Demystifying 3 Confusing Lines on IRS Form 1095-C

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The implementation of various parts of the Affordable Care Act (ACA) has brought more compliance requirements—and thus, more confusion—to the HR professional’s job than perhaps any other laws or regulations.

When it comes to ACA information reporting requirements, many employers sponsoring health insurance plans are confused about how to fill out the paperwork, feeling the pressure to do it correctly or face steep fines. Also, unfortunately, while many HR departments had hoped that the election of President Donald Trump would mean that there would be some kind of repeal or nullification of the 2016 information reporting requirements, it doesn’t look like that is going to happen before the quickly-approaching deadlines to furnish and file the forms.

One area of confusion, and perhaps the most mystifying area, entails lines 14 through 16 on Form 1095-C, a form employers must fill out to show that health insurance was offered to employees.

These lines ask employers to disclose which months they offered coverage to employees, whether or not coverage met certain minimum standards called “minimum essential coverage” (MEC) and “minimum value” (MV), and the lowest possible premium cost for the self-only tier of coverage.

The reason these lines are so confusing is they require the use of a number of codes that HR professionals often don’t feel comfortable with. Adding to the confusion, the IRS Instructions, which were designed to explain these codes, are filled with acronyms, technical language and legalese (not to mention the tiny font).

Eliminated and New Codes

Unfortunately, HR professionals can’t simply rest on their laurels based on their understanding of what they did last year. Among other changes to the IRS Instructions, the IRS eliminated two codes (Codes 1I and 2I are now marked as “reserved”) and added two new codes for 2016 to describe conditional offers of coverage made to employees’ spouses.

Specifically, Code 1J was added to describe a scenario where an offer of MEC and MV was made to the employee, and where the employer conditionally offered at least MEC coverage to the employee’s spouse (for example, on the condition that he or she is not eligible for other coverage). Code 1J is similar to a code that we had in 2015, Code 1D, because the employer can be exposed to a penalty under both of
these codes since dependent children of the employee are not offered coverage.

Code 1K was added to describe a scenario where an offer of MEC and MV was made to the employee, at least MEC was offered to the employee’s dependent children, and where the employer conditionally offered at least MEC coverage to the employee’s spouse. Code 1K is similar to a code that we had in 2015, Code 1E, because, under both of these codes, the employer is not subject to the penalty it might face under Code 1J for failing to offer coverage to the employee’s dependent children.

Here are some common scenarios that might help you in completing Form 1095-C for your employees.

**An Example of How It’s Supposed to Work**
Consider this fictional example: ABC Company, which sponsors a fully-insured medical plan for 150 full-time employees, offers health insurance that meets both MEC and MV requirements. The health insurance is offered through both a family tier and a single (employee-only) tier. ABC Company doesn’t hire any variable-hour employees. Kathy Smith is a full-time employee who was hired in 2015 and has worked every month in 2016. She has one daughter, Ophelia Smith, and Kathy and her daughter are enrolled in the family tier of coverage.

The cost of the employee’s share of the family tier of coverage is $225 per month. The cost of the employee’s share of the single or employee-only tier of coverage is $105 per month, and the cost of the employee share for both tiers didn’t change at all during 2016.

The cost of the single tier is less than 9.66% of Kathy’s W-2 income, as reported in Box 1 of her Form W-2. When completing Form 1095-C for Kathy Smith, ABC correctly enters: Code 1C in line 14 because coverage meets MEC and MV requirements, and is provided to dependents; $105 in line 15 (for the single tier, even though enrolled in the family tier); and then Code 2F (W-2 Safe Harbor) in line 16 for all 12 months because the single tier of the lowest cost plan didn’t exceed 9.66% of the employee’s 2016 W-2 income, as reported in Box 1 of that form.

Here, the employer is in a good position with respect to ACA penalties, assuming its other employees have sufficient W-2 income for the employer to meet the W-2 Safe Harbor, and that other applicable compliance requirements have been met.

**Another Scenario**
XYZ Company, which sponsors a self-insured health plan for 175 full-time employees and 25 variable-hour employees, offers health insurance that meets MEC and MV requirements. Each employee’s share of the cost of the single tier of coverage is $93 per month and the employee’s share of the cost of the “single plus one” tier is $125. The cost for both tiers was the same for the entire 2016 calendar year.

XYZ offers this health insurance coverage to employees and spouses, but it is only offered to spouses if they can’t secure health insurance coverage from another source. John Johnson is a variable-hour employee who
is married to Sarah Johnson. John’s initial measurement period ended on April 30, 2016. He worked more than 30 hours on average per week during this initial measurement period and he is eligible for coverage on May 1.

On May 1, John enrolls himself in the health plan, but not his wife, since she can get coverage from another source. John works for XYZ and stays on their health plan for the remainder of 2016.

When completing the Form 1095-C for John Johnson, XYZ correctly enters Code 1H in line 14 for the months of January through April since no offer of coverage was made during the Limited Non-Assessment Period of John’s initial measurement period. For the months of May through December, the employer correctly enters Code 1J in line 14, since the offer to John met MEC and MV, but was only made conditionally to John’s spouse. The employer correctly enters $93 in Line 15 for the cost of the single tier of coverage. For Line 16, XYZ correctly enters Code 2D (Limited Non-Assessment Period) for the months of January through April, and Code 2G (Federal Poverty Line Safe Harbor) for May to December because the single tier of the lowest cost plan didn’t exceed 9.66% of the Federal Poverty Line (or $95.63 per month). Under the facts here, the employer is potentially exposed to a penalty since the employer did not offer coverage to dependent children of full-time employees.

Believe it or not, these are fairly straightforward examples of how lines 14-16 on Form 1095-C can be filled out. Things can get much more complex when companies experience significant events like mergers, spinoffs or major layoffs.

Doing this correctly can be a challenging task for even the most competent HR departments. Adding to the pressure are the steep penalties. In 2016, an employer can be penalized $260 per incorrect form that it files with the IRS (this applies to both the Form 1095-C and Form 1094-C). Similarly, an employer can be penalized $260 for each incorrect form that it is required to provide to its employees (this applies just to the Forms 1095-C furnished to employees). Each penalty is separately capped at a maximum annual penalty of $3,193,000.

Bottom line: The potential fines for non-compliance are steep. That’s why it’s important that you complete these forms correctly.

For more information, please call 1.877.426.7779