



ACAwise

ICHRA Reporting Requirements

A Complete Guide for Employers



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ICHRA - An Overview

The ICHRA was initially established through new rules from the Departments of the Treasury, Labor, and Health and Human Services on October 23, 2018. It was then finalized on June 13, 2019, and it is available from January 1, 2020.

The [ICHRA](#) is typically an upgraded version of another type of HRA called "QSEHRA" (Qualified Small Employer HRA), introduced in 2017.

An ICHRA enables businesses of any size to reimburse their employees a monthly allowance of tax-free money for their premiums and healthcare costs.

This means employees can purchase the health care services they want, including individual health insurance, then their employer will reimburse them with an allowance of tax-free money.

How Does the ICHRA Work?

Here is a step-by-step process that explains [how ICHRA works](#).

Step 1 - The Employer sets a Monthly Allowance

With an ICHRA, the Employer sets an allowance of tax-free amounts for their employees to use monthly on individual healthcare insurance and other healthcare costs.

Here, the business doesn't want to offer all of its employees the same reimbursement amount.

It can be a different allowance amount for different classes of employees, including:

- Full-Time employees
- Part-time employees
- Seasonal employees
- Salaried employees



- Non-salaried employees
- Hourly employees
- Temporary employees who are working for a staffing firm
- Employees covered by a collective bargaining agreement
- Employees those in a waiting period
- NRI employees who work abroad
- Employees from different locations, depending on rating areas
- A blend of two or more of the above

Step 2 - Employees Purchase their own Health Insurance Plans

Employees can purchase their own health insurance coverage plans and services to fit their needs and personal budget.

The IRS defines the full list of eligible and non-eligible healthcare expenses reimbursable through [ICHRA](#) under publication 502.

Step 3 - Employees Need to Submit Proof of their Health Care Expense Documents to Employer

After incurring an expense, employees need to submit proof to the Employer through formal documents, such as a receipt or an explanation of their insurance company's benefits (EOB).

Step 4 - The Employer Reviews the Submitted Documentation and Reimburses the Employees

If the employee's submitted documentation is correct, and the expenses are eligible for reimbursement, the employer will reimburse the employee up to their maximum allowance. The reimbursement amounts are tax-free for both the business and its employees.



If the employee participated in the ICHRA, they are not eligible to purchase Premium Tax Credits (PTC) from the Marketplace.



For this reason, employees are free to opt-out of the [ICHRA](#) if the allowance amount from their employer is considered “unaffordable” and doesn’t provide minimum value under the ACA.

ICHRA Design Rules and Regulations

Here’s an overview of ICHRA Design Rules:

- Employers of any size are eligible to offer an ICHRA.
- Employees can participate in ICHRA and receive reimbursements only if they maintain a qualified individual health plan.
- Employees of different classes (say geographic location, seasonal, part-time, full-time, abroad) can be offered different levels of benefits by the employer.
- With an ICHRA, there are no maximum or minimum limits for monthly reimbursement amounts.
- Employers have the flexibility to offer an ICHRA to their employees at any time throughout the year.
- Employers can’t offer an ICHRA to an employee already covered under their group health plan. However, they can offer Excepted Benefit HRAs to employees.
- If ICHRA is considered ‘unaffordable’, employees can choose between using Premium Tax Credits or the ICHRA. If it is considered ‘affordable’, then the employee cannot receive a premium tax credit.
- Once a year, the employees must be given a choice to ‘opt-out’ of receiving reimbursements through an ICHRA.
- ICHRA will not reimburse medical care costs like Copay, deductible, short-term, limited-duration insurance (STLDI), and dental- or vision-specific costs.
- If the employee is outside of open enrollment: Employees will have 60 days to purchase a health plan once the ICHRA becomes available, as it triggers a special enrollment period. This enables employees to find an individual health plan that meets MEC outside of open enrollment.



ICHRA Affordability

Under the Affordable Care Act (ACA), every [Applicable Large Employer](#) (with more than 50 full-time equivalent employees) must offer health insurance coverage to 95% of their full-time employees, whereby such coverage should be affordable and provides minimum value to their employees. This is known as the "Employer Mandate."

In such a case, when an ALE fails to offer affordable health insurance coverage to their full-time employees and one of the full-time employee purchases a PTC from the market place, the ALE will be subject to Potential IRS penalties.

So, how is ICHRA Affordability calculated?

ICHRA "affordability" can be calculated for each employee depending on the reference plan where an employee lives or works. In this case, the reference is the Lowest Cost Silver Plan (LCSP).

Affordable ICHRA Contribution > Lowest Cost Silver Plan - (ACA affordability percentage * Employee Household Income).

Note: The IRS adjusts the "[ACA affordability percentage](#)" annually based on the federal poverty line percentage.

- 9.78% for Tax Year 2020

- 9.83% for Tax Year 2021

The two variables highlighted in the above [ICHRA affordability](#) equation are tough for the employers to remember. Therefore, the IRS has proposed different affordability safe harbors that employers can use to determine ICHRA affordability.

To determine the Lowest Cost Silver Plan, the IRS has proposed the following safe harbors:

- Location

- Age-Based Bands

- Prior Year



To determine Employee Household Income, the IRS distinguishes the following safe harbors:

- W-2 Wages
- Rate of Pay
- FPL (Federal Poverty Line)

Note: From the above calculation,

- If an ICHRA is “affordable,” employees are not eligible for Premium Tax credits (PTC)
- If an ICHRA is “unaffordable,” employees can choose either the ICHRA or opt-for Premium Tax Credits (PTC)

ACAwise built an [ICHRA Affordability Calculator](#) that allows employers to calculate affordability for each employee instantly. So, if you don't know how much you want to offer your employee for the ICHRA to be affordable, [click here](#).

Requirements to Use ICHRA

For Employees:

The employee and their family members are eligible to participate in ICHRA only if they have health coverage under an individual health insurance policy, including:

- On-exchange or off-exchange coverage
- Medicare Parts A and B
- Medicare Part C

The employee can either be a primary policyholder or covered under a family member's individual policy.

In case the employee or their family member ever loses individual health coverage, they are no longer eligible to receive reimbursements through ICHRA.



For Employers:

Employers cannot offer an ICHRA to an employee already covered under their group health plan.

Employers can only offer a traditional group health plan to employees in one class (such as part-time) and an ICHRA to employees in another class (such as full-time).

However, if an employer offers a group health plan to a class of employees, they need to meet a specific class size requirement.

Minimum employee class sizes are:

- 10 employees (employers with fewer than 100 employees)
- 10% of your total employees (employers with 100-200 employees)
- 20 employees (employers with more than 200 employees)

ICHRA Reporting Requirements

For the 2020 tax year,, the IRS mandates the [reporting of ICHRA on Form 1095-B/C](#) to the employers who offered ICHRA to their employees.

Addressing the ICHRA plan, the IRS has released [Form 1095-B](#) and 1095-C with certain changes, which the employers must use for the [2021 ACA reporting](#).

Form 1095-B Changes

IRS adds a new code (code G) on line 8 of Form 1095-B to report the ICHRA affordability on Form 1095-B.

Form 1095-C Changes

To figure out the affordability of the offered ICHRA plan. The IRS includes the following additional fields on [Form 1095-C](#).



- The section to enter the zip code in Line 17
- Section to enter the employee's age on the start date of the ICHRA plan on Part-II.
- Added eight new ACA Codes (1L to 1S) in Line 14 to report the method they used to determine the affordability of the ICHRA plan.
 - ▶ **1L.** Individual coverage health reimbursement arrangement (HRA) offered to employees-only with affordability was determined using the employee's primary residence location ZIP Code.
 - ▶ **1M.** Individual coverage HRA offered to employees and dependent(s) (not spouses) with affordability was determined using the employee's primary residence location ZIP Code.
 - ▶ **1N.** Individual coverage HRA offered to the employee, spouse, and dependent(s) with affordability was determined using the employee's primary residence location ZIP Code.
 - ▶ **1O.** Individual coverage HRA offered to employees-only using the employee's primary work location ZIP Code affordability safe harbor.
 - ▶ **1P.** Individual coverage HRA offered to employee and dependent(s) (not spouse) using the employee's primary work location ZIP Code affordability safe harbor.
 - ▶ **1Q.** Individual coverage HRA offered to employee, spouse, and dependent(s) using the employee's primary work location ZIP Code affordability safe harbor.
 - ▶ **1R.** Individual coverage HRA that is NOT affordable offered to employees; employee and spouse or dependent(s); or employee, spouse, and dependents.
 - ▶ **1S.** Individual coverage HRA offered to an employee who was not a full-time worker.



Meeting your ICHRA Reporting Requirements

Choose the right [ACA Reporting software](#) like [ACAwise](#) to get started with your ACA reporting.

ACAwise helps to generate the [ICHRA codes](#) and file your ACA Forms with the IRS, State and [distribute the 1095 copies to your employees](#) on-time.

We provide two different reporting services for you to choose from, based upon your requirements.

● [ACA Core](#)

● [ACA Elite](#)

Interested in ACAwise?

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