



AFFORDABLE CARE ACT AND THE EMPLOYER MANDATE

Understanding the Affordable Care Act's Employer Mandate

The **Affordable Care Act (ACA)**, passed in 2010, introduced major changes to healthcare and tax laws. One of its key provisions—the **Employer Mandate**—became effective on **January 1, 2015**. This mandate requires certain employers to offer health coverage to their full-time employees or face potential penalties.

IRS Enforcement and Penalties

Starting in 2015, the IRS began enforcing the Employer Mandate by issuing **Letter 226J penalty notices** to employers who failed to meet ACA reporting requirements. Enforcement has continued for tax years 2016 through 2020 and may apply to earlier years as well. There is no statute of limitations for ACA penalties.

Why This Matters

Employers must understand ACA rules to:

- Avoid costly penalties
- Offer compliant health coverage
- Manage healthcare costs effectively

This summary outlines the key ACA requirements, including who is affected, how to determine employer status, and what kind of coverage is required.

Who Must Comply?

Applicable Large Employers (ALEs)

Businesses are considered **ALEs** if they had **50 or more full-time or full-time equivalent (FTE) employees** during the previous calendar year.

- **Full-time employees:** Work at least 30 hours per week.
- **FTEs:** Calculated by adding the total monthly hours of part-time employees and dividing by 120.

If the combined total of full-time and FTE employees is **50 or more**, the business is an ALE and must comply with the Employer Mandate.

Important: Businesses under common ownership or control are grouped together. If the combined workforce across related companies meets the ALE threshold, each company is treated as part of one ALE.

Determining Full-Time Status

The IRS provides two methods to determine if an employee is full-time:

1. Monthly Measurement Method

- Best for employees with consistent schedules.
- Employees working 30+ hours per week are considered full-time.

2. Look-Back Measurement Method

- Ideal for variable-hour employees.
- Employers review a **measurement period** (3–12 months) to see if an employee averaged:
 - **30+ hours per week**, or
 - **130+ hours per month**

If the employee qualifies as full-time during the measurement period, they must be treated as full-time during the **stability period** (which must be at least as long as the measurement period).

What Coverage Must Be Offered?

ALEs must offer health coverage that meets three key standards:

1. Minimum Essential Coverage (MEC)

Coverage must meet ACA definitions, including employer-sponsored plans, government programs, and grandfathered plans.

2. Minimum Value (MV)

The plan must cover at least **60% of expected healthcare costs**.

3. Affordability

The employee's share of the premium must be affordable based on IRS guidelines.

To avoid penalties, ALEs must offer **MEC that meets MV and affordability standards** to all full-time employees and their dependents **every month**.

ACA Affordability Mandate (2026)

Under the **Affordable Care Act (ACA)**, **Applicable Large Employers (ALEs)**—those with **50 or more full-time or full-time equivalent employees**—must offer health insurance that meets three key standards:

✓ 1. Minimum Essential Coverage (MEC)

Coverage must qualify as MEC and meet **Minimum Value (MV)**, meaning it covers **at least 60%** of expected healthcare costs.

✓ 2. Affordability Threshold

For **plan years beginning in 2026**, coverage is considered **affordable** if the employee's monthly cost for the **lowest-cost, self-only plan** does **not exceed 9.96%** of their household income.

✓ 3. Safe Harbors for Employers

Because employers typically don't know household income, the IRS allows three **safe harbor methods**:

- **W-2 Safe Harbor**: Employee contribution must be $\leq 9.96\%$ of Box 1 W-2 wages.
- **Rate of Pay Safe Harbor**: Contribution must be $\leq 9.96\%$ of monthly salary or hourly wage $\times 130$.
- **Federal Poverty Line (FPL) Safe Harbor**: Contribution must be $\leq 9.96\%$ of the FPL for a single individual (about **\$129.89/month** for 2026).

ACA Employer Penalties (2026)

Employers who fail to meet ACA requirements may face **significant penalties** under **IRC Section 4980H**:

✗ 1. Penalty A – Failure to Offer MEC

- Applies if MEC is not offered to **at least 95%** of full-time employees and dependents.
- Penalty: **\$3,340 per full-time employee per year**, minus the first 30 employees.
- Example:
If an employer has 300 full-time employees:
 $\$3,340 \times (300 - 30) = \textbf{\$902,800 annually}$

✗ 2. Penalty B – Coverage Not Affordable or Lacks Minimum Value

- Applies if coverage is offered but is **unaffordable** or doesn't meet **MV**, and an employee receives a subsidy.
- Penalty: **\$5,010 per affected employee per year**
- Example:
If 10 employees receive subsidies for 6 months:
 $\$417.50 \times 6 \times 10 = \textbf{\$25,050}$

Employers **cannot be penalized under both A and B** in the same year. Only the **higher penalty** applies.

ACA IRS Reporting Requirements (2025 Filing for 2026)

ALEs must report health coverage details to the IRS and employees using specific forms:

Required Forms

- **Form 1095-C:** Sent to each full-time employee detailing coverage.
- **Form 1094-C:** Summary form submitted to the IRS.

Key Deadlines

- **March 2, 2026:** Deadline to furnish Form 1095-C to employees.
- **March 31, 2026:** Deadline to electronically file Form 1094-C and 1095-C with the IRS.

Electronic filing is mandatory for ALEs. Paper filing is no longer allowed.

Penalties for Late or Incorrect Filing

- **\$60 per form** if filed within 30 days late
- **\$130 per form** if filed after 30 days but before August 1
- **\$340 per form** if filed after August 1 or not filed
- **\$680 per form** for **intentional disregard** (no maximum limit)

Why Compliance Matters

Staying compliant with ACA rules helps employers:

- Avoid costly penalties
- Ensure employees receive accurate coverage
- Maintain a positive reputation and employee trust