

Chart Your Course

ACA Compliance: Understanding Reporting Basics

American Fidelity Administrative Services, LLC does not provide tax or legal advice. While we're happy to provide you with this general information, given the complexity of these rules, we encourage you to contact your tax or legal counsel about how the requirements apply to your specific plans or situation.

Why is this still important?

- ACA compliance remains a challenge for employers
- Increased IRS enforcement and penalties
 - Employer Mandate
 - Employer Reporting
- Recent legislative changes to ACA requirements

ACA FUNDAMENTALS

LET'S LOOK AT THE BASICS

Employer Mandate

Employer penalty may apply if:

- No coverage offered to full-time employees and their dependent children up to age 26 **or**
- Coverage offered is “unaffordable” or “inadequate” **and**
- Full-time employee enrolls in Marketplace coverage and receives advanced premium tax credit

Who are Full Time Employees?

Full-time for ACA purposes ≠ “benefit eligible”

Full-time under ACA is a legal term

- Specific meaning defined by IRC regulations
- May not line up with the way employer administers benefits
- Necessary for correct ACA reporting

Employer Mandate

Full-time employees:

- Average of 30+ hours/week or 130+ hours/month
- Average includes non-work time for which pay is due
- Optional lookback measurement and stability periods can be used to determine full-time status
- Special treatment of newly-hired variable hour, part-time, or seasonal employees under the lookback method

Monthly Measurement Period

- Works okay if employee hours have little variation from month-to-month
- Not generally used by employers with many variable hour employees
- To avoid potential penalties, coverage must be offered for the full calendar month, with limited exceptions
- *Potential Risk:* For variable hour employees, it is generally not known at the start of the month if they will qualify as “full time” for that month
- *Potential Risk:* Complexity in reporting with changing codes and penalty risk from month to month

Monthly Measurement Period

Option #1

- Measure from 1st day of the month through last day of the month
- Employee works 130 hours or more = Full time for that month

Option #2

- Use weekly option to coordinate with payroll: the first week of the month contains the 1st day of month – OR – the last week of the month contains the last day of the month
- Average hours are based on number of work weeks in the month – either 4 or 5
 - Months that contain 4 work weeks – Employee works 120 hours or more
 - Months that contain 5 work weeks – Employee works 150 hours or more

Using the Lookback Period

- To be full-time under the ACA, an employee must work on average 30 or more hours per week, or 130 hours per month
 - During the employer's ***standard measurement period*** OR
 - During a newly-hired variable hour, part-time or seasonal employee's ***initial measurement period***

Terminology

- **Measurement Period** – This is the time when all hours are measured and tracked for all employees to determine who will qualify as a “full time” employee, and therefore must be reported as such to IRS, for the subsequent Stability Period.
- **Administrative Period** – This is the period between the Measurement Period and Stability Period to allow for calculations and generally Open Enrollment takes place during this time
- **Stability Period** – This period of time is when any employees who qualified as “full time” during the preceding Measurement Period and their dependent children must be offered adequate and affordable medical coverage, or the employer is at risk for a penalty for not doing so under the Employer Mandate (4980H) provision of ACA

Using the Lookback Period

Jan 1, 2025 Stability Period:

- Measure Nov 1, 2023 – Oct 31, 2024
- Admin period Nov 1, 2024 – Dec 31, 2024
- Full- or part- time status locked in Jan 1, 2025 – Dec 31, 2025

Oct 1, 2025 Stability Period:

- Measure Aug 1, 2024 – Jul 31, 2025
- Admin period Aug 1, 2025 – Sep 30, 2025
- Full- or part- time status locked in Oct 1, 2025 – Sep 30, 2026

Calculation of Hours

- Work and non-work time for which payment is due
 - All work time across various jobs
 - Paid time off: vacation, holiday, illness, layoff, jury duty, military duty, leave of absence
 - No limit on amount of paid time credited
- Service Records or Use of Equivalency
 - Actual hours of service worked supported by a service record *or*
 - Day of service equivalency = 8 hours for any day with at least one hour of pay due *or*
 - Week equivalency = 40 hours for any week with at least one hour of pay due
- Aggregate across controlled groups

Calculation of Hours

- Leaves of Absence
 - Paid leaves
 - Leaves of absence for which an employee is paid
 - Employees are credited hours for all paid leave.
 - Unpaid leaves
 - Leaves of absence for which an employee receives no pay
 - Employees are generally not credited with hours for any periods of unpaid leave.
- Special unpaid leave
 - Unpaid leave of absence covered by the FMLA*, USERRA**, or jury duty
 - Special unpaid leave is notable because employees are credited with hours during this type of unpaid leave.

*Family and Medical Leave Act, **Uniformed Services Employment and Re-employment Rights Act

Special Rules for Certain Employees

- Students
- Bona fide volunteers
- Employees paid a stipend
- Leased employees

Final Notes on Calculation of Hours

- **Changes in employment – Ongoing Employees**

- Results of the Measurement Period calculations are applicable to the entire Stability Period so long as the employee remains employed in ***any capacity***
- *Example:*
 - Jane qualified as “full time” during the MP and three months into the SP her hours decrease. She must still be reported as “full time” until the end of the current Stability Period.

- **Changes in employment during Initial Measurement Period**

- Moves to a position that is reasonably expected to work 30 or more hours per week then must be treated as “full time” after allowed waiting period

Position changes

- Measurement period rules still apply
- Narrow exception for move from full- to part- time
- Position changes can create data challenges

Final Notes on Calculation of Hours

- Breaks in Service for Employment Rehire
 - At least 26 consecutive weeks for educational employers or 13 consecutive weeks for other employers
 - *If employee is rehired in any capacity prior to this, then break is counted as part of the Measurement Period and employee is treated as same status prior to termination date upon rehire until the end of the current Stability Period*
 - Rule of Parity
 - Special Unpaid Leave

Calculation of Hours

Special rules for educational institutions:

- Two options for treatment of employment breaks during the measurement period
 - Use “measurement period” excluding employment break periods of four weeks or greater (such as summer)
 - Treat employee as credited with hours for employment breaks

New Hires

Employee hired *after* the start of your standard measurement period

“Full-time”

- Reasonably expected to work on average 30 or more hours per week
- Must offer coverage by first day of fourth calendar month following the date of hire

Newly hired part-time, seasonal and variable hour employees

- Initial measurement period of 11-12 months will determine hours worked
- Average of 30 hours per week or more (or 130 hours per month) will require treatment as a full-time employee
- Offer medical coverage during administration period to avoid ACA penalty risk

New Hires

Employee hired *after* the start of your standard measurement period

“Part-time” “Seasonal” or “Variable Hour”

- Expected to work less than 30 or more hours per week on average; or hours are uncertain, unpredictable or seasonal
- May use an 11- or 12-month initial measurement period to determine status
- If full-time, must offer by first day of the fourteenth month following date of hire

New Hires - Example

- New “non full time” employee hired on *Feb 15, 2025*
- Employer Standard Measurement Period: *Nov 1, 2024 - Oct 31, 2025*
- Regular Stability Period: *Jan 1, 2026 – Dec 31, 2026*
- Initial Measurement Period: *Mar 1, 2025 – Jan 31, 2026 (11 months)*
- Initial Stability Period: *April 1, 2026 - Mar 31, 2027*
- If new hire qualified as “Full time” during Initial MP then must be reported as FT for entire Initial SP (and presumably would be offered medical coverage during that time)

Benefit Eligibility vs Employer Mandate

- "Bronze" Plan to All Employees
- Benefits Based on Full-Time Equivalency (FTE)
- Benefits Based on Contract, Position, or Bargaining Unit - Benefits tied to specific employment terms.
- Pro Rata Employer Contribution - Employer contributions based on employee status.
- Innovative Approaches to Benefits Administration

PENALTY RISKS

YOU PROBABLY DIDN'T SEE COMING

Employer Mandate Penalty “A”

- Must offer coverage to 95% or more of full-time employees
- Full-time as defined by ACA rules
- 5% margin of error (these employees can still trigger Penalty “B”)

Employer Mandate Penalty “A”

If 95% target is not met:

- 1/12th x \$2,000 per month, multiplied by number of full-time employees minus the first 30 for that month
- Indexed annually
 - 2021: \$2,700
 - 2022: \$2,750
 - 2023: \$2,880
 - 2024: \$2,970
 - 2025: \$2,900

Penalty “A” Example

Full Time Employees	2025 Potential Penalty “A” Annually
100	\$203,000
250	\$638,000
500	\$1,363,000
1,000	\$2,813,000
1,500	\$4,263,000

Employer Mandate Penalty “B”

If 95% target is met but coverage is inadequate or unaffordable:

- 1/12th x \$3,000 per month, per full-time employee who receives an advance premium tax credit
 - Also indexed annually
 - 2021: \$4,060
 - 2022: \$4,120
 - 2023: \$4,320
 - 2024: \$4,460
 - 2025: \$4,350

Employer Mandate Penalty “B”

- Inadequate: plan does not provide minimum value (generally, pays <60% allowable costs)
- Unaffordable: employee pays more than 9.5% household income
 - Indexed annually
 - 2021: 9.83%
 - 2022: 9.61%
 - 2023: 9.12%
 - 2024: 8.39%
 - 2025: 9.02%

Penalty “B” Example

Employees that triggered penalty.	2025 Potential Penalty “B” Annually
5	\$21,750
10	\$43,500
15	\$65,250
20	\$87,000
25	\$108,750

ARE YOU SABOTAGING YOUR OWN ACA COMPLIANCE EFFORTS

IRS Reporting Penalties

- Large Employers must file Forms 1094-C and 1095-C each year
- Form 1095-C is furnished to the employee as well as the IRS
 - Identifies the employee's full- or part-time status for each month
 - Identifies if the employer offered coverage to the employee
 - Identifies if the employee was enrolled in the coverage
 - Specifies codes for different situations
- Changes in employee status and/or changes in offers of coverage or employee cost will result in different applicable codes

Common Mistakes in ACA Reporting

Outdated or nonexistent ACA process/procedures

- Inadequate hours tracking
- Wrong about who is/is not a full-time employee
- Poor handling of employment breaks, leaves of absence, new hires, terms and position changes

Inaccurate Reporting

- Coding errors
- “Over-reporting”
- Choosing the wrong safe harbor

Lack of Documentation

Failure to Track Hours

- We don't track hours – we offer coverage to all of our full- time employees, so we don't have anything to worry about. *Right?*
- How do you track:
 - Full- versus part-time status
 - Seasonal employees (work six months or less for a specific job duty)
 - Stipend paid employees
 - Employees that work multiple positions
 - Employees that change from FT to PT/PT to FT
 - Breaks in service

Failure to Track Hours

Month	Hours Worked
May	173
June	180
July	190
August	185
September	180
October	87
November	87
December	103
January	87
February	103
March	87
April	103
Total Hours	1,563
Average Per Month	130

Failure to Track Hours

Oh, we don't use a measurement method. We just don't have to worry about that.

Right?

Uh, yeah you do! If you don't use the look-back method, you are using the monthly measurement method.

Overreliance On a Computer System

- Typically "Data In/Data Out" with no oversight
- Data resides in multiple systems and doesn't always match up – How are you reconciling?
- May not track leaves that can impact ACA compliance
- Are ACA rules built into the system?
- Can produce invalid and/or incorrect code combinations

Overreliance On a Computer System

600120

Form 1095-C **Employer-Provided Health Insurance Offer and Coverage** VOID CORRECTED OMB No. 1545-2251
 Department of the Treasury Internal Revenue Service **2020**
 ▶ Do not attach to your tax return. Keep for your records.
 ▶ Go to www.irs.gov/Form1095C for instructions and the latest information.

Part I Employee			Applicable Large Employer Member (Employer)										
1 Name of employee (first name, middle initial, last name) Edgar E Employee			2 Social security number (SSN) 111-22-3333			7 Name of employer Anytown Unified School Distring			8 Employer identification number (EIN) 12-3456789				
3 Street address (including apartment no.) 1234 Main Street						9 Street address (including room or suite no.) 5555 Learning Way			10 Contact telephone number 555.555.5555				
4 City or town Anytown		5 State or province State		6 Country and ZIP or foreign postal code 12345		11 City or town Anytown		12 State or province State		13 Country and ZIP or foreign postal code 123451			
Part II Employee Offer of Coverage													
Employee's Age on January 1													
Plan Start Month (enter 2-digit number):													
	All 12 Months	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
14 Offer of Coverage (enter required code)		1A	1H	1H	1H	1H	1H	1H	1H	1H	1H	1H	1H
15 Employee Required Contribution (see instructions)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
16 Section 4980H Safe Harbor and Other Relief (enter code, if applicable)		2C	2C	2A	2A	2A	2A	2A	2A	2A	2A	2A	2A
17 ZIP Code	12345	12345	12345	12345	12345	12345	12345	12345	12345	12345	12345	12345	12345

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 60705M Form 1095-C (2020)

Human Error

- Happens more often than many realize
- Employer formats the data incorrectly:
 - Many third-party companies that provide ACA service still require you to format your data in their exact templates.
 - Keep in mind, ACA output is only as good as the data that is imported.

Human Error

Could this be you?

Employer accidentally missorted demographic data, causing the employees to have the address of another employee. Forms 1095-C were distributed to the wrong employee for more than 800 employees!

This created:

- Several hours of rework to reissue forms.
- Notification to employees.
- Notification to internal data security contact as employees received other employees' data (including last four of social security).

Affordability Safe Harbors

- 2024 ACA affordability decreased to 8.39%
- 2024 FPL safe harbor: no more than \$101.94 per month for calendar year plans
- 2024 Rate of Pay and Form W-2 safe harbor amounts also shrank
- 2025 ACA affordability increased to 9.02%
- 2025 FPL safe harbor: no more than \$113.20 for calendar year plans
- 2025 Rate of Pay and Form W-2 safe harbor amounts increase as well
- Many reporting penalties are assessed for incorrect or inapplicable Safe Harbor Codes being used

Understanding Affordability Safe Harbor Codes

- 2F – W-2 wages Safe Harbor
- 2G – Federal Poverty Line (FPL) Safe Harbor
- 2H – Rate of Pay Safe Harbor

Line 16 code 2F – W-2 Safe Harbor

Multiply Box 1 wages by the annual affordability percentage

Compare that number to the employee's required annual contribution for the lowest-cost, employee-only plan

You must adjust for partial-year coverage

Line 16 code 2G – FPL Safe Harbor

Multiply the applicable federal poverty line by the annual affordability percentage and divide by 12

Compare that number to the employee's required monthly contribution for the lowest-cost, employee-only plan

2023 calendar year plan: \$103.28/mo

2024 calendar year plan: \$101.94/mo

2025 calendar year plan: \$113.20/mo

Plans beginning in 2025 (non-calendar): \$117.64/mo

Line 16 code 2H – Rate of Pay Safe Harbor

- For an hourly employee, multiply the employee's rate of pay by 130 hours by the annual affordability percentage
- For a non-hourly employee, multiply their monthly salary beginning on the first day of the coverage period by the annual affordability percentage
- Compare that number to the employee's required monthly contribution for the lowest-cost, employee-only plan

An “A” for effort?

- No more good faith effort relief
- More scrutiny, more enforcement
- Standard for reasonable cause waiver much harder to reach

Real world example

We have made a preliminary calculation of the Employer Shared Responsibility Payment (ESRP) that you owe.

Proposed ESRP \$58,222.27

Our records show that you filed one or more Forms 1095-C, Employer-Provided Health Insurance Offer and Coverage, and one or more Forms 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns, with the IRS. Our records also show that for one or more months of the year at least one of the full-time employees you identified on Form 1095-C was allowed the premium tax credit (PTC) on his or her individual income tax return filed with the IRS. Based on this information, we are proposing that you owe an ESRP for one or more months of the year.

You generally owe an ESRP for a month if either:

- You did not offer minimum essential coverage (MEC) to at least 95% of your full-time employees (and their dependents) and at least one of your full-time employees was certified as being allowed the PTC; or
- You offered MEC to at least 95% of your full-time employees (and their dependents), but at least one of your full-time employees was certified as being allowed the PTC (because the coverage was unaffordable or did not provide minimum value, or the full-time employee was not offered coverage).

This letter certifies, under Section 1411 of the Affordable Care Act, that for at least one month in the year, one or more of your full-time employees was enrolled in a qualified health plan for which a PTC was allowed.

“Overreporting” can equal hassle

Form 14765 (May 2021)		Department of the Treasury - Internal Revenue Service Employee Premium Tax Credit (PTC) Listing													
Any month not highlighted is a month that the employee received a PTC and no safe harbor or other relief from the ESRP was applicable. The employee is an assessable full-time employee for that month. Any month that shows XF, XG, or XH is due to a determination that you do not qualify for the safe harbor being claimed (2F, 2G, or 2H). If you still think the safe harbor applies, you may provide your computation with your written request for reconsideration.															
Employer name [REDACTED]										Employer ID number [REDACTED]			Tax year 2019		
Employee Name (last, first)	SSN (last 4 digits)	All 12 months Indicator Codes (Form 1095-C, lines 14 and 16 combined)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Additional Information Attached
[REDACTED]	[REDACTED]		1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	<input type="checkbox"/>
[REDACTED]	[REDACTED]		1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	<input type="checkbox"/>
[REDACTED]	[REDACTED]		1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	1E/XF	<input type="checkbox"/>
[REDACTED]	[REDACTED]		NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	1E/	1E/	1E/	1E/	<input type="checkbox"/>
[REDACTED]	[REDACTED]		1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	<input type="checkbox"/>
[REDACTED]	[REDACTED]		1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	<input type="checkbox"/>
[REDACTED]	[REDACTED]		NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	NOPTC	1E/	1E/	1E/	1E/	<input type="checkbox"/>
[REDACTED]	[REDACTED]		1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	1E/	<input type="checkbox"/>

Overreporting equals real risk

$$142 \times \$660 = \$92,400$$

IRS Reporting Penalties

Year Due	Up to 30 Days Late	31 Days Late Through August 1	After August 1 or Not Filed	Intentional Disregard
2025	\$60	\$130	\$330	\$660
2024	\$60	\$120	\$310	\$630
2023	\$50	\$110	\$290	\$580
2022	\$50	\$110	\$280	\$570
2021	\$50	\$110	\$280	\$560
2020	\$50	\$110	\$270	\$550

<https://www.irs.gov/payments/information-return-penalties>

IRS Reporting Penalties – due in 2025

No. of Late, Inaccurate, or Incomplete Forms	Total (up to)
60	\$19,800
125	\$41,250
60 (late furnishing to employees and late filing with IRS)	\$39,600
125 (late furnishing to employees and late filing with IRS)	\$82,500

IRS Reporting Penalties – due in 2025

No. of Forms Filed or Furnished Late	Total
250	\$82,500
500	\$165,000
1000	\$330,000
No. of Forms Subject to “Intentional Disregard”	
250	\$165,000
500	\$330,000
1000	\$660,000

Do you know how to answer these?

- Letter 226J
- Letter 5005-A
- Letter 972CG
- CP215
- CP504B
- Letter 5699
- Letter 5698
- Letter 1865C
- Letter 3064C
- Letter 1948C

Are You Prepared for an Audit?

- If you receive a proposed penalty assessment letter from IRS for a tax year that was three+ years ago, could you quickly produce necessary paperwork to reply to the assessment?
 - Turnover is the biggest issue
 - Lack of procedures for new employees to follow
 - Historical data not kept where others could access (or not kept at all)
 - If using a 3rd party provider, what assistance will they provide?

Audits Underway

Dear Taxpayer:

We are in receipt of the 2018 Forms 1095-C, and they have been accepted. However, we have received 7 Forms 1095-C for 2019 and 12 forms for 2020. Please submit the detailed full-time employee calculation to substantiate the number of forms received for 2019 and 2020 or submit the appropriate number of forms at your earliest convenience.

Your current balance for the tax period ended Dec. 31, 2018, is \$650,906.92, which includes interest and applicable penalties figured to July 1, 2023. We will continue to charge interest and applicable penalties until you pay your balance in full. Pay as much as you can now using one of the payment options described below

Electronic Filing of ACA Forms

- Prior to 2024 only required for 250 or more forms
- Now required for employers filing 10 or more total forms, including Forms W-2
- Challenging for smaller employers with limited resources

Family Glitch Regulatory Fix

- Old rule: entire family's eligibility for subsidies based on cost of employee-only coverage
- New rule: determine subsidy eligibility based on cost to cover employee plus members of their family
 - Effective beginning in 2023
 - Includes a separate affordability calculation for family coverage
 - Could result in family members being eligible for premium tax credits, even if employee is not
- Does not affect Employer Mandate rules for employers

Recent Legislative Changes

- Overview & Timeline
 - Two new laws signed December 23, 2024
 - Changes effective for 2024 forms (due 2025)
 - Optional modifications - no mandatory changes
 - Focused on reducing administrative burden
 - Big Beautiful Bill

Employer Reporting Improvement Act (ERIA)

- **TIN Reporting Updates**

- Simplified reporting requirements for self-insured employers/insurers
- Option to use name/birth date instead of TIN
- Applies to Forms 1095-B and 1095-C

Employer Reporting Improvement Act (ERIA)

- **Electronic Delivery Enhancement**
 - Streamlined consent process
 - Prior electronic consent now carries forward
 - Individuals retain right to revoke consent
 - Effective for 2024 reporting year (due in early 2025)

Employer Reporting Improvement Act (ERIA)

- **Employer Mandate Penalty Assessment Changes**
 - Extended response window for Letter 226J
 - Previous: 30 days
 - New: Minimum 90 days
 - New 6-year statute of limitations
 - Clock starts at form due date or filing date

Paperwork Burden Reduction Act (PBRA)

- **Alternative Reporting Method**
 - Expanded flexibility for all employers
 - Applies to both full-time and part-time employees
 - Key requirements:
 - Provide clear notice of form availability
 - Must furnish by January 31 or within 30 days of request

Paperwork Burden Reduction Act (PBRA)

- **Implementation Notes**
 - Optional adoption
 - Effective for 2024 reporting year
 - Previous regulatory guidance may be updated
 - Watch for additional IRS guidance

Big Beautiful Bill and ACA

- **Changes that could impact ACA**
 - Eliminates automatic reenrollment for individuals receiving premium tax credits.
 - Shorter enrollment periods for Marketplace coverage (11/1 – 12/15)
 - Subsidies extended by Inflation Reduction Act (IRA) are set to expire end of 2025.

Next Steps

- Review current reporting processes
- Evaluate new optional methods
- Monitor for implementation guidance
- Plan for 2025 reporting changes
- Consider system updates needed

Questions?

Kim

Bruggeman

kimb@afastech.com

405-830-4653

acachamp.com

