

Understanding the Affordable Care Act

Employer Shared Responsibility Guide:

Requirements for Compliance



From HowardSimon

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2015: ACA in Effect

How is Your Business Affected?

Beginning in 2015, employers that had 50 or more full-time and *full-time equivalent employees* (FTEs) in 2014 are subject to the Employer Shared Responsibility provisions of the Affordable Care Act (newly added Section 4980H of the Internal Revenue Code). Employers meeting the 50-employee threshold are referred to as *applicable large employers*, or ALEs.

Employers with fewer than 50 employees (part-time and full-time) in 2014 are not required to provide employees with health coverage. For businesses with less than 25 employees who elect to provide health coverage, a tax incentive may be available. More information can be found at <https://www.healthcare.gov/small-businesses/provide-shop-coverage/small-business-tax-credits/>

What is Required of Applicable Large Employers or ALEs?

ALEs must offer affordable health insurance with the minimum level of coverage to full-time employees and their dependents (children under age 26). If an ALE fails to offer coverage, they may be subject to Employer Shared Responsibility payments; at least one employee must receive a premium tax credit. To ensure that employers meet health coverage requirements, two new filing requirements begin in 2015.

New Tax Forms

- **1094-C:** Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns
- **1095-C:** Employer-Provided Health Insurance Offer and Coverage



Determining Your ALE Status: Classifying Employees

The total number of employees determines the applicable large employer (ALE) status of employers.

Let's breakdown the method to classify employees as full-time or part-time, using the number of service hours in a calendar month measurement (alternative method: number of services hours weekly)

Part-time vs. Full-time

Add up the total number of service hours of an employee for the calendar month.

- If the number is 130 or greater, the employee is classified as a full-time employee.
- If the number is less than 130, the employee is classified as a part-time employee.

Determine the full-time or part-time status of each employee for each month within the calendar year.

What is considered a service hour?

ACA regulations define a service hour as an hour that an employee is paid or due payment for performing duties for an employer; additionally, each hour an employee does not perform duties but is entitled to payment (i.e. vacation, holiday, illness, disability, layoff, jury duty, military leave, etc.) should be considered a service hour.

Calculating Employees

Turning Part-time Employees into Full-time Equivalents

Add up the total number of service hours for part-time employees only (up to 120 hours per employee) for the calendar month. Divide the monthly total by 120. Repeat for each calendar month and find the average.

The resulting number is the total number of FTEs.

Full-time + FTEs \geq 50 = Applicable Large Employer

A useful calculator for employers to calculate the total number of full-time equivalents:

<https://www.healthcare.gov/shop-calculators-fte/>



Clients of *HowardSimon* Payroll Services do not need to worry about manually calculating services hours or determining ALE status!

Newly established functions within *HowardSimon's* payroll system tackle ACA requirements to ensure the compliance of our clients.

Affordable Insurance at a Minimum Value

In order to remain in compliance, employers must provide *affordable insurance at a minimum essential coverage (MEC)*.

MEC Requirements:

- Coverage provides at least 60% of the total cost of an employee's medical expenses
- Employee's share of the premium for *the lowest priced self-only insurance plan option* remains 9.5% or below the employee's annual household income

The government provided three safe harbors to roughly gauge annual household income.

1. W-2 Wages	2. Rate of Pay	3. Federal Poverty Line
<i>Ideal for employers with primarily full-time employees (working 40 hours a week on average) with steady compensation</i>	<i>Ideal for employers with hourly employees</i>	<i>Ideal for employers with seasonal employees or variable-hour employees that may have full-time status</i>
Determine if the employee's health coverage premium is no more than 9.5% of Box 1 on the employee's current year's W2 form; must be calculated monthly.	Multiply the lowest pay rate within the month for an hourly employee by 130 (maximum hours calculated). If the employee's health coverage premium is not more than 9.5% of this amount, coverage is considered affordable. Note: If your lowest-paid employee meets the affordability requirements, so should all your other employees.	Divide the federal poverty line for a single-person household for the current year by 12. If the health coverage premium is no more than 9.5% of this amount, coverage is considered affordable. Note: Generally, the W-2 and Rate of Pay methods allow for higher monthly premiums.

Filing Requirements

ALEs must file new forms providing information on health coverage offered to employees. The new Section 6056 in the Internal Revenue Code requires employers to file forms with the IRS and distribute statements to employees. The IRS utilizes the provided information to administer the employer shared responsibility provisions.

HowardSimon will file forms 1094-C and 1095-C on behalf of our clients.

Mandate Deadlines

January 31, 2016: Employees must receive copies of Form 1095-C containing information from the previous year (2015)

February 28, 2016: IRS must receive copies of Form 1094-C and Form 1095-C

Form 1094-C

Transmittal form – cover letter type form

Each ALE member must file the form for each return filed in a given calendar year

The form contains information on the number of full-time employees, the minimum essential coverage offered, and the safe harbor used to determine affordability

Form 1095-C

Employee statement

Must be filed for each full-time employee

Please note: Employers with self-insured plans (including non-ALEs) also file this form; separate sections focused on self-insured plans must be completed



Penalties

If an employer does not offer coverage or offers coverage to fewer than 95% of full-time employees and their dependents, the employer may owe an **Employer Shared Responsibility payment**. A full-time employee (not full-time equivalent) must receive a premium tax credit in order for an employer to be subject to the penalty.

Formula to Calculate Annual Payment

$$(\# \text{ of Full-time Employees for the Year} - 30) \times \$2,000$$

If an employer fails to provide coverage every month within the year, payments can be calculated for each month that coverage was not offered.

When an employee receives a premium tax credit and an employer owes a payment, the IRS notifies the employer of the potential liability and provides the employer an opportunity to respond before assessing a payment. Beginning in 2014, the Employer Shared Responsibility payments increase over time based on inflation.

Transition Relief: Employers with 50 - 99 Full-time Employees in 2014

All applicable employers must comply with the ACA Employer Shared Responsibility provisions but employers with 50 to 99 full-time (and FTEs) qualify for transition relief for 2015. Although these employers must complete filing requirements and meet health coverage requirements, applicable large employers with fewer than 100 employees in 2014 will not be subject to Employer Shared Responsibility payments.

From the IRS

Affordable Care Act Tax Provisions for Employers

<http://www.irs.gov/Affordable-Care-Act/Employers>

Employer Information Reporting on Form 1094-C and 1095-C

<http://www.irs.gov/Affordable-Care-Act/Employers/Questions-and-Answers-about-Information-Reporting-by-Employers-on-Form-1094-C-and-Form-1095-C>

Employer Shared Responsibility Provisions Under the Affordable Care Act

<http://www.irs.gov/Affordable-Care-Act/Employers/Questions-and-Answers-on-Employer-Shared-Responsibility-Provisions-Under-the-Affordable-Care-Act>

Reporting of Offers of health Insurance Coverage by Employers (Section 6056)

<http://www.irs.gov/Affordable-Care-Act/Employers/Questions-and-Answers-on-Reporting-of-Offers-of-Health-Insurance-Coverage-by-Employers-Section-6056>

Information for Small Businesses from HealthCare.gov

<https://www.healthcare.gov/small-businesses/>