



Payments of Penalties for Being Uninsured Under the Affordable Care Act

Beginning in 2014, the Affordable Care Act (comprising Public Law 111-148 and the health care provisions of P.L. 111-152) requires most legal residents of the United States to either obtain health insurance or pay a penalty tax. That penalty will be the greater of: a flat dollar amount per person that rises to \$695 in 2016 and is indexed by inflation thereafter (the penalty for children will be half that amount and an overall cap will apply to family payments); or a percentage of the household's income that rises to 2.5 percent for 2016 and subsequent years (also subject to a cap).

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have estimated that about 30 million nonelderly residents will be uninsured in 2016, but the majority of them will not be subject to the penalty tax. Unauthorized immigrants, for example, who are prohibited from receiving almost all Medicaid benefits and all subsidies through the insurance exchanges, are exempted from the mandate to obtain health insurance. Others will be subject to the mandate but exempted from the penalty tax—for example, because they will have income low enough that they are not required to file an income tax return, because they are members of Indian tribes, or because the premium they would have to pay would exceed a specified share of their income (initially 8 percent in 2014 and indexed over time). CBO and JCT estimate that between 18 million and 19 million uninsured people in 2016 will qualify for one or more of those exemptions. Of the remaining 11 million to 12 million uninsured people, some individuals will be granted exemptions from the penalty because of hardship, and others will be exempted from the requirement on the basis of their religious beliefs.

After accounting for those who will not be subject to the penalty tax, CBO and JCT now estimate that about 6 million people will pay a penalty because they are uninsured in 2016 (a figure that includes uninsured dependents who have the penalty paid on their behalf) and that total collections will be about \$7 billion in 2016 and average about \$8 billion per year over the 2017–2022 period. Those estimates differ from projections that CBO and JCT made in April 2010: About two million more uninsured people are now projected to pay the penalty each year, and collections are now expected to be about \$3 billion more per year.¹

Most of the increase—about 85 percent—in the number of people who are expected to pay the penalty tax stems from changes in CBO and JCT's baseline projections since April 2010, including the effects of legislation enacted since that time, changes in the economic outlook (primarily a higher unemployment rate and lower wages and salaries), and other technical updates.² A small share—about 15 percent—of the increase in the number of uninsured people expected to pay the penalty results from the recent Supreme Court decision. As a result of that decision, CBO and JCT now anticipate that some states will not expand their Medicaid programs at all or will not expand coverage to the full extent authorized by

1. See Congressional Budget Office, *Payments of Penalties for Being Uninsured Under the Patient Protection and Affordable Care Act* (April 2010), supplemental material for the cost estimate for H.R. 4872, the Reconciliation Act of 2010 (March 20, 2010).
2. See Congressional Budget Office, *Updated Estimates for the Insurance Coverage Provisions of the Affordable Care Act* (March 2012).

Table 1.

Estimated Distribution of Individual Mandate Penalties Under the Affordable Care Act, Updated for the Recent Supreme Court Decision, Calendar Year 2016

Adjusted Gross Income Relative to the Federal Poverty Level	Individual Mandate Penalties			
	Total Payers (Millions)	Share of Payers (Percent)	Total Payments (Billions of dollars)	Share of Payments (Percent)
Less than 100%	0.6	10	0.3	4
100% to 200%	1.2	21	0.6	9
200% to 300%	1.2	20	0.7	10
300% to 400%	1.1	18	0.8	12
400% to 500%	0.6	11	0.7	10
Greater than 500%	1.2	20	3.8	55
Total	5.9	100	6.9	100

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: The Affordable Care Act comprises the Patient Protection and Affordable Care Act (Public Law 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152). As used here, the Affordable Care Act also includes the effects of subsequent related changes to statute. These estimates incorporate the effects of the Supreme Court's opinion issued on June 28, 2012 (*National Federation of Independent Business v. Sebelius*, 132 S. Ct. 2566 (2012)).

Individual penalty payments are classified by the income of the tax return filing unit.

In 2016, the federal poverty level is projected to equal about \$12,000 for a single person and about \$24,600 for a family of four.

Liabilities incurred for being uninsured in calendar year 2016 would be paid in fiscal year 2017.

Counts of payers include dependents who have payments made on their behalf.

the ACA.³ Such state decisions are projected to increase the number of uninsured, a small percentage of whom will be subject to the penalty tax.

Among the uninsured individuals subject to the penalty tax, many are expected to voluntarily report on their tax returns that they are uninsured and pay the amount owed. However, other individuals will try to avoid payments. Therefore, the estimates presented here account for likely compliance rates, as well as the ability of the Internal Revenue Service (IRS) to administer and collect the penalty.

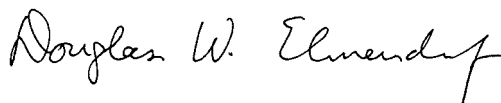
3. See Congressional Budget Office, *Estimates for the Insurance Coverage Provisions of the Affordable Care Act Updated for the Recent Supreme Court Decision* (July 2012).

CBO and JCT have also updated their estimates of the distribution of those penalty tax payments by income category. Table 1 shows how much of those payments are projected to be made by or on behalf of people who are uninsured in 2016 (which the IRS will collect in 2017) in each of several income categories, measured as percentages of the federal poverty level (FPL). In general, households with lower income will be subject to the flat dollar penalty (with adjustments to account for the lower penalty for children and an overall cap on family payments), and households with higher income will owe a percentage of their income. In 2016, households with income that exceeds 400 percent of the FPL are estimated to constitute about one-third of people paying penalties and to account for about two-thirds of the receipts from those penalties.

This Congressional Budget Office (CBO) report was prepared in response to a request by the Ranking Member of the Senate Finance Committee. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

Jessica Banthin and Alexandra Minicozzi of CBO's Health, Retirement, and Long-Term Analysis Division and Holly Harvey and Sarah Anders of CBO's Budget Analysis Division prepared this report. The analysis described here was the work of a number of analysts at CBO and on the staff of the Joint Committee on Taxation.

The report is available on the agency's Web site (www.cbo.gov).



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