

FAQs on Employer Shared Responsibility (“Pay or Play”)

Special Update: The U.S. Treasury Department has announced that it will delay enforcement of the “pay or play” requirements for one year. As a result, any penalties (also known as employer shared responsibility payments) will not apply until 2015. [Click here for more information.](#)

Beginning in 2015, employers with 50 or more full-time employees (including full-time equivalents) may be required to pay a penalty tax, also known as a “shared responsibility payment,” if any of the employer’s full-time employees are certified to receive a premium tax credit or cost-sharing reduction for enrolling in coverage through a Health Insurance Exchange.

Below are common questions and answers for employers regarding the penalty tax, including:

- » Basics of the Employer Shared Responsibility Provisions
- » Which Employers are Subject to the Employer Shared Responsibility Provisions
- » Liability for the Employer Shared Responsibility Payment
- » Calculation of the Employer Shared Responsibility Payment
- » Making an Employer Shared Responsibility Payment
- » Transition Relief

Basics of the Employer Shared Responsibility Provisions

Q. What are the Employer Shared Responsibility provisions?

A. Starting in 2015, employers employing at least a certain number of employees (generally 50 full-time employees and full-time equivalents, explained more fully below) will be subject to the Employer Shared Responsibility provisions under section 4980H of the Internal Revenue Code.

Under these provisions, if these employers do not offer affordable health coverage that provides a minimum level of coverage to their full-time employees, they may be subject to an Employer Shared Responsibility payment if at least one of their full-time employees receives a premium tax credit for purchasing individual coverage on one of the new Affordable Insurance Exchanges.

To be subject to these Employer Shared Responsibility provisions, an employer must have at least 50 full-time employees or a combination of full-time and part-time employees that is equivalent to at least 50 full-time employees (for example, 100 half-time employees equals 50 full-time employees). As defined by the statute, a full-time employee is an individual employed on average at least 30 hours per week (so half-time would be 15 hours per week).

Q. When do the Employer Shared Responsibility provisions go into effect?

A. The Employer Shared Responsibility provisions were originally to become effective on January 1, 2014. Employers were to use information about the employees they employed during 2013 to determine whether they employed enough employees to be subject to the new provisions in 2014. However, as a result of transition relief, the Employer Shared Responsibility provisions are now fully effective for 2015 instead (see special update above).

FAQs on Employer Shared Responsibility (“Pay or Play”)

Which Employers are Subject to the Employer Shared Responsibility Provisions

Q. How does an employer know whether it employs enough employees to be subject to the provisions?

A. To be subject to the Employer Shared Responsibility provisions, an employer must employ at least 50 full-time employees or a combination of full-time and part-time employees that equals at least 50 (for example, 40 full-time employees employed 30 or more hours per week on average plus 20 half-time employees employed 15 hours per week on average are equivalent to 50 full-time employees). Employers will determine each year, based on their current number of employees, whether they will be considered a large employer for the next year. For example, if an employer has at least 50 full-time employees, (including full-time equivalents) for 2013, it will be considered a large employer for 2014.

Employers average their number of employees across the months in the year to see whether they meet the large employer threshold. The averaging can take account of fluctuations that many employers may experience in their work force across the year. The proposed regulations provide additional information about how to determine the average number of employees for a year, including information about how to take account of salaried employees who may not clock their hours and a special rule for seasonal workers.

Q. If two or more companies have a common owner or are otherwise related, are they combined for purposes of determining whether they employ enough employees to be subject to the Employer Shared Responsibility provisions?

A. Yes, consistent with longstanding standards that apply for other tax and employee benefit purposes, companies that have a common owner or are otherwise related generally are combined together for purposes of determining whether or not they employ at least 50 full-time employees (or an equivalent combination of full-time and part-time employees).

If the combined total meets the threshold, then each separate company is subject to the Employer Shared Responsibility provisions, even those companies that individually do not employ enough employees to meet the threshold. (The rules for combining related employers do not apply for purposes of determining whether an employer owes an Employer Shared Responsibility payment or the amount of any payment). The proposed regulations provide information on the rules for determining whether companies are related and how they are applied for purposes of the Employer Shared Responsibility provisions.

Q. Which employers are not subject to the Employer Shared Responsibility provisions?

A. Employers who employ fewer than 50 full-time employees (or the equivalent combination of full-time and part-time employees) are not subject to the Employer Shared Responsibility provisions. An employer with at least 50 full-time employees (or equivalents) will not be subject to an Employer Shared Responsibility payment if the employer offers affordable health coverage that provides a minimum level of coverage to its full-time employees.

Q. Are companies with employees working outside the United States subject to the Employer Shared Responsibility provisions?

A. For purposes of determining whether an employer meets the 50 full-time employee (or full-time employees and full-time employee equivalents) threshold, an employer generally will take into account only work performed in the United States. For example, if a foreign employer has a large workforce worldwide, but less than 50 full-time (or equivalent) employees in the United States, the foreign employer generally would not be subject to the Employer Shared Responsibility provisions.

FAQs on Employer Shared Responsibility (“Pay or Play”)

Q. Are companies that employ US citizens working abroad subject to the Employer Shared Responsibility provisions?

A. A company that employs U.S. citizens working abroad generally would be subject to the Employer Shared Responsibility provisions only if the company had at least 50 full-time employees (or the equivalent combination of full-time and part-time employees), determined by taking into account only work performed in the United States. Accordingly, employees working only abroad, whether or not U.S. citizens, generally will not be taken into account for purposes of determining whether an employer meets the 50 full-time employee (or equivalents) threshold. Furthermore, for employees working abroad the time spent working for the employer outside of the U.S. would not be taken into account for purposes of determining whether the employer owes an Employer Shared Responsibility payment or the amount of any such payment.

Liability for the Employer Shared Responsibility Payment

Q. Under what circumstances will an employer owe an Employer Shared Responsibility payment?

A. In 2015, if an employer meets the 50 full-time employee threshold, the employer generally will be liable for an Employer Shared Responsibility payment only if:

1. The employer does not offer health coverage or offers coverage to less than 95% of its full-time employees (and their dependents), and at least one of the full-time employees receives a premium tax credit to help pay for coverage on an

Exchange; OR

2. The employer offers health coverage to at least 95% of its full-time employees, but at least one full-time employee receives a premium tax credit to help pay for coverage on an Exchange, which may occur because the employer did not

offer coverage to that employee or because the coverage the employer offered that employee was either unaffordable to the employee or did not provide minimum value.

Q. How does an employer know whether the coverage it offers is affordable?

A. If an employee’s share of the premium for employer-provided coverage would cost the employee more than 9.5% of that employee’s annual household income, the coverage is not considered affordable for that employee. If an employer offers multiple healthcare coverage options, the affordability test applies to the lowest-cost option available to the employee that also meets the minimum value requirement. Because employers generally will not know their employees’ household incomes, employers can take advantage of one of the affordability safe harbors set forth in the proposed regulations. Under the safe harbors, an employer can avoid a payment if the cost of the coverage to the employee would not exceed 9.5% of the wages the employer pays the employee that year, as reported in Box 1 of Form W-2, or if the coverage satisfies either of two other design-based affordability safe harbors.

Q. How does an employer know whether the coverage it offers provides minimum value?

A. The Minimum Value Calculator permits an employer-sponsored plan to enter information about the plan’s benefits, coverage of services, and cost-sharing terms to determine whether the plan provides minimum value. The calculator produces an empirical estimate of the actual average spending by a wide range of individuals representative of those currently enrolled in self-insured employer-sponsored plans. A detailed description of the data underlying the calculator and the calculator’s methodology is available from HHS.

FAQs on Employer Shared Responsibility (“Pay or Play”)

Q. If an employer wants to be sure it is offering coverage to all of its full-time employees, how does it know which employees are full-time employees? Does the employer need to offer the coverage to all of its employees because it won't know for certain whether an employee is a full-time employee for a given month until after the month is over and the work has been done?

A. The proposed regulations provide a method to employers for determining in advance whether or not an employee is to be treated as a full-time employee, based on the hours of service credited to the employee during a previous period. Using this optional look-back method to measure hours of service, the employer will know the employee's status as a full-time employee at the time the employer would offer coverage. The proposed regulations are consistent with IRS notices that have previously been issued and describe approaches that can be used for various circumstances, such as for employees who work variable hour schedules, seasonal employees, and teachers who have time off between school years.

Calculation of the Employer Shared Responsibility Payment

Q. If an employer that does not offer coverage or offers coverage to less than 95% of its employees owes an Employer Shared Responsibility payment, how is the amount of the payment calculated?

A. In 2015, if an employer employs enough employees to be subject to the Employer Shared Responsibility provisions and does not offer coverage during the calendar year to at least 95% of its full-time employees (and their dependents), it owes an Employer Shared Responsibility payment equal to the number of full-time employees the employer employed for the year (minus 30) multiplied by \$2,000, as long as at least one full-time employee receives the premium tax credit. (Note that for purposes of this calculation, a full-time employee does not include a full-time equivalent.)

For an employer that offers coverage for some months

but not others during the calendar year, the payment is computed separately for each month for which coverage was not offered. The amount of the payment for the month equals the number of full-time employees the employer employed for the month (minus up to 30) multiplied by 1/12 of \$2,000. If the employer is related to other employers, then the 30-employee exclusion is allocated among all the related employers.

The payment for the calendar year is the sum of the monthly payments computed for each month for which coverage was not offered.

Q. If an employer offers coverage to at least 95% of its employees, and, nevertheless, owes the Employer Shared Responsibility payment, how is the amount of the payment calculated?

A. For an employer that offers coverage to at least 95% of its full-time employees (and their dependents) in 2015, but has one or more full-time employees who receive a premium tax credit, the payment is computed separately for each month. The amount of the payment for the month equals the number of full-time employees who receive a premium tax credit for that month multiplied by 1/12 of \$3,000. The amount of the payment for any calendar month is capped at the number of the employer's full-time employees for the month (minus up to 30) multiplied by 1/12 of \$2,000. (The cap ensures that the payment for an employer that offers coverage can never exceed the payment that employer would owe if it did not offer coverage.)

FAQs on Employer Shared Responsibility (“Pay or Play”)

Making an Employer Shared Responsibility Payment

Q. How will an employer know that it owes an Employer Shared Responsibility payment?

A. The IRS will contact employers to inform them of their potential liability and provide them an opportunity to respond before any liability is assessed or notice and demand for payment is made. The contact for a given calendar year will not occur until after employees’ individual tax returns are due for that year claiming premium tax credits and after the due date for employers that meet the 50 full-time employee (plus full-time equivalents) threshold to file the information returns identifying their full-time employees and describing the coverage that was offered (if any).

Q. How will an employer make an Employer Shared Responsibility payment?

A. If it is determined that an employer is liable for an Employer Shared Responsibility payment after the employer has responded to the initial IRS contact, the IRS will send a notice and demand for payment. That notice will instruct the employer on how to make the payment. Employers will not be required to include the Employer Shared Responsibility payment on any tax return that they file.

Transition Relief (Prior to Delay of “Pay or Play” Requirements Until 2015)

Q. I understand that the Employer Shared Responsibility provisions do not go into effect until 2014. However, the health plan that I offer to my employees runs on a fiscal plan year that starts in 2013 and will run into 2014. Do I need to make sure my plan complies with these new requirements in 2013 when the next fiscal plan year starts?

A. For an employer that as of December 27, 2012, already offers health coverage through a plan that operates on a fiscal year (a fiscal year plan), transition relief is available.

First, for any employees who are eligible to participate in the plan under its terms as of December 27, 2012 (whether or not they take the coverage), the employer will not be subject to a potential payment until the first day of the fiscal plan year starting in 2014. Second, if (a) the fiscal year plan (including any other fiscal year plans that have the same plan year) was offered to at least one third of the employer’s employees (full-time and part-time) at the most recent open season or (b) the fiscal year plan covered at least one quarter of the employer’s employees, then the employer also will not be subject to the Employer Shared Responsibility payment with respect to any of its full-time employees until the first day of the fiscal plan year starting in 2014, provided that those full-time employees are offered affordable coverage that provides minimum value no later than that first day.

Q. Is transition relief available to help employers that are close to the 50 full-time employee threshold determine their options for 2014?

A. Yes. Rather than being required to use the full twelve months of 2013 to measure whether it has 50 full-time employees (or an equivalent number of part-time and full-time employees), an employer may measure using any six-consecutive-month period in 2013