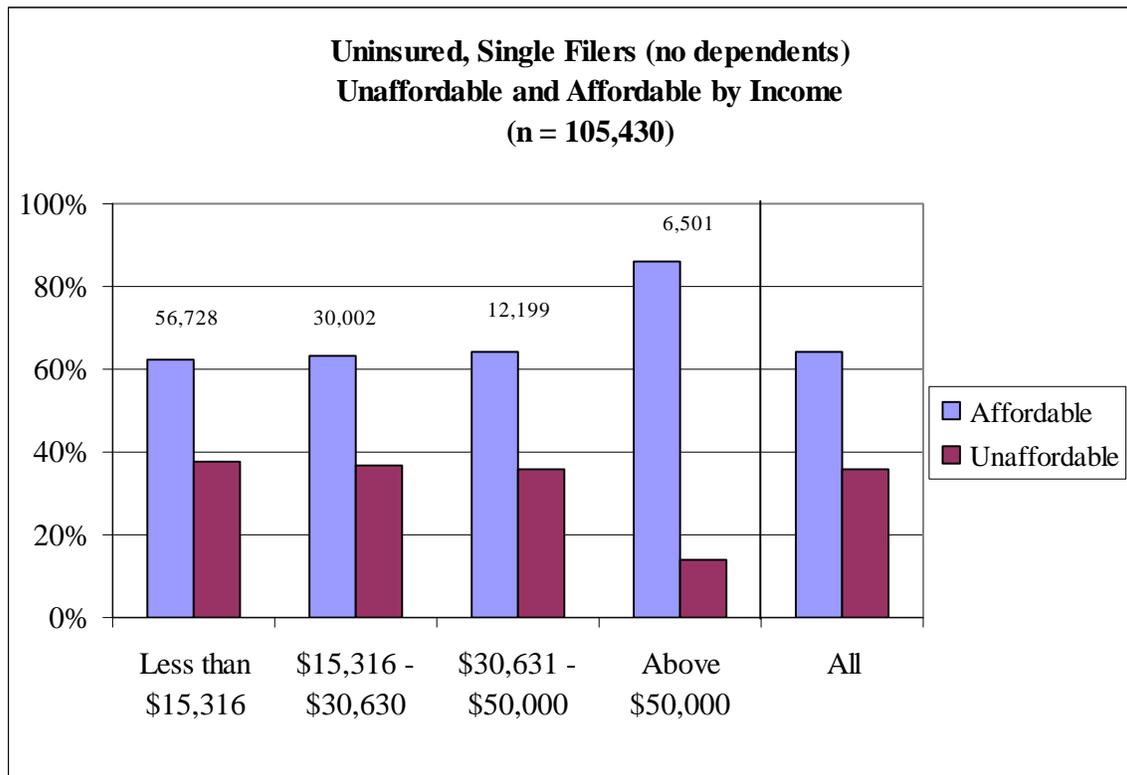


Chart 13:

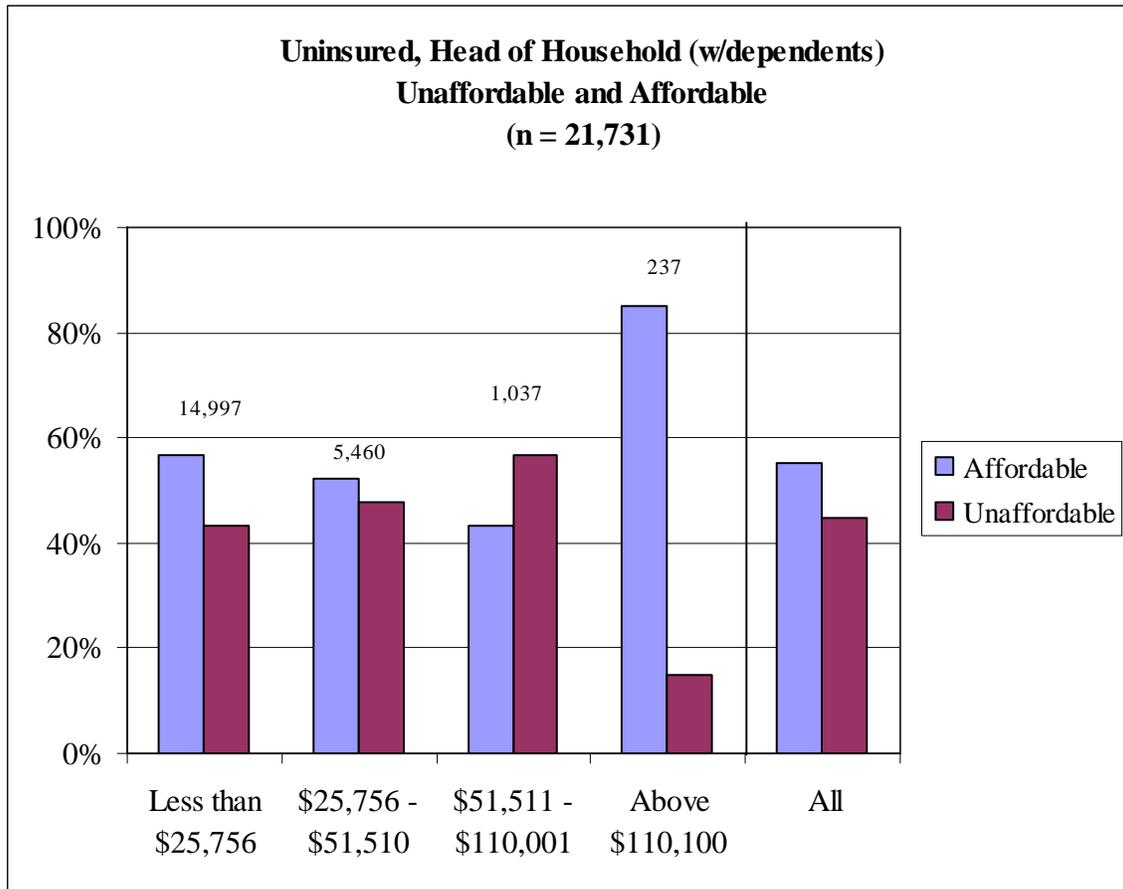


Chart 14:

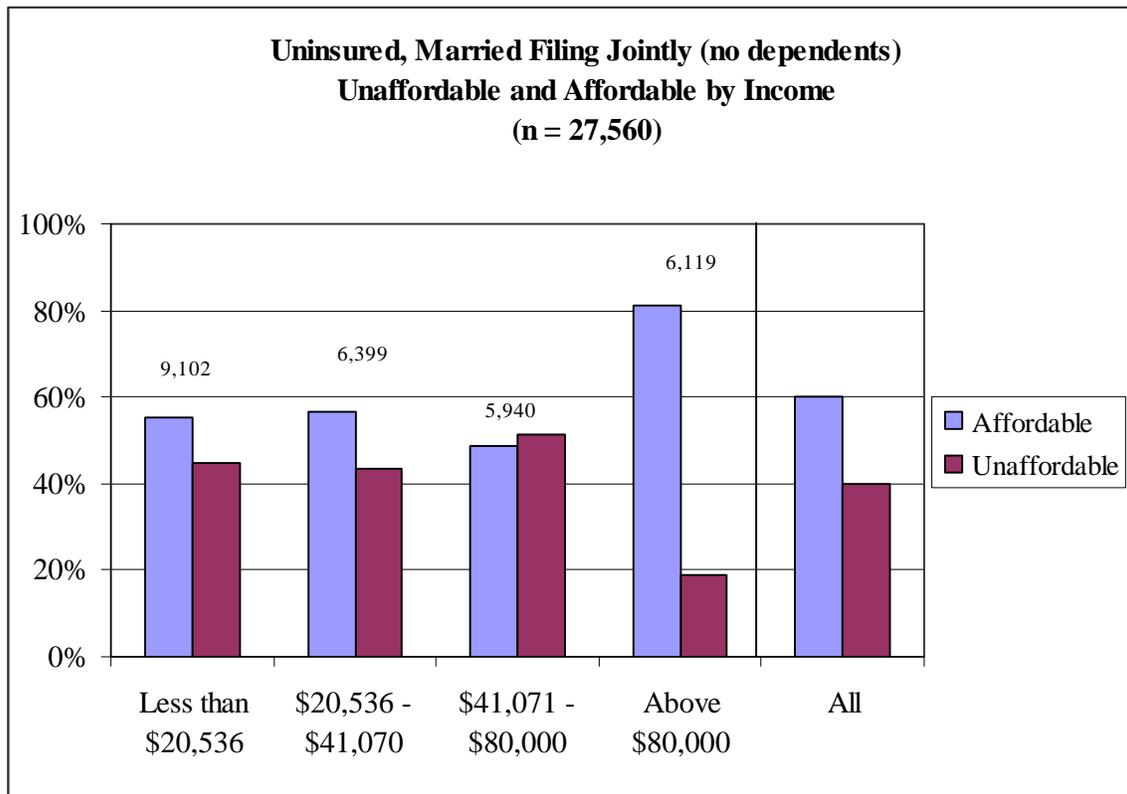


Chart 15:

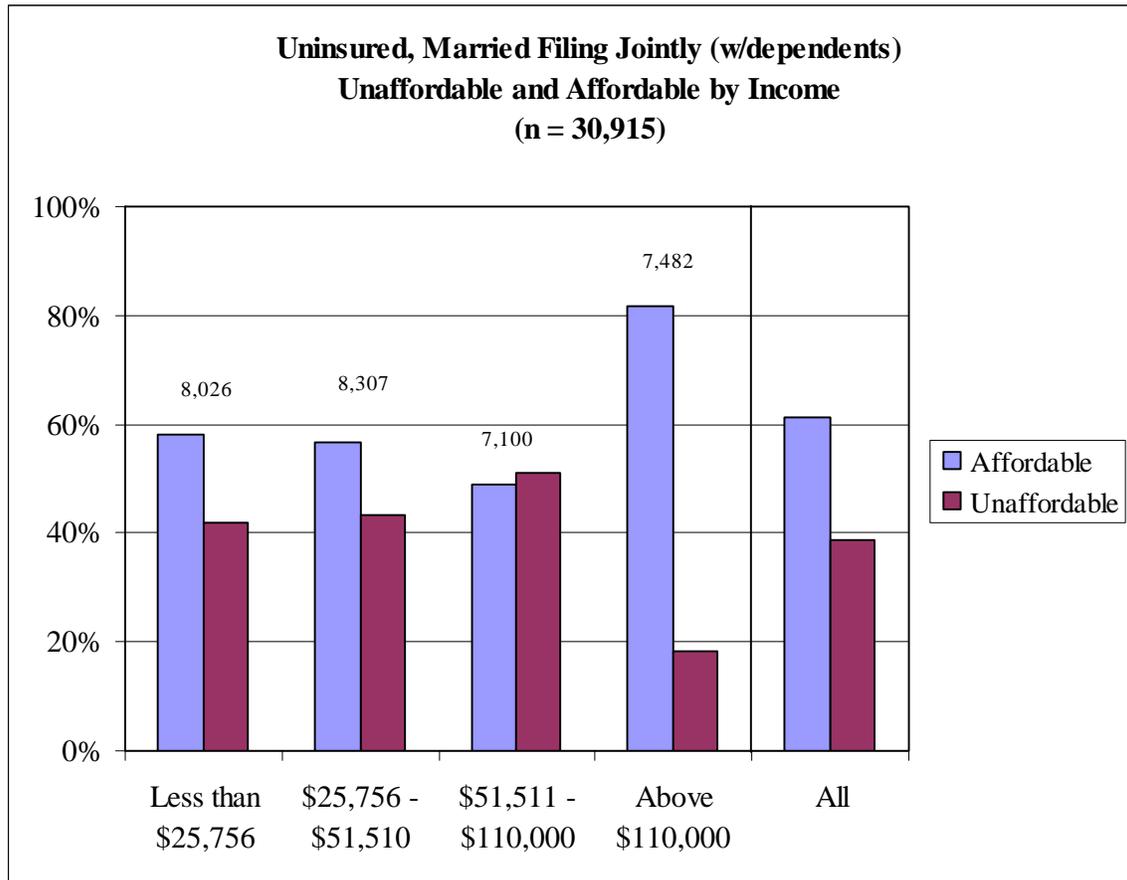
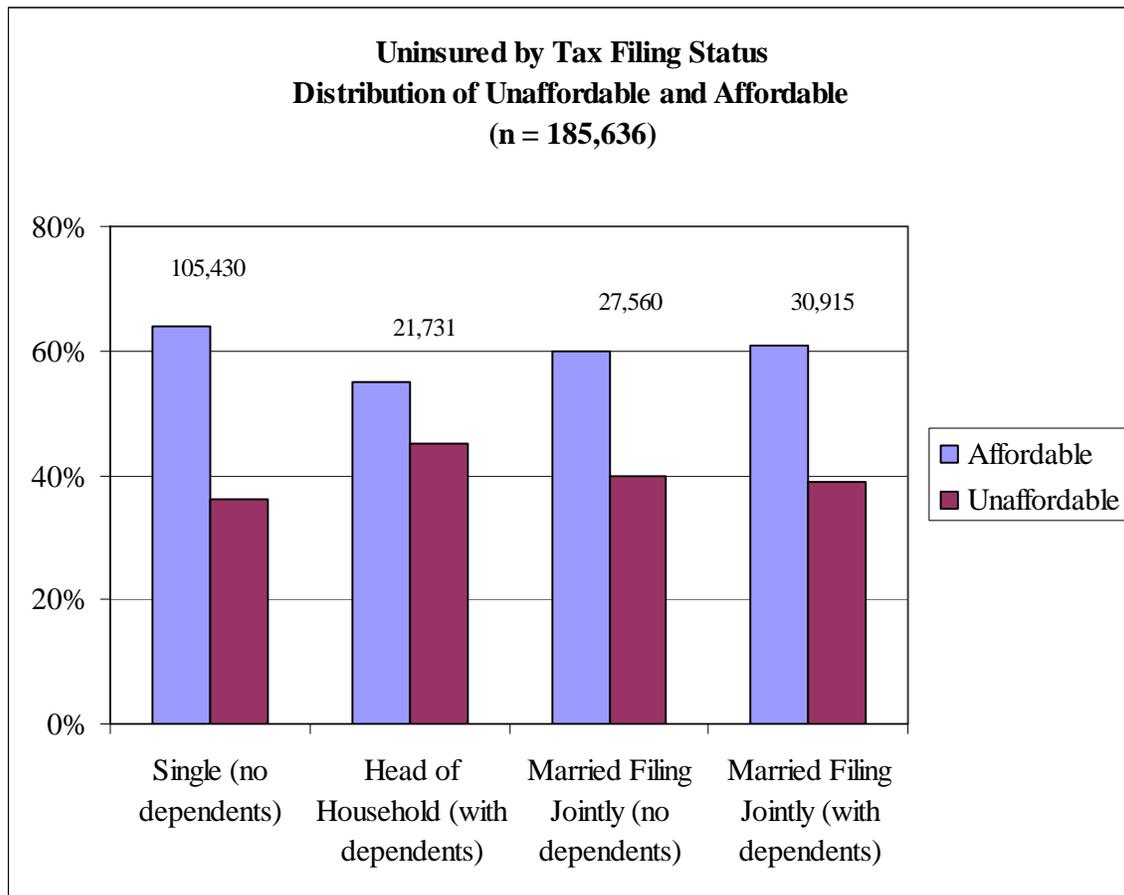


Chart 16:



The Health Connector’s affordability schedules are a sliding-scale, progressive test reflecting that people with higher incomes can afford to pay more for health insurance. Based on these affordability schedules, individuals are deemed “able to afford” health insurance if:

- they are eligible for government-sponsored health insurance (in general, below 300 percent FPL and not eligible for employer-sponsored insurance);
- an employer offers them health insurance that is affordable for them in light of their income (for example, under the standards, lower-income people are deemed able to afford employer-sponsored health insurance if free or, for certain income segments, requiring only a small monthly employee contribution); or
- they can afford to purchase private health insurance on their own (based on 2007 prices of Health Connector “Bronze” health plans).

Overall, the data indicate that slightly under 3 percent of uninsured tax filers reported being able to afford health insurance, while 1.9 percent of uninsured tax filers reported being unable to afford health insurance. By income, unsurprisingly, the vast majority of singles with incomes above \$50,000, couples with incomes above \$80,000, and families with incomes above \$110,000 reported being able to afford health insurance. This is

largely consistent with the Health Connector’s affordability test and increasing income status.⁷

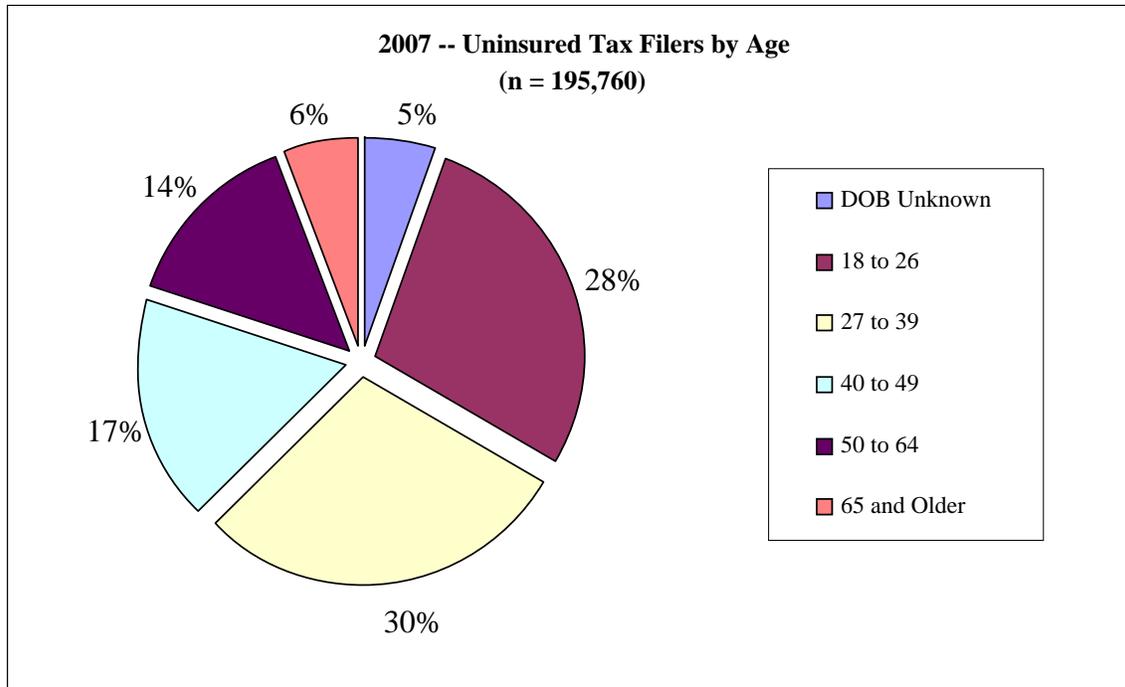
Low-income married couples and families (married couples without dependents with incomes under \$41,070 and households with dependents with incomes under \$51,510) were slightly more likely to report being able to afford coverage than filers with slightly higher incomes (married couples without dependents with incomes between \$41,071 and \$80,000 and households with dependents with incomes between \$51,511 and \$110,000). This may be because many parts of this “middle” population are not eligible for government-subsidized health insurance, and, absent access to employer-sponsored insurance, may not be able to afford health insurance on their own.

As indicated earlier, tax filers deemed able to afford health insurance under the Health Connector’s affordability standards must either “self-assess” the tax penalty (*i.e.*, in 2007, forego their personal tax exemption) or file an appeal. If they indicate on their tax returns that they intend to file an appeal, they retain their personal tax exemption at the time of filing, subject to an ultimate decision on their appeal. Moreover, many low-income tax filers in the “able to afford” category had their penalty fully or partially offset due to No Tax Status or Limited Income Credits in 2007. In 2008 and 2009, individuals with incomes at or below 150 percent of the federal poverty level will not be penalized for lack of health coverage.

⁷ The Health Connector’s affordability test indicates that single individuals with incomes over \$50,000, married couples without dependents with incomes over \$80,000, and households with dependents with incomes over \$110,000 are able to afford health insurance. Nonetheless, a small number of individuals with incomes in excess of these “per se” affordability thresholds reported on their tax forms that they could not afford health insurance (less than 2 percent of all uninsured tax filers and less than one-tenth of one percent of all tax filers subject to the individual mandate). As indicated earlier, the data are based on self-reported information from tax filers on their tax forms and is thus subject to filer error. The data are subject to post-filing verification and enforcement, based on DOR audit criteria. Still, the small number of these tax filers, and the significant increase in the percentage of tax filers indicating they could “afford” health insurance once over these “per se” affordability income thresholds, suggests that filers largely noted this aspect of the affordability test and complied.

Age

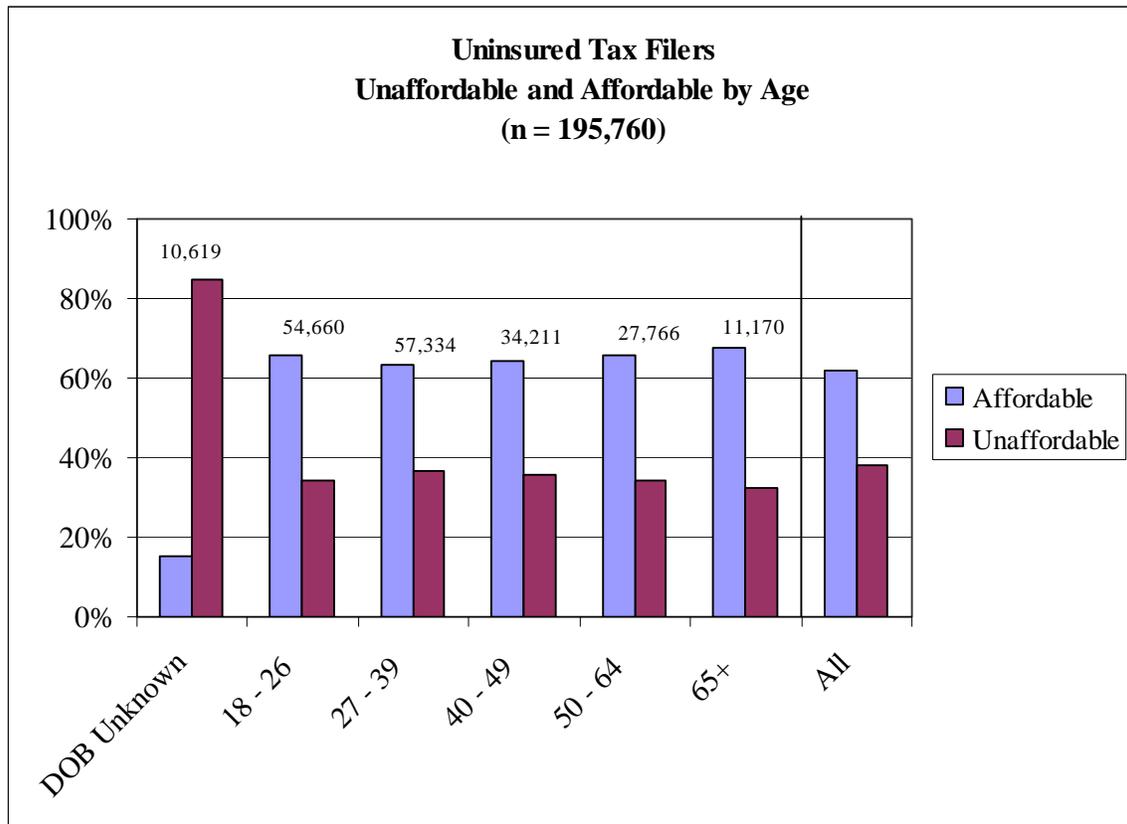
Chart 17: The following chart represents the age distribution of uninsured tax filers. As expected, among tax filers, younger adults constituted a clear majority of the uninsured.⁸ Individuals age 18 to 26 – while representing less than 14 percent (690,038) of all adult residents⁹ – comprised close to 28 percent of tax filers without health insurance. About 60 percent of uninsured tax filers were under the age of 40. By comparison, adults under the age of 40 comprise roughly 40 percent of all adult residents of the Commonwealth.



⁸ A date of birth was not available for 10,619 filers (5.4% of uninsured in demographic data).

⁹ Based on 2007 U.S. Census Bureau estimate of the Massachusetts population.

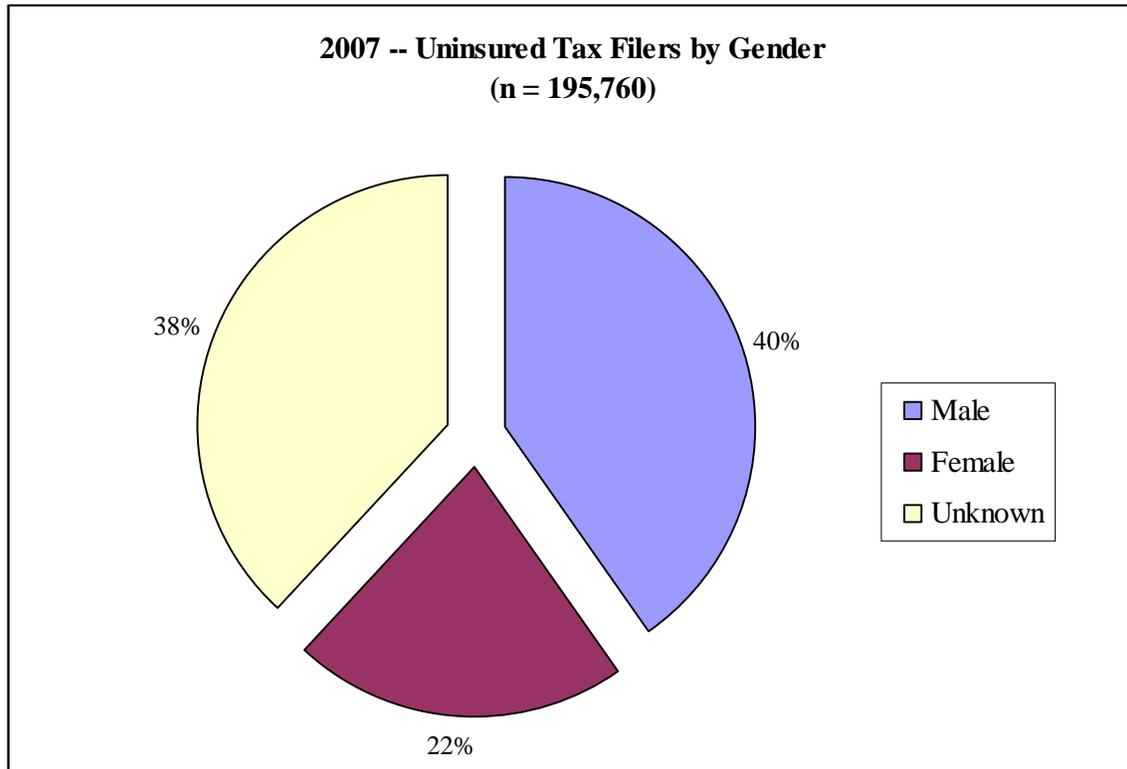
Chart 18: The following chart categorizes uninsured tax filers in distinct age groups according to whether they reported being able or unable to afford health insurance (based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority). The chart suggests little variation among age groups in terms of the impact of the affordability test on uninsured tax filers (for whom age was known).



Gender

Charts 19 and 20: Of the 121,307 uninsured tax filers for whom gender information was available,¹⁰ two-thirds (78,849) were men.

Chart 19:



¹⁰ There were 74,453 uninsured tax filers for whom gender information was not available.

Chart 20:

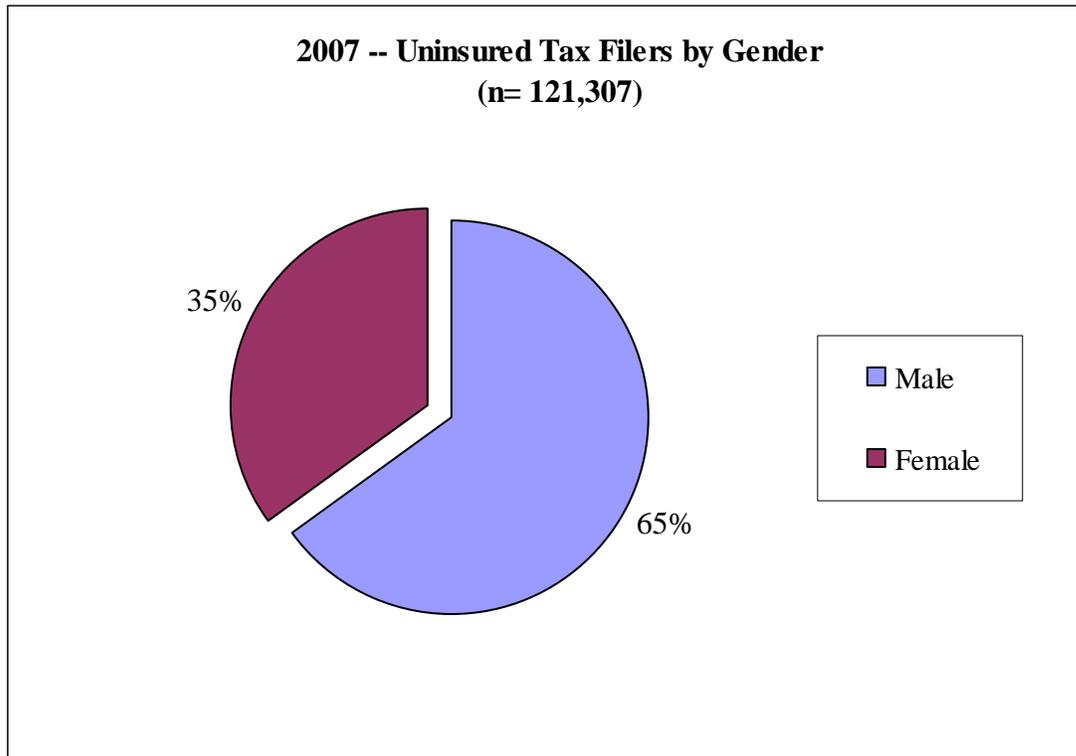


Chart 21: The following chart categorizes uninsured tax filers by gender (where known) according to whether they reported being able or unable to afford health insurance (based on affordability schedules adopted by the Board of the Commonwealth Health Insurance Connector Authority). The chart indicates little variation by gender in terms of the impact of the affordability test on uninsured tax filers.

Number	Unknown	Male	Female	Total
Unaffordable	33,997	25,498	14,716	74,211
Affordable	40,456	53,351	27,742	121,549
Total	74,453	78,849	42,458	195,760
Percentage Unaffordable/Affordable Within Gender				
Unaffordable	46%	32%	35%	38%
Affordable	54%	68%	65%	62%

Geography

Chart 22: This chart presents data on uninsured tax filers across the 14 Massachusetts counties. In eight counties, the number of tax filers reporting that they were uninsured represented less than three percent of the county's total population.

Hampshire County in western Massachusetts and Norfolk County in eastern Massachusetts had the lowest rates of uninsured tax filers (2.4 percent) as a percentage of the county's total population.

In only two counties, Dukes and Nantucket, did the percentage of tax filers without insurance exceed five percent of the county's population.

County	Uninsured Tax Filers	2007 County Population	Uninsured Tax Filers as % of County Population
Barnstable	9,662	222,175	4.3%
Berkshire	3,821	129,798	2.9%
Bristol	16,062	543,024	3.0%
Dukes	1,168	15,485	7.5%
Essex	24,159	733,101	3.3%
Franklin	1,970	71,602	2.8%
Hampden	12,550	457,908	2.7%
Hampshire	3,602	153,147	2.4%
Middlesex	39,669	1,473,416	2.7%
Nantucket	1,323	10,351	12.6%
Norfolk	15,663	654,909	2.4%
Plymouth	13,018	490,258	2.7%
Suffolk	23,737	713,049	3.3%
Worcester	19,501	781,352	2.5%
Non-Massachusetts	9,855	n/a	
Total (excludes non-MA)	186,105	6,449,755	2.9%

While the number of people living on Nantucket and Martha's Vineyard (*i.e.*, Dukes County) is relatively low (approximately 26,000 people or less and 0.5 percent of the Commonwealth's total population), tax filers on the islands were much more likely to report being uninsured, with 12.6 percent of residents of Nantucket (1,323) reporting that they were uninsured, and 7.5 percent of Dukes County residents (1,168) indicating they were uninsured.

Chart 23: Across the rest of the state, the distribution of uninsured tax filers was comparable to each county's population (*e.g.*, Suffolk County residents comprise 12 percent of the state's population, and 11 percent of uninsured tax filers resided in Suffolk County).

County	% of state's population	% of all uninsured tax filers
Barnstable	3.4%	4.9%
Berkshire	2.0%	2.0%
Bristol	8.4%	8.2%
Dukes	0.2%	0.6%
Essex	11.4%	12.3%
Franklin	1.1%	1.0%
Hampden	7.1%	6.4%
Hampshire	2.4%	1.8%
Middlesex	22.8%	20.3%
Nantucket	0.2%	0.7%
Norfolk	10.2%	8.0%
Plymouth	7.6%	6.6%
Suffolk	11.1%	12.1%
Worcester	12.1%	10.0%