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COMPLIANCE ADVISOR



WHAT YOU NEED TO KNOW

## **IRS Reporting Tip #2**

### **Form 1095-C, Line 14, Code 1A versus 1E, and When To Use 1I**

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 1095-C**

IRS Form 1095-C will primarily be used to meet the Section 6056 reporting requirement. The Section 6056 reporting requirement 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.

Line 14 of the 1095-C is where an employer reports an offer of coverage that is or is not made to an employee. The offer is reported by using one of nine codes, which are referred to as "Code Series 1" codes. If coverage did not vary during the calendar year, the employer may use one code to report all 12 months, or it may report each month separately. If coverage varied during the year, the relevant code is needed for each month. The reporting will be made

on a calendar year basis, even if the employer has a non-calendar year plan. In 2015 employers with non-calendar year plans that were subject to transition relief must still report coverage that was or was not offered for the months prior to the start of their 2015 plan year. The earlier months should not be left blank. All months must be completed even if the employee only worked for the employer for part of the year.

The Code Series 1 offer codes are:

- Code 1A - Offered minimum value coverage to the full-time employee with an employee contribution for self-only coverage less than or equal to 9.5 percent of the federal poverty level (FPL) for the 48 contiguous states and offered at least minimum essential coverage to the spouse and dependent children (a "qualifying offer"). If this code is used, line 15 must be left blank.
  - Note: If an employer meets all the requirements of 1A but uses an affordability safe harbor rather than the FPL, it cannot use 1A.
  - Note: If an employer offered minimum value coverage to a *part-time* employee with an employee contribution for self-only coverage less than or equal to 9.5 percent of the FPL for the 48 contiguous states and offered at least minimum essential coverage to the spouse and dependent children, it cannot use 1A.
- Code 1B - Offered minimum value coverage to the employee only.
- Code 1C - Offered minimum value coverage to the employee and at least minimum essential coverage to the employee's dependent children (but not to the spouse).
- Code 1D - Offered minimum value coverage to the employee and at least minimum essential coverage to the spouse (but not to the employee's dependent children). An employer that excludes or imposes a surcharge on spouses who have coverage available through the spouse's employer may use this code even if the employee's spouse falls under the carve-out.
- Code 1E - Offered minimum value coverage to the employee and at least minimum essential coverage to both the dependent children and the spouse. An employer that excludes or imposes a surcharge on spouses who have coverage available through the spouse's employer may use this code even if the employee's spouse falls under the carve-out. This treatment is for reporting purposes only and generally will not affect the spouse's eligibility for the premium tax credit if the spouse did not meet the condition and therefore did not have an actual offer of coverage.
- Code 1F - Offered coverage that is minimum essential coverage but does not provide minimum value to the employee, or to the employee and the employee's spouse or dependents, or to the employee the employee's spouse and dependents.
- Code 1G - Offered coverage to an employee who was not a full-time employee and the employee enrolled in coverage that is self-funded.
- Code 1H - No medical coverage was offered or the coverage that was offered is not minimum essential coverage.
  - Note: For a terminated employee, code 1H should be entered for any month for which the offer of COBRA continuation coverage applies. In 2015 employers relying on the multiemployer arrangement interim guidance (coverage under a union plan) should enter code 1H on line 14 for any month for which the employer enters code 2E on line 16 (indicating that the employer was required to contribute to a multiemployer plan on behalf of the employee for that month and therefore is eligible for multiemployer interim rule relief).
  - Note: An employer who provides coverage that does not cover an individual for an entire month should enter code 1H.
- Code 1I - 2015 qualifying offer transition relief: The employee, spouse, or dependents received no offer of coverage, received an offer of coverage that was not a "qualifying

offer" or received a "qualifying offer" for less than all 12 months but 95 percent of the employees did receive such an offer.

## 1A versus 1E

Many employers wonder what the difference is between code 1A and code 1E. Both codes can only be used by an employer that offers minimum value, minimal essential coverage to employees, their spouses, and their dependent children.

Code 1A can only be used for offers of coverage to *full-time* employees (employers who offer coverage to part-time employees or set their eligibility threshold below 30 hours a week should take caution with using 1A), and it can only be used by employers who are using the *federal poverty level safe harbor* for determining affordability. Employers who use the W-2 or rate of pay safe harbors for affordability may not use code 1A on Line 14.

Some employers prefer to use code 1A because it allows them to skip Line 15, where the cost of coverage is reported. Employers with health plans that fluctuate in cost over time or among employee groups might find this option very appealing. Other employers might not find the ability to skip Line 15 particularly helpful because the cost is a uniform amount for every Form 1095-C that they are filing.

The use of code 1A, and subsequently skipping Line 15, is referred to as the "qualifying offer method." Employers that use code 1A should also check Box A, on Line 22 of Form 1094-C, to correspond with the use of the qualifying offer method.

An employer that meets all the requirements of code 1A automatically is qualified to use code 1E, but not all employers that can use 1E can meet the requirements of 1A. An employer that meets the requirements of code 1A but wishes to use code 1E instead may do so, but it will be required to fill in the cost information on Line 15.

## Code 1I

Code 1I is another code that some employers find difficult to understand. Code 1I is only applicable to employers who use code 1A for at least 95 percent of their full-time employees. If the employer fails to offer coverage to the remaining 5 percent or less of its full-time employees, the employer may use code 1I instead of code 1H to report the failure to offer coverage. Code 1I acts like a safe harbor and prevents the employer from incurring a penalty for the failure to offer coverage, by virtue of having made a qualifying offer (1A) to 95 percent or more of its full-time employees. Employers that use code 1I should also check Box B, instead of Box A, on Line 22 of Form 1094-C, to correspond with this transition relief. If an employer does not or cannot use code 1A for one or more full-time employees, it may not use code 1I.

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Our access to Compliance Advisor resources can help you clear up ACA questions and better craft your company's benefit strategy for the future.



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