

# Affordable Care Act: Employer Essentials for IRS Reporting

## 6 Must-Knows to Avoid ACA Penalties



# Affordable Care Act: Employer Essentials for IRS Reporting

Compliance with the burdensome IRS reporting requirements of the Affordable Care Act demands close attention and prompt response.

To stay on top of this new intensity in regulatory reporting—often called “a murky swamp”—it’s important to be aware of the intricacies, the challenges, and how significant the financial consequences for noncompliance can be.

## 6 Must-Knows to Avoid ACA Penalties

To help you avoid missteps, we’ve assembled a list of the key elements that you must consider as you prepare to comply with the ACA. You need to know:

1. [The forms that all ACA-affected employers must file](#)
2. [Unique requirements of ACA forms for employers](#)
3. [The challenges with IRS Form 1095-C](#)
4. [The challenges with IRS Form 1094-C](#)
5. [The cost of employer noncompliance](#)
6. [What to look for in ACA compliance software](#)



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## Which employers must be ACA-ready?

You are required to file yearly reports with the IRS according to ACA rules when, in the previous calendar year, your organization:

- Employed 50 or more full-time employees, including full-time equivalents
- Was self-insured (then the number of employees is irrelevant)

Click to use the flowchart:

*Find out how ACA rules apply to your organization*



# 1. The forms that all ACA-affected employers must file

If your organization fits either description on Page 1 and is in one of the 50 U.S. states, you must document for the IRS—by monthly breakdowns—details about your eligible employees' access to health care coverage at your workplace and about the quality of coverage offered.

These forms are mandatory. You must file 1095-C/1094-C forms even:

- when you have been offering good coverage all along,
- if you have opted to take the penalty for offering no coverage.

## IRS Form 1095-C

**IRS Form 1095-C** is the **employer's statement of availability of employer-sponsored coverage** for every employee who, according to ACA rules, is deemed full-time (or every covered employee, if your organization is self-insured). A Form 1095-C needs to be generated and sent to every eligible employee by February 1, 2016. (Although the delivery date for a 1095-C matches that of a W-2, this form is not as easy to produce and it may not go to every employee.)

## IRS Form 1094-C

**IRS Form 1094-C** is the **transmittal of Form 1095-C**. The IRS must have Form 1094-C by February 29, 2016 unless you are electronically filing. In that case, the IRS must have Form 1094-C by March 31, 2016.

### Did you know?

*IRS requirements for ACA reporting apply to such traditionally exempt organizations as nonprofits, Indian Tribal Government employers—and federal, state and local government employers. Correct: Congress is not exempt.*



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## Clarity on who must file

If you are in an organization **in one of the 50 U.S. states** and fit either description on Page 1, you must file IRS Forms 1095-C and 1094-C.

The only U.S. employers meeting these descriptions that do not have to file ACA returns with the IRS are employers in U.S. territories.

All other employers **must** file. Failure to produce these forms could result in an IRS penalty of \$500 per required form.

### Click to read the article:

*ACA Burdened Majority? Employers minding the spirit of the law*



## 2. Unique requirements of ACA forms for employers

In regulatory reporting, the two ACA forms that the IRS requires of employers represent the most complicated record keeping that an organization must shoulder for its employees.

It is easy to overlook fine points, but the information reported on Form 1095-C is:

- not based on check dates, nor dollars
- based on hours—and important to note—not just hours paid on the job, but on hours of service to the employer.

### Insurance company reports aren't enough for employer compliance

Some employers are working under the belief that their insurance company will provide all of the information they need to complete 1095-C reporting. Unfortunately, it's not that simple.

Insurance providers only have data for those employees who accepted coverage, not for everyone on your payroll who was eligible for coverage. That reporting burden falls on the employer, as does responsibility for reporting on the affordability of the coverage you offer. Affordability data will not be available from your insurance provider.

### Did you know?

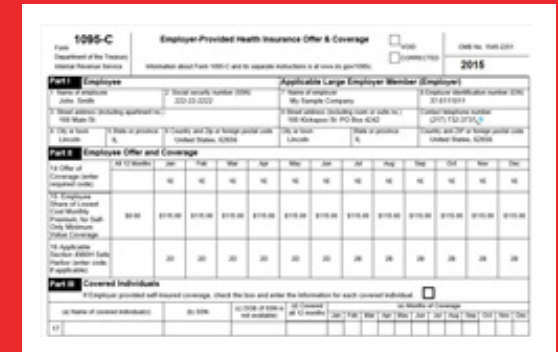
Insurance providers have their own ACA reporting requirements. For everyone that an insurance company covers, they must produce a Form 1095-B. Transmittal of these forms to the IRS then must be done on a 1094-B.



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## IRS reporting intensified

### In the ACA age

#### Monthly breakdowns

- Form 1095-C

### Before the ACA

#### Yearly summary

- Form W-2

#### Quarterly summary

- Form 941

Click to see and hear these FAQs:

*What is a 1095-C?  
Why is this IRS form not like a W-2?*



### 3. The challenges with IRS Form 1095-C

Though detail on a 1095-C should concern all employers, some 1095-C detail escalates to a penalty risk-management concern for employers who offer limited health insurance:

- Did they identify everyone who is full-time and, thereby, eligible for coverage?
- Was the offer they made to every employee affordable?

#### → Determining eligibility

Employers with many hourly workers, part-time workers with varying schedules, and frequent turnover must cautiously track employees' hours of service to see—by month and every month—which variable-hour employees are trending toward full-time status.

Only with business intelligence for such forecasting can an offer of coverage be made in time to avoid an IRS penalty for ACA noncompliance.

#### → Calculating affordability

Because employers do not see their employees' individual tax returns, they can't pinpoint how affordable an offer of health insurance is.

But to declare an offer's affordability, ACA regulations allow three safe harbor calculations: the Form W-2 Wages safe harbor, the Rate of Pay safe harbor and the Federal Poverty Line safe harbor.

Employers with lower-wage workers must learn how to apply these safe harbors and find automation that calculates them.

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### ACA vulnerable industries

- Hospitality
- Employment agencies
- Nursing care
- Colleges, universities, schools
- Religious organizations
- Municipalities
- Security services
- Food processing
- Trucking
- Construction
- Agribusiness
- Nonprofits

Click to read the article:

*1095-C reporting:  
How to use affordability safe harbors*



## 4. The challenges with IRS Form 1094-C

There are two specific situations that require special attention to correctly file IRS Form 1094-C, the transmittal to the IRS of all the Form 1095-Cs that you produce for your employees.

### You need to note

#### ➔ **Electronic filing of Form 1094-C is required for 250 or more 1095-C submissions**

If you are producing 250 or more Form 1095-Cs, you must file Form 1094-C electronically. You have until March 31, 2016 to e-file.

#### ➔ **Reporting for commonly controlled/affiliated groups must be unified**

If your organization is in a parent-subsidary group, a brother-sister group or a combination of parent-subsidary and brother-sister groups, you must file consolidated information on Form 1094-C.

One Form 1094-C is required for every group of 1095-Cs under a Federal Employer Identification Number. Of the 1094-Cs that members of a commonly controlled or affiliated group produce, one must be designated as the authoritative submission for the group.

### Did you know?

In a massive XML clearinghouse called the AIR system – Affordable Care Act Information Returns – the IRS has invested \$921.2 million for feeds from insurance providers, the exchanges, individuals and employers.



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## Accuracy will matter

Enforcement of the ACA employer mandate is on the watch of the IRS, not the Department of Health and Human Services – which oversaw implementation of the ACA individual mandate.

Another technical disaster isn't foreseeable when the IRS is the enforcer.

Unlike the Department of Health and Human Services, the IRS is a government body with experience engineering superhuman data crunching.

### See and hear this FAQ:

*What's the rush for my organization to get ready?*



## 5. The cost of employer noncompliance

There are **three situations** where an employer can incur ACA noncompliance penalties—and IRS fines for each are significant.

In two of the situations, the penalty is triggered when just one employee who is eligible for an offer of health insurance from his or her place of employment gets a subsidy or tax credit for coverage that he or she sought on a health care exchange.

*Remember: Payments for ACA penalties cannot be deducted as business expenses. Amounts shown are before taxes.*

### You need to understand

- ➔ **The penalty for filing 1095-C/1094-C forms showing no coverage was offered—aka 'the ACA sledgehammer'**

For 2015, the per-employee, per-month penalty for not offering coverage to an eligible employee is \$173.67 times the total number of full-time employees and full-time equivalents minus 80. (Exemptions will drop to 30 for calendar year 2016.)

- ➔ **The penalty for filing 1095-C/1094-C forms showing the coverage offered did not meet ACA standards—aka 'the ACA tack hammer'**

For 2015, the per-employee, per-month penalty for not offering coverage deemed affordable or which does not meet the ACA standard for minimum value is \$260.50 times the number of full-time employees who got subsidized coverage on an exchange. Not to exceed the sledgehammer calculation.

- ➔ **The penalty for not filing 1095-C/1094-C forms**  
\$500 per required form



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## The sledgehammer

ACA penalty for offering no coverage



## The tack hammer

ACA penalty for offering noncompliant coverage

Click to read the article:

Take cover from the ACA sledgehammer and tack hammer penalties



## 6. What to look for in ACA compliance software

Tracking the monthly breakdowns and intricate calculations required to support compliance with the IRS reporting requirements of the ACA is not a job for spreadsheets.

You need technology that works continuously, keeping accurate records and automating reports to reflect the employee eligibility and affordability testing methods your organization uses.

As you evaluate your options, there are the factors you should consider.

- ➔ Will the solution work with my **current HR/Payroll/ERP systems**?
- ➔ Is there **quick implementation without a steep learning curve**?
- ➔ Does the solution **generate the required forms** and, when required, **electronically file** them to the IRS?
- ➔ Does the solution have business intelligence tools that include easy-to-use **dashboards for monitoring critical compliance metrics and KPIs**?
- ➔ So we can make workforce decisions proactively, does the system deliver **automatic alerts** when it detects circumstances that could affect compliance?
- ➔ As IRS guidance changes, are there **automatic updates** to ensure the software stays up to date?
- ➔ When my team members and I have a question, is there an **ACA-fluent customer care representative** who can listen and respond with clear expertise?

### What an employer **must do** overall & when

#### Annually

Provide Form 1095-C to all ACA-defined full-time employees



File 1094-C with the IRS

Determine ALE status



#### Monthly

Calculate employee eligibility for offer of health coverage

Track cost of the coverage offered

Track affordability of coverage offered to each employee

#### Continuously

Track every employee's hours of service

