ACA Reporting Mistakes Can Be Common And Can Cost Employers Money

Here's how to avoid them

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It's that time of year again. No, not the holidays. It's the Affordable Care Act (ACA) reporting season, and HR teams tasked with managing their company's annual ACA filings need to be aware of an important change that could significantly increase their risk of incurring penalty assessments.

The IRS indicated months ago that it intends to sunset "good faith relief," a grace period that has been in place since the ACA's inception to assist employers as they become familiar with the reporting process and requirements. This grace period exempted eligible employers from penalties for certain missing or inaccurate information.

Most employers by now are familiar with the ACA reporting process, but it's easy to make mistakes on the IRS forms – mistakes that the IRS may no longer forgive, which could result in late or inaccurate filing

penalties. Unintentional errors can carry penalties of $280 per return, with a cap of just over $3.3 million. Other errors could result in 4980H(a) or (b) Penalties (referred to as Penalties A or B, respectively).

Penalty A assessments may be issued when an applicable large employer (ALE) member fails to extend an offer of at least minimal essential coverage (MEC) to at least 95% of its full-time employees and their dependents. A key to avoiding Penalty A is to accurately determine who must be considered full-time according to the ACA and therefore eligible for benefits. (This can be more complicated than it sounds.) The federal government may apply this penalty when at least one full-time employee receives a Premium Tax Credit through the Health Insurance Marketplace.

Employers may also be subject to fines if they fail to offer full-time employees affordable coverage that provides at least minimum value (even if the ALE does offer MEC to at least 95% of its full-time employees). The fine for this scenario is often referred to as Penalty B and applies for those individuals who receive a Premium Tax Credit from the Health Insurance Marketplace.

Because it's easy to make mistakes when entering data on ACA reporting forms, the best way to help limit the risk of penalties is to doublecheck for errors in coding combinations. Watch for these four frequent oversights on Form 1095-C:

1. Listing "1H" on line 14 and leaving line 16 blank

This code combination tells the IRS that an offer of coverage was not made to an employee and no Series 2 code was applied to explain why. You could be at risk for Penalty A or B, depending on if you offer minimum essential coverage (MEC) to 95% or more of ACA full time employees and their dependents, but at least one benefits eligible employee receives subsidized coverage through a healthcare exchange.

2. Inserting "1E" on line 14 and leaving line 16 blank

This coding tells the IRS that an offer meeting MEC and providing minimum value was made but no affordability safe harbor code was applied for the employee. The risk here is for a Penalty B assessment.

3. Entering "1F" on line 14 and leaving line 16 blank

When the IRS sees this code combination, it means that the plan met the lower standard of MEC but did not meet the Minimum Value standard. This could result in a Penalty B (which sometimes occurs when employers offer "skinny" plans that do not meet the minimum value and those employees instead opt for subsidized coverage on the Health Insurance Marketplace).

4. Inserting either "1B" or "1D" on line 14 and leaving line 16 blank

This combination tells the IRS that an offer of coverage was made to either the employee only (1B) or the employee and a spouse (1D) but not to dependents, increasing the risk for Penalty A if the 95% offer was not met, or Penalty B if the 95% offer was met.

Additional IRS Considerations

- **Use code 2B** on line 16 only for employees who are not full-time and did not enroll in benefits, or if a full-time employee's benefits would have continued through the end of the month but ended prior to the end of the month due solely to employment termination. Remember that under the ACA, a full-time employee averages 30 or more hours per week based on either the look-back measurement method or the monthly measurement method. A look-back method is an approach for determining full-time status by tracking employee hours over a set period and then calculating the average number of hours worked over that period.
- **Codes 1L, 1M, 1N, 1O, 1P, 1Q, 1R, 1S, 1T, and 1U** should only be used if you offered an Individual coverage HRA (ICHRA) plan. You should not use these codes for any other plan type. Codes 1T and 1U are newly added code combinations that were erroneously missing from 1095-C form coding in the prior year.

  1T: Individual coverage HRA offered to the employee and spouse (not dependents), with affordability determined by using the employee's primary residence location ZIP code.

  1U: Individual coverage HRA offered to employee and spouse (not dependents) using the employee's primary employment site ZIP Code affordability safe harbor.
- **Code 2E** should only be used for individuals when multiemployer interim relief rules apply. This code should typically only be used with a code 1H in Line 14.

As you can see, coding can quickly become complicated and it's important to ensure your company has the ACA reporting support required for success. With the IRS' intention to discontinue good faith relief, accurate completion of ACA reporting forms is more important than ever.

The information provided is intended as general guidance and is not intended to convey any tax, benefits, or legal advice. For information pertaining to your company and its specific facts and needs, please consult your own tax advisor or legal counsel.

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