

COMPLIANCE ADVISOR



WHAT YOU NEED TO KNOW

IRS Reporting Tip #1 Form 1094-C, Line 22

Under the Patient Protection and Affordable Care Act (ACA), individuals are required to have health insurance while applicable large employers (ALEs) are required to offer health benefits to their full-time employees.

In order for the Internal Revenue Service (IRS) to verify that (1) individuals have the required minimum essential coverage, (2) individuals who request premium tax credits are entitled to them, and (3) ALEs are meeting their shared responsibility (play or pay) obligations, employers with 50 or more full-time or full-time equivalent employees and insurers will be required to report on the health coverage they offer. Similarly, insurers and employers with less than 50 full time employees but that have a self-funded plan also have reporting obligations. All of this reporting is done on IRS Forms 1094-B, 1095-B, 1094-C and 1095-C.

Final instructions for both the [1094-B and 1095-B](#) and the [1094-C and 1095-C](#) were released in September 2015, as were the final forms for [1094-B](#), [1095-B](#), [1094-C](#), and [1095-C](#).

Form 1094-C

Form 1094-C is used in combination with Form 1095-C to determine employer shared responsibility penalties. It is often referred to as the “transmittal form” or “cover sheet.” IRS Form 1095-C will primarily be used to meet the Section 6056 reporting requirement, which relates to the employer shared responsibility/play or pay requirement. Information from Form 1095-C will also be used in determining whether an individual is eligible for a premium tax credit.

Form 1094-C contains information about the ALE, and is how an employer identifies as being part of a controlled group. It also has a section labeled “Certifications of Eligibility” and instructs employers to “select all that apply” with four boxes that can be checked. The section is often referred to as the “Line 22” question or boxes. Many employers find this section confusing and are unsure what, if any, boxes they should select. The boxes are labeled:

- A. Qualifying Offer Method
- B. Qualifying Offer Method Transition Relief
- C. Section 4980H Transition Relief
- D. 98% Offer Method

Qualifying Offer Method

The instructions provide the following definition to explain the qualifying offer method.

Check this box if the employer is eligible to use and is using the Qualifying Offer Method to report the information on Form 1095-C for one or more full-time employees. To be eligible to use the Qualifying Offer Method for reporting, the employer must certify that it made a Qualifying Offer to one or more of its full-time employees for all months during the year in which the employee was a full-time employee for whom an employer shared responsibility payment could apply. Additional requirements described below must be met to be eligible to use the alternative method for furnishing Form 1095-C to employees under the Qualifying Offer Method.

This means that if an employer used code “1A” for any employee on Line 14 of its 1095-C form, the employer should check Box A. Code 1A is only used by employers who offered minimum value, minimum essential coverage to a full-time employee, and the coverage meets the federal poverty level safe harbor. It cannot be used for minimum value, minimum essential coverage that meets either the W-2 or rate of pay safe harbor.

Qualifying Offer Method Transition Relief

The instructions provide the following definition to explain the qualifying offer method transition relief.

Check this box if the employer is eligible for and is using the Qualifying Offer Method Transition Relief for the 2015 calendar year to report information on Form 1095-C for one or more full-time employees. To be eligible to use the Qualifying Offer Method Transition Relief, the employer must certify that it made a Qualifying Offer for one or more months of calendar year 2015 to at least 95% of its full-time employees. For this purpose, an employee in a Limited Non-Assessment Period is not included in the 95% calculation.

This means that if an employer made a qualifying offer to 95 percent or more of its full-time employees (in essence, met the requirements of using code 1A on Line 14 of the 1095-C), but failed to offer coverage to a full-time employee in the remaining 5 percent or less (those who were not given a qualifying offer), code 1I can be used instead of 1H for the full time employee that wasn't offered coverage. An employer that uses code 1I on Line 14 of the 1095-C to report failing to offer coverage to a full-time employee should check Box B and should not check Box A.

Code 1I acts like a safe harbor, indicating that an employee did not receive an offer of coverage but that the employer was entitled to transition relief. Essentially, the employer is given a “free pass” on the missed offer of coverage for the employees in the remaining 5 percent (or less) by virtue of making the qualifying offer to 95 percent or more of its full time employees.

Section 4980H Transition Relief

Box C is used to inform the government that an employer is entitled to one of two forms of transition relief:

1. Midsize Employer Transition Relief (only available to employers with 50 to 99 employees who meet the maintenance requirements of transition relief)
2. Relief when Calculating Assessable Penalties (only available to employers with 100 or more employees)

For a mid-size employer to qualify for transitional relief (to delay offering health benefits until January 2016 or the start of its 2016 plan for non-calendar year plans), it must meet a set of maintenance requirements. The maintenance requirements are that during the period beginning on February 9, 2014, and ending on the last day of the plan year that begins in 2015, the employer:

- Has not modified the plan year of its plan after February 9, 2014, to begin on a later calendar date;
- Has not reduced the size of its workforce or the overall hours of service of its employees so that it could qualify for this delay, and
- Has not eliminated or materially reduced any coverage it had in effect on February 9, 2014. A material reduction means that:
 - The employer's contribution is either less than 95 percent of the dollar amount of its contribution for single-only coverage on February 9, 2014, **or** is a smaller percentage than the employer was paying on February 9, 2014;
 - A change was made to the benefits in place on February 9, 2014, that caused the plan to fall below minimum value; or
 - The class of employees or dependents eligible for coverage on February 9, 2014, has been reduced.

If a mid-size employer meets the requirements of transition relief, it should check Box C. To correspond with this relief, it will also enter the letter "A" in Part III Column (e) of the 1094-C.

An employer with 100 or more employees that fails to offer coverage to 70 percent or more of its full-time employees will owe the \$2,000 penalty multiplied by its total number of full-time employees, if any of the full-time employees who were not offered coverage receive a subsidy on the Exchange. When calculating the penalty in 2015, the number of full-time employees used to calculate the penalty will be reduced by 80 if Box C is checked. Unless an employer provides minimum value, minimum essential coverage to 100 percent of its full-time employees (removing the chance of owing a penalty), an employer with 100 or more employees should consider checking Box C as a safety net. If the employer does not owe a penalty it will not be harmed or penalized for checking Box C.

If an employer with 100 or more employees checks Box C, to correspond with this relief it will also enter letter "B" in Part III Column (e) of the 1094-C.

98% Offer Method

An employer meets the requirements of the 98% Offer Method if it offers affordable, minimum value coverage to at least 98 percent of the total number of employees it is filing a Form 1095-C for, regardless of whether they are full-time or part-time. Typically, employers are only filing a Form 1095-C for their full-time employees, but that is not always the case. This means that the employer does not need to report whether an employee is full-time and it does not need to provide a count of its full-time employees. If the employer meets the requirements of the 98% Offer Method it should check Box D.

However, the employer will still need to provide Form 1095-C to each of its full-time employees, which includes all of the other information required, and if an employee requests a premium tax credit, it will need to respond to an IRS inquiry about the employee's work and coverage status. Employers that anticipate difficulties reporting full-time employees (excluding those in waiting periods) may find this option helpful.

If an employer selects Box D it does not need to complete Part III Column (b) of the 1094-C.

Conclusion

Different real world situations will lead an employer to select any combination of boxes on Line 22, including leaving all four boxes blank. Practically all employers except a mid-size employer that did not qualify for transition relief should select Box C, and corresponding with that, most employers will enter letter either "A" or "B" in Part III Column (e) of the 1094-C. Very few employers will be able to select Box D unless they offer minimum value, minimum essential, affordable coverage to all employees. Employers who do not use the federal poverty level safe harbor for affordability will never select Box A or Box B, and corresponding with that, will never use codes 1A or 1I on Line 14 of a 1095-C form.

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