

# ACA Reporting Simplified –

What You Need to Know to  
Meet the Requirements



# ACA reporting still required by employers

Despite the “repeal and replace” fervor surrounding the Affordable Care Act (ACA) this past year, two important facts remain: It’s still the law of the land, and annual tax reporting is still required.

Much of the confusion surrounding the status of the ACA stems from the Tax Cuts and Jobs Act passed in late 2017. The new tax law modified the individual mandate requiring individuals to have ACA-compliant health coverage (by removing the penalty for non-compliance). But this doesn’t go into effect until 2019 and, more important, the employer mandate still stands. This means employers must continue to satisfy ACA reporting requirements — at least through the 2018 tax year — until further notice.

The Employer Shared Responsibility rule requires employers to file annual information returns with the IRS, as well as provide summary statements to employees. The primary purpose of the ACA reporting requirements is to communicate certain details of health insurance coverage, including verification that the “minimum essential coverage” (MEC) is being met.

In general, the reporting requirement applies to employers with 50 or more full-time employees and all self-insured employers, regardless of size. The IRS forms used to report this information are 1095-B and 1095-C, along with transmittal forms 1094-B and 1094-C.

As you might imagine, the impact of these requirements is tremendous. This report covers the primary aspects of ACA reporting and 1095 filing for you and your clients, including:

- **ACA reporting basics**
- **Businesses affected (insured and self-insured)**
- **Definition of “applicable large employer” (ALE)**
- **Understanding minimum essential coverage**
- **Which 1095 forms to file, with tips on proper completion**
- **Deadlines and filing penalties**
- **E-filing as an efficient and secure solution**



# ACA reporting basics

Under the ACA, the IRS requires information reporting for certain large employers and smaller, self-insured employers. These requirements are mandated by two sections of the Internal Revenue Code. Together, they ensure that employers report health insurance coverage information to the IRS and furnish statements to employees annually. The reported information summarizes who was offered coverage and whether the insurance meets all ACA specifications, including affordability.

**Section 6055** reporting requirements apply to health insurance carriers, small employers that sponsor self-funded health plans and other entities that provide minimum essential coverage.

**Section 6056** reporting requirements are directed toward applicable large employers (ALEs), which generally include employers with 50 or more full-time employees or full-time equivalent employees (FTEs). Section 6056 also requires ALEs to share coverage details with employees so they can determine if they qualify for a premium tax credit.

Tax code sections 6055 and 6056 – and the related 1095 reporting forms – are designed to work in tandem to help the government enforce the Employer Shared Responsibility provisions. Basically, if an employer doesn't offer affordable health insurance that provides a minimum level of coverage to its full-time employees and their dependents, it may be subject to a penalty.



# Businesses affected – What are ALEs?

Reporting responsibilities depend on employer size and type of insurance the employer maintains, whether insured or self-insured. (For clarification, a self-insured – or self-funded – employer pays for medical claims directly instead of paying premiums to an insurance provider.)

## Applicable large employers

For the most part, the biggest impact with the ACA reporting requirements is with applicable large employers with 50 or more full-time or full-time equivalent employees.

An ALE may be a single entity or may consist of a group of related entities (such as parent and subsidiary, or other affiliated entities). If the combined number of full-time and full-time equivalent employees for the group is large enough to meet the definition of an ALE, then each employer in the group (called an ALE member) is part of an ALE – and subject to the Employer Shared Responsibility provision, even if it wouldn't be an ALE separately.

Because the definition of an applicable large employer includes full-time and full-time equivalent employees in a preceding calendar year, it's important to understand the distinctions.

**Full-time employee:** Averages at least 30 hours of service per week during the calendar month (or 130 hours in a calendar month)

**Full-time equivalent employee:** Combination of employees, each of whom is not treated as a full-time employee, but that, together, count as a full-time employee

## NOTE:

Hours of service represent each hour an employee is paid or entitled to payment, including vacation, leave, holiday, illness, incapacity, layoff, jury duty, military duty and other leaves of absence.

## Smaller, self-insured employers and the 1095-B

There is considerably less reporting responsibility for smaller businesses, which the ACA defines as those with fewer than 50 full-time employees.

Self-insured businesses will need to fill out the 1095-B (and 1094-B transmittal form) to report the name, address and Social Security number (or date of birth) of employees and family members who have coverage under the plan.

Small businesses that aren't self-insured don't need to file anything.

Because the number of employers that fall under this category is minimal, this white paper focuses primarily on ALEs and their responsibilities.

## 3 steps to determine the number of full-time equivalent employees (FTEs) for a month:

- 1 Calculate the total part-time service hours in a month. *(up to 120 hours per employee)*
- 2 Divide the total by 120.
- 3 If this results in a fraction, round down to the next whole number.

### example:

If **7** employees work **20** hours/week, the employer would have **4** FTEs.

**7** employees X **20** hours/week = **140** hrs/wk  
**140** X **4** wks/month = **560**

**560** hours ÷ **120** = **4.66**

**4.66** rounded down = **4 FTEs**

## COMPLIANCE INSIGHT

Keeping track of the number of full-time and full-time equivalent employees, as it pertains to the ALE classification, is critical. This classification is determined each calendar year and depends on the average size of the employer's workforce in the previous year.

For hourly employees, employers must count the actual hours worked. For non-hourly employees, they should count either: 1) the actual hours worked, 2) days worked equivalence – 8 hours for each day with at least one hour of service or 3) weeks worked equiva-

lence – 40 hours for each week with at least one hour of service. Not included in the calculation are independent contractors, certain variable-hour workers, seasonal employees working 120 days or less in a year, and COBRA and retired enrollees.

Calculating employee hours for ACA reporting is a huge undertaking. For this reason, many employers will rely on dedicated time-tracking software or choose to outsource this responsibility to a payroll vendor or benefits administrator.



# Understanding minimum essential coverage

For purposes of reporting, minimum essential coverage, or MEC, refers to a legally definable level of coverage.

An employer may be penalized if it doesn't offer minimum essential health coverage to at least 95% of its full-time employees and their dependents, and at least one full-time employee received a premium tax credit through the Health Insurance Marketplace.

For calendar year 2018, the per-employee penalty for not offering coverage to eligible employees increased to \$2,320. This is referred to as the sledgehammer penalty.

A second type of penalty may be imposed if an employer offers minimum essential coverage, as described above, but the coverage wasn't affordable or didn't provide the ACA standard for minimum value. Referred to as the tack hammer penalty, this penalty increased to \$3,480 per FTE for calendar year 2018.

The IRS continues to send out Letter 226J to notify employers of any penalty assessments. To date, over 30,000 letters have been sent levying over \$4 billion in fines.

Most broad-based medical plans meet the legal parameters for MEC and minimum actuarial value (where the plan pays for at least 60% of covered benefits). Regarding affordability, the lowest cost premium for self-only coverage should be less than 9.56% of an employee's gross household income.

## Minimum essential coverage includes:

- **Government-sponsored programs** Medicare part A, most Medicaid programs, CHIP, most TRICARE, most VA programs, Peace Corps, DOD Non-appropriated Fund Program
- **Employer-sponsored coverage** In general, any plan that is a group health plan under ERISA, which includes both insured and self-insured health plans
- **Individual market coverage** Includes qualified health plans enrolled in through the federally facilitated and state-based marketplaces, and most health insurance purchased individually and directly from an insurance company
- **Grandfathered plans** Generally, any plan that existed before the ACA became effective and has not changed
- **Miscellaneous MEC** Other health benefits coverage recognized by the Department of Health and Human Services as MEC

*Minimum essential coverage does not include fixed-indemnity coverage, life insurance or dental or vision coverage.*

# 1095-C filing for ALEs

To satisfy the reporting requirements, fully insured and self-insured applicable large employers must complete Form 1095-C (and the 1094-C transmittal form) for all full-time employees. Self-insured plans also have to provide information on other covered individuals, such as retirees and former employees on COBRA.

Employers with fully insured plans must complete Parts I and II of the 1095-C, while those with self-insured plans will complete Parts I, II and III.

**PART I** Employee; Applicable Large Employer Member

**PART II** Employee Offer and Coverage (including Plan Start Month)

**PART III** Covered Individuals





## 1095-C at a glance

To report the necessary information to the IRS and furnish a form to employees, employers will need to capture:

- Who is a full-time employee for each month
- Identifying information for the employee, such as name, address and Social Security number (SSN)
- Identifying information for the employer, such as name, address and Employer Identification Number (EIN)
- Information about the health coverage offered by month, if any
- The employee's share of the monthly premium for lowest-cost, self-only minimum value coverage
- Months the employee was enrolled in coverage
- Months the employer met an affordability safe harbor with respect to an employee and whether other relief applies for an employee for a month
- If the employer offers a self-insured plan, information about the covered individual's enrollment in the plan (including spouses and dependents), by month; this information includes Social Security numbers or, if these numbers aren't available, date of birth

### COMPLIANCE INSIGHT

The bulk of the work in completing the 1095-C will be with Lines 14-16 in Part II. Although the subject is too complex to cover fully in this white paper, there are a few points to keep in mind.

The "Offer of Coverage" on **Line 14** (Codes 1A-1I) helps describe whether or not minimum essential coverage was offered to an employee, spouse and/or any dependents.

Employers will generally report the monthly employee contribution for the lowest-cost health option for self-only coverage on **Line 15**. This allows the IRS to determine if affordable coverage was made available to the employee.

**Line 16** (Codes 2A-2I) clarifies issues such as whether an individual was employed during the month, whether the employee was eligible and/or enrolled in coverage, if any affordability safe harbors applied when an employee declined coverage and if the employee was in a waiting period or other limited non-assessment period for which the employer wouldn't be liable for a penalty.

The image shows a sample of the 1095-C form. It is titled "1095-C Employer-Provided Health Insurance Offer and Coverage". The form is marked as "VOID" and "CORRECTED". It contains several sections:
 

- Part I: Employer Information** - Includes fields for Employer Name, EIN, and Applicable Large Employer Number.
- Part II: Employee Offer and Coverage** - Includes a table for reporting monthly employee contributions and enrollment status for various coverage options (Self-only, Self and spouse, Self, spouse, and dependent, and Family only).
- Part III: Covered Individuals** - Includes a table for reporting monthly enrollment for self-insured plans.

## 1094-C at a glance

The 1094-C transmittal form represents the total 1095-C filings submitted for the season. Acting as a cover sheet, it includes:

- Identifying information for the organization, such as name, address and Employer Identification Number (EIN)
- Information about whether the organization offered coverage to at least 95% of its full-time employees and their dependents
- Total number of 1095-Cs issued to employees
- Information about members of the aggregated applicable large employer group, if any
- Full-time employee counts by month
- Total employee counts by month
- Whether an organization is eligible for certain transition relief (including certifications)

The image displays three overlapping 1094-C forms. The top form is partially obscured. The middle form shows the 'ALE Member Information - Monthly' section, which includes fields for 'Minimum Employee Coverage Offer Indicator', 'Full-Time Employee Count for ALE Member', 'Total Employee Count for ALE Member', 'Aggregated Group Indicator', and 'Section 4980H Transition Relief Indicator'. The bottom form is the main 'Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns' form. It includes the title '1094-C Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns', the Department of the Treasury logo, and the year '120115'. The form is divided into several parts: Part I (Applicable Large Employer Member (ALE Member)), Part II (ALE Member Information), and Part III (ALE Member Information). Part I includes fields for the name of the member, employer identification number, street address, city or town, state or province, country and ZIP or foreign postal code, name of person to contact, and contact telephone number. Part II includes a 'For Official Use Only' section with a barcode. Part III includes a 'Certifications of Eligibility' section with checkboxes for 'A. Qualifying Offer Method', 'B. Qualifying Offer Method Transition Relief', 'C. Section 4980H Transition Relief', and 'D. 95% Offer Method'. The form also includes a signature line and a date field.

# 1095-C filing pointers

As you might imagine, the information-gathering process is challenging for many businesses. To capture all the data required for 1095 reporting, they need to pull from four major sources or internal departments: HR, payroll, benefits and time and attendance management. This requires careful coordination, sharing and monitoring to complete the forms accurately and on time.

Strict security is also necessary. Because the employee's name and health insurer appears on the same form, the data is considered protected health information (PHI). Using a solution that is SOC-certified and HIPAA-compliant, such as [efile4Biz.com](https://www.efile4biz.com), can provide an added layer of protection with this type of data.

## A few essential do's and don'ts will ensure a smooth filing process for you and your clients:

**DO** recommend that employers notify their employees that they will be receiving a 1095-C and may need information from it to complete their previous year tax filing.

**DO** file corrected returns as soon as possible after an error is discovered.

**DO** file Form 8809, if necessary, for a 30-day extension for filing with the IRS. No signature or explanation is necessary for this extension. A 30-day extension for providing forms to employees, however, is only available by sending a signed letter to the IRS with the reason for the delay.

**DON'T** file more than one 1095-C per employee. If an organization has different divisions with different benefits – and an employee moves between divisions during the year – you'll need to consolidate data onto one 1095-C.

**DON'T** file more than one 1094-C authoritative transmittal.

# Filing deadlines

**February 28, 2019 – IRS paper-filing deadline**

**March 4, 2019 – mail 1095 copies to recipients/employees**

**April 1, 2019 – IRS e-filing deadline**

## Avoiding penalties

Employers can pay a high price for failing to comply with ACA reporting requirements. In addition to the IRS ramping up penalty amounts, the punitive nature of penalties means the combined cost can add up quickly.

The amount of the penalty is based on when you file the correct information return or finish the correct payee statement. Also, the penalty for failure to file a correct information return is separate from the penalty for failure to furnish the correct payee statement. For example, if you fail to file a correct 1095-C with the IRS and don't provide a correct statement to the payee, you may be subject to two separate penalties. And depending on the oversight, the maximum amount you can incur in the calendar year can reach into the thousands.

REPORTING PENALTY	AMOUNT OF PENALTY
Filed/furnished no more than 30 days late	\$50/form
Combined calendar year maximum	\$545,500
Filed/furnished 31+ days late, up to August 1	\$100/form
Combined calendar year maximum	\$1,637,500
Filed/furnished after August 1	\$270/form
Combined calendar year maximum	\$3,275,500
Intentional Disregard to file/furnish	\$540/form
Combined calendar year maximum	no maximum fine

**Now, more than ever, it's critical to file accurate, complete forms by the deadlines.**

**NOTE:**  
Electronic filing is required if the employer files at least 250 forms.

# Why e-filing is the ideal solution

We live in an increasingly fast-paced and digital world. As we replace outdated, manual processes with faster, more efficient electronic options, it's not surprising that tax filing is experiencing the same shift. Businesses are no longer restricted to time-consuming and cumbersome paper filing of their taxes. Instead, they can turn to reputable, IRS-authorized e-file providers such as [efile4Biz.com](http://efile4biz.com) to file taxes online "in the cloud."

Need help meeting the demands of these ACA reporting requirements for your clients? Choose the all-inclusive print, mail and e-file services for quick, efficient and secure e-filing for ACA forms (in addition to 1099s and W-2s). There's no software to download and no forms to purchase, so you enjoy streamlined, one-step processing. Plus, seamless integrations with apps you already use to run your business, including QuickBooks and Xero, allow you to connect and import data in seconds.

To learn more about ACA Reporting and the advantages of our all-inclusive solution, visit:

[www.efile4Biz.com](http://www.efile4biz.com)

## Sources:

1. <https://www.irs.gov/affordable-care-act/employers/information-reporting-by-applicable-large-employers>
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