



# Pay or Play

Potential penalties for applicable large employers and how to avoid them

## Penalty A - 4980H(a)

- \$229.17 a month or \$2,750 annualized, per employee.
- **Occurs:**
  - An employer doesn't offer minimum essential coverage (MEC) to at least 95% of its full-time employees (and their dependents) for any month during the tax year.
  - At least one full-time employee receives a premium tax credit (PTC) for purchasing coverage through the marketplace.
- **Example of penalty:**
  - An organization in 2022 has 300 full-time employees, and one of these employees received a PTC for 12 months, the cost of this penalty would be \$742,500.  
The per employee penalty applies across all 300 full-time employees, minus 30, even if only one employee receives a PTC.
- **Avoid by:**
  - Offer minimum essential coverage (MEC) to at least 95% of their full-time employees (and their dependents) whereby such coverage meets minimum value (MV); and ensure that the coverage for the full-time employee is affordable based on one of the IRS approved safe harbor methods.

*\*It's important to note that an employer can only receive the (a) penalty or the (b) penalty, never both. The IRS is currently issuing 4980H Penalties for the 2019 tax year.*

## Penalty B - 4980H(b)

- \$343.33 a month or \$4,120 annualized, per employee.
- **Occurs:**
  - If an employer doesn't offer coverage that meets affordability and minimum value (MV).
  - This penalty is assessed on a monthly basis for every full-time employee that did not receive coverage or received such an offer, but the offer was either unaffordable or did not provide MV or both AND the employee received a PTC for that month.
- **Example of penalty:**
  - An Employer with 10 full-time employees who each received a PTC for six months would see an IRS penalty of \$20,600.
- **Avoid by:**
  - Offer minimum essential coverage (MEC) to at least 95% of their full-time employees (and their dependents) whereby such coverage meets minimum value (MV); and ensure that the coverage for the full-time employee is affordable based on one of the IRS approved Safe Harbor Methods.

*\*It's important to note that an employer can only receive the (a) penalty or the (b) penalty, never both. The IRS is currently issuing 4980H Penalties for the 2019 tax year.*