

ACA: FAQs ON IRS LETTER 226-J

Under the ACA employer mandate, employers with at least 50 full-time employees (FTEs) (including full-time equivalents) – known as “applicable large employers” (ALEs) – must offer affordable minimum value coverage to substantially all FTEs (those working 30 hours or more per week) and their dependents, or risk owing penalties through an employer shared responsibility payment (ESRP). Importantly, the IRS notifies employers of a proposed ESRP through Letter 226-J. IRS FAQs include guidance on exactly how ALEs will be notified of an ESRP, how employers should respond to or dispute the notification, and how employers will remit any owed payments to the IRS. For more detailed background information regarding employer mandate penalties, see the PPI publications [ACA: Applicable Large Employers](#) and [ACA: Employer Mandate Penalties and Affordability](#).

In FAQs, the IRS gives details regarding assessment and collection of employer share responsibility payments for employers subject to the ACA employer mandate.

Q1. WHY DOES THE IRS SEND LETTER 226-J?

A: The IRS sends Letter 226-J to ALEs that may owe an ESRP for calendar years 2015 and beyond. Generally, an employer will receive Letter 226-J if one of two types of penalties under the employer mandate are being proposed. “Penalty A” applies if the employer failed to offer at least minimum essential coverage to at least 95% (70% for 2015 only) of FTEs and dependents, and at least one FTE received a premium tax credit in relation to their individual policy purchased through the exchange. “Penalty B” applies if the employer failed to offer health coverage that met minimum value or was considered unaffordable and at least one FTE received a premium tax credit. Therefore, Penalty A or B is triggered only when an FTE received a premium tax credit (i.e., federal premium assistance) for the cost of an exchange policy. Unlike Penalty A, Penalty B is assessed only relative to individual employees (i.e., those for whom the cost-share amount was deemed unaffordable and who received a premium tax credit) and not on the broader employee population. It is triggered only if Penalty A does not also apply to the same reporting month.

Q2. HOW WILL THE IRS NOTIFY EMPLOYERS OF A POTENTIAL PAYMENT OBLIGATION?

A: An employer will receive Letter 226-J if the IRS determines that one or more of the employer’s FTEs received a premium tax credit. Letter 226-J will describe the general IRS procedures used to determine if an employer actually owes an ESRP. It is important to note that Letter 226-J is not an invoice for payment. Instead, it is a preliminary determination based on data listed on the Forms 1095-C reported to the IRS and matched to information on individuals who received premium assistance for their individual health policy. In other words, any possible liability for an ESRP is based upon the data that was reported to the IRS on Forms 1094-C and 1095-C as compared to information regarding FTEs who received a premium tax credit on the exchange. For further information about Forms 1094-C and 1095-C, see the PPI publications [ACA: Employer Mandate Reporting Requirements](#) and [ACA: Preparing to Complete Forms 1094-C and 1095-C](#).



Q3. WHAT SHOULD AN EMPLOYER DO WHEN IT RECEIVES A LETTER 226-J?

A: Read the letter and all attached forms carefully and note any response date indicated. The letter provides detailed information on where the IRS obtained the information used to calculate the payment and instructions on how to pay or appeal the payment.

Q4. WHEN AND TO WHOM SHOULD AN EMPLOYER RESPOND TO A LETTER 226-J?

A: Employers should respond to a Letter 226-J by the due date indicated on the letter, which is generally 30 days from the date the letter is generated. Employers should reach out to the IRS by phone to establish a line of communication promptly upon receipt of the letter, but in no event later than the required response date. The IRS has generally been open to granting extensions of time to submit a formal response where the employer is responsive and provides a good reason for the request. Employers should maintain a record of any extension that is granted.

Letter 226-J will include the name and contact information of an assigned IRS representative, and the employer should follow the instructions provided in the letter under "What you must do." The employer's representative (either the employer or the employer's CPA/legal counsel) should contact the assigned IRS representative with any questions, including questions on appropriate documentation or the sufficiency of the employer's planned response.

Q5. HOW SHOULD AN EMPLOYER DISPUTE OR APPEAL A PROPOSED ESRP?

A: Employers that disagree with the Letter 226-J proposed payment have an opportunity to dispute the IRS's initial determination before paying any employer mandate penalties. In other words, the initial letter is not a bill, and an employer can dispute the IRS's information. To dispute the Letter 226-J determination, an employer must complete Form 14764 (ESRP Response) and return it to the IRS by the due date listed on the letter.

Form 14764 requires a signed statement from the employer that explains the disagreement with the proposed payment and includes all supporting documentation, such as employee waiver forms, payroll records, and/or benefit administration system records that prove an offer of coverage was made to a specific employee. If there is no proof or documentation, the employer should use the statement to explain the circumstances. Ultimately, employers should engage outside counsel for assistance on specific interaction with and response to the IRS and Letter 226-J.

If the information reported on the relevant year's Forms 1095-C or 1094-C is incorrect, the employer's statement should describe any changes that should be made to Forms 1095-C or 1094-C. The employer should also make necessary changes (if any) to the "Employee PTC Listing" portion of Form 14765 using the indicator codes for Lines 14 and 16 of Form 1095-C. (Employers do not need to file corrected Forms 1094-C or 1095-C separately unless requested to do so by the IRS.)

Q6. WHAT HAPPENS FOLLOWING AN EMPLOYER'S APPEAL OF THE PROPOSED ASSESSMENT?

A: The IRS will acknowledge the employer's response, and if the parties continue to disagree on the assessment, the employer may request a conference with the IRS Office of Appeals.

Q7. WHAT SHOULD AN EMPLOYER DO IF IT AGREES WITH THE IRS'S PROPOSED PAYMENT?

A: If an employer agrees with the proposed ESRP, the employer should complete, sign, and date Form 14764 (ESRP Response) and return it to the IRS address listed on the letter along with a check or money order for the required amount made payable to the United States Treasury. The required form and payment must be mailed no later than the due date listed on Letter 226-J. Payment can be made electronically if the employer is enrolled in the Electronic Federal Tax Payment System. If the total amount of the payment due is not paid in full, the IRS will send a Notice and Demand letter for the remaining balance.

Q8. IF THE APPEAL IS DENIED BY THE IRS, HOW WILL AN EMPLOYER BE NOTIFIED AND MAKE AN ESRP?

A: If, after reviewing the appeal information, the IRS concludes that an employer in fact owes an ESRP, the IRS will calculate the final penalty amount and issue a demand letter for payment (Notice CP 220J). Notice CP 220J will show the balance due and give instructions on how to remit the required payment. The employer will not have to include the ESRP on any tax return or submit any payment prior to receipt of Notice CP 220J. Further, the IRS may work with employers on payment options (via an installment agreement), if necessary.

Q9. WHAT HAPPENS IF AN EMPLOYER DOESN'T RESPOND TO THE INITIAL IRS LETTER?

A: If an employer fails to respond to a Letter 226-J by the response date listed on the first page of the letter, the IRS will send a Notice and Demand letter for the payment amount that the IRS proposed and assessed. The ESRP will be subject to an IRS lien and the IRS may levy enforcement actions. In addition, interest will accrue from the date of the notice and demand and continue until the total amount due is paid in full.

Q10. WHAT ARE SOME BEST PRACTICES FOR ACA REPORTING AND RECORDKEEPING?

A: For future filings of Forms 1094-C and 1095-C, employers should carefully document all offers of coverage made upon hire or eligibility and annually during open enrollment, and they should routinely collect signed waiver forms from any FTEs who decline the employer's offer of group health coverage.

Employers should keep important records such as payroll records, variable-hour tracking calculations, signed enrollment forms and copies of enrollment materials showing employee cost-share amounts and coverage options in accordance with the employer's record retention policy.

Finally, employers should carefully select a vendor to populate and file Forms 1094-C and 1095-C and should closely oversee the reporting process. Employers should not assume that the vendors will correctly populate ACA reporting forms without any employer oversight. Generally, this means that employers should ensure that all IRS instructions for completing the forms are properly followed, that the indicator codes used in Lines 14 and 16 are correct before filing any 1095-C forms with the IRS, and that filing and employee distribution requirements are completed by the applicable annual IRS deadlines.

RESOURCES

[IRS FAQs](#)

[Understanding your Letter 226-J](#)

[Sample Letter 226-J](#)