

26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
(Also Part I, §§ 5000A; 1.5000A-3.)

Rev. Proc. 2014-46

SECTION 1. PURPOSE

This revenue procedure provides the 2014 monthly national average premium for qualified health plans that have a bronze level of coverage for taxpayers to use in determining their maximum individual shared responsibility payment under § 5000A(c)(1)(B) of the Internal Revenue Code and § 1.5000A-4 of the Income Tax Regulations. This revenue procedure also provides an explanation of the methodology used to determine the monthly national average premium amount.

SECTION 2. BACKGROUND AND METHODOLOGY

.01 Under § 5000A, beginning in 2014, if a taxpayer or an individual for whom the taxpayer is liable is not covered under minimum essential coverage for one or more months, then, unless an exemption applies, the taxpayer is liable for the individual shared responsibility payment when filing his or her federal income tax return. Married individuals who file a joint return for a taxable year are jointly liable for any individual shared responsibility payment for a month included in the taxable year. See §§ 5000A(b)(3)(B) and 1.5000A-1(c)(3).

.02 The amount of a taxpayer's shared responsibility payment is based, in part, on the number of individuals a taxpayer is responsible for under § 5000A who do not have minimum essential coverage and who are not exempt. See §§ 5000A(c)(3)(B) and 1.5000A-4.

.03 For each taxable year, the individual shared responsibility payment is the lesser of (1) the sum of the monthly penalty amounts, or (2) the sum of the monthly national average bronze plan premiums for the shared responsibility family. See § 1.5000A-4(a). Shared responsibility family means, for a month in a taxable year, all nonexempt individuals for whom the taxpayer and the taxpayer's spouse, if the taxpayer is married and files a joint return with the spouse, are liable for the shared responsibility payment under § 5000A for that taxable year. See § 1.5000A-1(d)(17).

.04 The monthly national average bronze plan premium means, for a month for which a shared responsibility payment is imposed, 1/12 of the annual national average premium for qualified health plans that (1) have a bronze level of coverage, (2) would provide coverage for the taxpayer's shared responsibility family members, and (3) are offered through Exchanges for plan years beginning in a calendar year with or within which the taxable year ends. See §§ 5000A(c)(1)(B) and 1.5000A-4(c).

.05 Regulations issued by the United States Department of Health and Human Services (HHS) provide that non-grandfathered health insurance coverage, including qualified health plans offered through Exchanges, may set individual premiums on the basis of only four factors: the rating area, age, tobacco use, and family size. See 45 CFR § 147.102.

.06 A rating area is a geographic region representing all or a portion of a state that is established by the state or HHS. See § 2701(a)(2) of the Public Health Service Act (42 U.S.C. § 300gg(a)(2)) and 45 CFR § 147.102(b). Rating areas are generally defined to include one or more counties. Rating areas are not necessarily drawn on the basis of county lines, but, in almost all cases, individual counties fall entirely within a single rating area. Accordingly, the monthly national average bronze plan premium is based on the bronze-level qualified health plans available to qualified residents of each county or county equivalent in the United States. To limit the effect of outlier premiums, the median bronze-level premium in each county is used in computing the monthly national average premium. To account for variations in population between counties or county equivalents, each county's or county equivalent's median premium is weighted based upon that county's or county equivalent's population, as determined by the most recent population estimates available from the United States Census Bureau.

.07 Section 5000A(c)(1)(B) does not specify what age should be assumed in finding the national average bronze plan premium. HHS regulations concerning age rating distinguish between coverage for individuals who are age 21 and older (adults) and coverage of individuals under age 21. See 45 CFR pt. 147. Premium rates for adults age 21 and older may vary by age but not by more than 3:1 for adults in the same rating area and consistent with a uniform age curve established by the state or HHS. See 45 CFR § 147.102(a)(1)(iii). Premiums for individuals under age 21 may vary only if supported by actuarial evidence. See 45 CFR § 147.102(a)(1)(iii). In 2014, premiums for individuals under age 21 are uniformly lower than premiums for individuals aged 21 and older for the same plan. Under the age rating curve developed by HHS,

which is used in states accounting for approximately 85 percent of the U.S. population, the premium for individuals under age 21 is set at 63.5 percent of the premium for individuals aged 21. Similar ratios are found in the other states. Thus, premiums for individuals aged 21 are generally somewhat higher than premiums for individuals under age 21 and are lower than premiums for most other adults.

.08 To simplify the calculation of the § 5000A individual shared responsibility payment and to help ensure that individuals subject to the limitation on the amount of the individual shared responsibility payment are generally not liable for a payment that materially exceeds the individual's actual cost of coverage, the monthly national average bronze plan premium is based upon the premium charged to individuals aged 21.

.09 HHS regulations also provide that premiums may vary, but not by more than 1.5:1 for individuals who use tobacco (as defined in 45 CFR 147.102(a)(1)(iii)) and may legally do so under federal and state law. See 5 CFR § 147.102(a)(1)(iv). According to the Centers for Disease Control and Prevention, most individuals in the United States are not tobacco users. To ensure that the higher health care costs associated with tobacco use do not raise the amount of the individual shared responsibility payment for the majority of taxpayers who are not tobacco users, the monthly national average bronze plan premium does not take into account the tobacco-use rating factor.

.10 Accordingly, for each nonexempt individual in a shared responsibility family who does not have minimum essential coverage, the monthly national average bronze plan premium is determined using a population-weighted average of the premium in

each county or county equivalent that would be charged to a 21-year old individual who does not use tobacco.

.11 Under 45 CFR § 147.102(c)(1), premiums for family coverage (coverage of more than one family member) generally are determined by finding the premium for each member of the family and adding them together, according to the number of members in the family covered under the plan. Under these regulations, the premiums for no more than the three oldest covered individuals under age 21 may be taken into account in determining the total family premium. As few affected families have more than two adults, generally no more than five family members are counted in determining the premium for family coverage. Therefore, consistent with HHS regulations, in determining a taxpayer's monthly national average bronze plan premium, the age-21 non-tobacco user premium described above is multiplied by the number of individuals in the shared responsibility family, up to a maximum of five.

SECTION 3. MONTHLY NATIONAL AVERAGE BRONZE PLAN PREMIUM FOR 2014

.01 Monthly National Average Bronze Plan Premium. For purposes of § 5000A(c)(1)(B) and § 1.5000A-4, the monthly national average premium for qualified health plans that have a bronze level of coverage and are offered through Exchanges in 2014 is \$204 per individual.

.02 Maximum Monthly National Average Bronze Plan Premium. For purposes of § 5000A(c)(1)(B) and § 1.5000A-4, the monthly national average premium for qualified health plans that have a bronze level of coverage and are offered through Exchanges in 2014 is \$1,020 for a shared responsibility family with five or more members.

SECTION 4. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending after December 31, 2013.

SECTION 5. DRAFTING INFORMATION

The principal author of this revenue procedure is John B. Lovelace of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue procedure, contact Mr. Lovelace at (202) 317-7006 (not a toll-free call).