



*The Key to Your Success*

## **Health Care Reform and Your Taxes**

### **The new law and DOR's role**

In April 2006, Massachusetts enacted a first-of-its-kind health care reform law. The primary goal of the new legislation was to significantly reduce the number of uninsured individuals in the state by making quality, affordable health care available to all Commonwealth residents. In this new environment of expanded access to health insurance, people who remain uninsured would be unnecessarily and unfairly passing their healthcare costs to everyone else. Thus, to achieve near-universal health care coverage, the new law includes an "individual mandate," which requires Massachusetts residents age 18 and older to have health insurance if they can afford it.

As part of the new legislation, the Commonwealth Health Insurance Connector Authority was established to provide overall administration of the health care reform law; however, the Massachusetts Department of Revenue has been charged with administering the individual mandate through the state income tax returns. In this capacity, DOR has developed Schedule HC, Health Care Information, which taxpayers must file with their Form 1 or 1-NR/PY showing either proof of health insurance coverage or that no affordable health insurance was available to them.

### **Taxpayer responsibilities & penalties**

As provided by the law, taxpayers will have to prove that they had health insurance coverage in effect as of December 31, 2007, when they file their 2007 state income tax returns. Most taxpayers with private health insurance, either purchased on their own or obtained through an employer, will receive a Form MA 1099-HC, Massachusetts Health Care Coverage, from their health insurance carrier. This form will contain the information that taxpayers will need to complete Schedule HC. Taxpayers should not submit Form MA 1099-HC with their tax return, but retain it for their records. DOR will verify an individual's coverage, by matching the information reported on the taxpayer's Schedule HC with information provided by insurance carriers on Form MA 1099-HC.

Taxpayers should be aware that penalties will be imposed if they do not comply with the law. Those who cannot show that they have health insurance even though health insurance was deemed affordable will lose the tax benefit of their personal exemption on their 2007 Massachusetts income tax return (or one-half of the exemption amount if they file jointly).

No penalty will be imposed on individuals without health insurance if it is determined that there are no insurance products available at a premium at or below an amount determined to be affordable to them. A sliding “affordability scale,” based on federal gross income and family size will be set annually by the Connector Board. An insurance product is considered “affordable” for an individual if their premium contribution is less than a determined percentage of their income. Taxpayers can use the Connector’s “Affordability Tool” or the affordability table and worksheets available with the Schedule HC to determine if they are subject to the requirements of the individual mandate.

For tax year 2008, individuals must indicate on their returns whether they had health insurance coverage in force for each of the 12 months of the taxable year for which the return is filed. The non-compliance penalty will increase significantly in 2008 to a fine equal to ½ the monthly premium for each month uninsured in the tax year (a gap of 63 days is permitted).

And beginning in 2009, the level of benefits must meet “minimum creditable coverage” — the minimum level of health insurance coverage that residents must have in order to satisfy the requirements of the individual mandate.

### **Exemptions**

There are two exemptions to the requirement to have health insurance. A religious exemption is available to those who have a sincere religious belief that is the basis of their refusal to obtain and maintain health insurance coverage. However, taxpayers who claim the religious exemption and receive medical care in the taxable year, for example an emergency room visit, will lose their personal tax exemption. Taxpayers who can afford insurance based on the “affordability scale” may obtain a certificate of exemption from the Health Connector indicating that no health insurance offered through the Connector was deemed affordable for that individual because of a hardship. The certificate must be obtained prior to the tax filing season.

### **Appeals**

Taxpayers that lose their personal exemption may submit an appeal claiming a hardship prevented the purchase of affordable health insurance coverage in tax year 2007. The Health Connector reviews and issues determinations on these appeals.

The appeals process involves three steps. First, the taxpayer must complete Schedule HC-A, Health Care Appeals, and include it with his or her income tax return. Second, the taxpayer will receive a follow-up letter and form, which must be completed, stating the grounds, and providing significant documentation to substantiate the claim for hardship, within 30 calendar days of receipt of the form. Failure to submit the form and provide documentation in the required time frame will result in a dismissal, and the taxpayer will be issued a bill based on the loss of the personal exemption plus interest from the due date of the income tax return, without regard to extensions. Third, the Connector will review the claim and documentation. The taxpayer may be required to attend a hearing to review his or her case. The Connector will notify the taxpayer directly as to the outcome

of the requested appeal. A denial by the Connector may be appealed only to the Superior Court. If the Connector denies the taxpayer's appeal, he or she will be issued a bill based on the loss of the personal exemption plus interest from the due date of the income tax return, without regard to extensions.

### **Employee HIRD Form**

A taxpayer may be required to complete a Health Insurance Responsibility Disclosure (HIRD) Form if he or she is employed full-time by a Massachusetts employer with 11 or more employees and if he or she declined to enroll in an employer-sponsored health plan that is offered. The form must also be completed if the employee did not choose to participate in the employer's Section 125 plan. When completing an employee HIRD Form, the employee must indicate whether he or she has an alternative source of coverage.

The HIRD Form is given by the employer to the employee. It is signed by the employee, and retained by the employer for a period of three years. This form also will include the cost of the premium to the employee had they purchased health insurance from their employer. Taxpayers who are not otherwise insured, for example through a spouse, should keep a copy of this form with other tax records, as it will be needed to determine if affordable health insurance was available to them through their employer.

### **Business responsibilities**

The law also places certain responsibilities on businesses to ensure that health insurance is accessible to as many individuals as possible. For more information about these requirements, including an Employer Handbook and a list of Frequently Asked Questions, please visit the Health Connector's website at [www.mahealthconnector.org](http://www.mahealthconnector.org). Employers may also e-mail questions to the Health Connector's Public Information Unit at [Connector@state.ma.us](mailto:Connector@state.ma.us).

### **More information**

More information about the health care reform law and how to obtain affordable health insurance is available on the Health Connector's website at [www.mahealthconnector.org](http://www.mahealthconnector.org). The Department of Revenue also has tax-related health care information on its website at [www.mass.gov/dor](http://www.mass.gov/dor).