ObamaCare Fines Hang Over Uninsured Heads, But Can the IRS Enforce Them?

As 2014 nears its close, Americans without insurance are running out of time to avoid the significant ObamaCare penalties that are scheduled to hit in 2016. The deadline to avoid the penalties is February 15, 2015. Uninsured Americans will be faced with a fines of $325 per adult or two percent of family income, whichever is higher. But whether the IRS will be able to effectively enforce the individual mandate remains to be seen.

The Hill noted that the fines in 2016 will be significantly higher than in 2015, when uninsured Americans are due to pay either $95 per adult or one percent of family income this tax season. Under the second year enrollment rules, families without insurance could owe as much as $1,000, possibly more.

Meanwhile, a number of Americans are unaware that they will even have to report their insured status on their 2014 tax returns, according to a TurboTax survey released earlier this month.

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The Hill observed that the looming deadline is compelling some Americans to turn to the exchanges before they're closed, while insurance companies are using the deadline as a means to drive in customers.

Americans who purchase health insurance through their employers should have a relatively easy time filing taxes, but those who purchased insurance on the open market will have to complete an IRS Form 8965 that entails pages and pages of instructions.

And because of the complications involved in this process, tax preparation companies are working to win over customers by touting themselves as experts in navigating ObamaCare rules and capitalizing on Americans' fears about the penalties. Jackson Hewitt's marketing strategies involve assuring its customers that employees at Jackson Hewitt "work harder to keep up with the latest tax law changes to protect you from possible penalties — not everyone else does."

In promotional materials, companies such as H&R Block promise solutions for their customers, pointing out that healthcare reform is making tax planning more difficult. "The ACA [Affordable Care Act] has changed the landscape of both healthcare and tax," H&R Block states online, inviting consumers to calculate their mandate penalty or receive a "tax impact analysis" when they become a client.

Some taxpayers can utilize a hardship exemption if they meet the qualifications, including the death of a close relative, the cancellation of a previous health plan, or an increase in expenses brought on by caring for an aging family member. "There are a lot of people who will qualify for an exemption," said Avalere Health CEO Dan Mendelson. "If a company can save someone the 2 percent fine on $50,000 of income, that is significant."

But according to CPA Practice Advisor, Americans who are expecting to pay a fine in 2015 have entirely too much faith in the IRS and its abilities. According to that site, "The IRS has absolutely no way of verifying whose insurance coverage did not qualify under the law and who pays the penalty." Citing all the obstacles the IRS faces in enforcing the mandate, the site concludes that the IRS will be unable to effectively enforce the mandate:

> With just under 25 million people enrolling in the federal and state health exchanges (including Medicare and Medicaid recipients), plus the estimated 150 million who have employer-paid health care plans, there are still some 62 million people who would have to pay a penalty but likely will not. For those who do the math the IRS apparently did not, that's a potential loss of nearly $6 billion in revenue….
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> But wait, it gets worse. Some 3.6 million more people were laid off during the year and lost their health benefits — becoming liable for some or all of the penalty for the months they were not covered. Call that another billion and a half dollars.
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> And even worse. Those who successfully did enroll in Obamacare and received a premium credit must repay the overage if the IRS finds that the customer's 2014 income increased over the 2012 income used as a benchmark. That's the theory, but with the start of tax season mere weeks away there is no mechanism to make that comparison. The final rules say there will be income comparisons, but who will do this?
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> And worse yet. Those who do not meet the "essential minimum coverage" threshold for individuals can still avoid paying the penalty if they meet one of the dozen or so exemptions, which seem to be granted to any person who breathes air, or has a life crisis like missing a utility bill payment, or having a family member [who] becomes ill or even a family pet with a flea problem. It really doesn't matter, because there is no place to report either the coverage status or the exemption if you are not already enrolled in a qualified program. Those are supposed to be covered under rules that the IRS has not yet drafted.

The site concludes that agency is clearly too riddled with financial problems and racked by scandal to have set up a "simple database matching program."

Furthermore, Congress' spending bill has cut the IRS's budget by $1.3 billion, making it even more difficult for the agency to enforce the mandate.

As if this isn't enough of a blow to the Obama administration, some Democrats are now beginning to voice regret over the healthcare reform. Senator Charles Schumer (D-N.Y.) said earlier this month that ObamaCare has not been worth the political cost. While giving a speech at the National Press Club, Schumer stated that Democrats "blew the opportunity the American people gave them" by passing healthcare reform in 2010 rather than working on legislation that would improve the economy and help middle-class voters.

Similarly, Senator Tom Harkin (D-Iowa), chairman of the Senate Health Education Labor and Pensions Committee, told *The Hill* that in retrospect, Democrats should not have passed the bill. Harkin, who co-authored the law and is retiring at the end of this Congress, said, "We had the power to do it in a way that would have simplified healthcare, made it more efficient and made it less costly, and we didn't do it. So I look back and say we should have either done it the correct way or not done anything at all."

"What we did is we muddled through and we got a system that is complex, convoluted, needs probably some corrections and still rewards the insurance companies extensively," he added.