Client Training HQ

ICHRA: Form 1095-C Part II Reporting and Codes

Overview

Individual Coverage Health Reimbursement Arrangements, or ICHRAs, provide employers with an alternative to offering traditional group health coverage to their employees. For organizations who are considered Applicable Large Employers (ALEs) under the ACA, there are unique reporting requirements for ICHRA plans on Forms 1094-C and 1095-C. This document provides an overview of common ICHRA Code combinations and other unique reporting considerations for ICHRA plans in Part II of Form 1095-C, including:

- Employee's Age on January 1
- Line 14 Offer of Coverage Codes
- Line 15 Employee Required Contribution
- Line 16 Safe Harbor Codes
- Line 17 ZIP Codes
- Common ICHRA Form Code Combinations

Employee's Age on January 1

This field should only be completed on Form 1095-C for employees who were offered an ICHRA plan at some point during the reporting year.Line 14 Offer of Coverage Codes

The IRS requires unique codes to be reported in Line 14 of Form 1095-C for any months in which an employee was offered coverage under an ICHRA plan. Codes 1L - 1U are specifically used for reporting various ICHRA offer of coverage scenarios, as outlined in the chart below:

Code	Definition
1L	ICHRA offered to the **employee only** with affordability determined using the employee's **primary residence** location ZIP Code.
1M	ICHRA offered to the **employee and dependent(s) (not spouse)** with affordability determined using the employee's **primary residence** location ZIP Code.
1N	ICHRA offered to the **employee, spouse, and dependent(s)** with affordability determined using the employee's **primary residence** location ZIP Code.
1O	ICHRA offered to the **employee only** using the employee's **primary employment site** ZIP Code affordability safe harbor.

Code	Definition
1P	ICHRA offered to the **employee and dependent(s) (not spouse)** using the employee's **primary employment site** ZIP Code affordability safe harbor.
1Q	ICHRA offered to the **employee, spouse, and dependent(s)** using the employee's **primary employment site** ZIP Code affordability safe harbor.
1R	ICHRA that is **NOT affordable** offered to the employee; employee and spouse or dependent(s); or employee, spouse, and dependents.
1S	ICHRA offered to an individual who was **not a full-time employee**.
1T	ICHRA offered to the **employee and spouse (not dependents)** with affordability determined using the employee's **primary residence** location ZIP Code.
1U	ICHRA offered to the **employee and spouse (not dependents)** with affordability determined using the employee's **primary employment site** ZIP Code affordability safe harbor.

Line 15 Employee Required Contribution
Line 15 should only be completed when the corresponding Line 14 Offer of Coverage Code is 1B, 1C, 1D, 1E, 1J, 1K, 1L, 1M, 1N, 1O, 1P, 1Q, 1T, or 1U. This means that for ICHRA offers of coverage, specifically, Line 15 is not applicable when reporting Codes 1R or 1S in Line 14.

To calculate Line 15 amounts for employees who were offered ICHRA coverage, start with the lowest-cost silver-tier monthly premium for self-only coverage based on each employee's zip code and age, and then subtract the employer's monthly ICHRA contribution for self-only coverage.

Line 16 Safe Harbor Codes
Unlike Line 14, the IRS does **not** provide any codes that are unique to ICHRA plans when reporting safe harbors in Line 16. However, there are some unique nuances to determining affordability for ICHRA offers of coverage.

In general, the ACA determines affordability based on an individual's household income. However, employers typically do not know the true household incomes of their employees. To accommodate this, the IRS gives employers the option to choose from the following income safe harbors as substitutes for an employee's actual household income:

- W-2 Wages
- Federal Poverty Line
- Rate of Pay

For employers who are offering ICHRA coverage, affordability is generally determined as follows:

1. Identify the employee's monthly household income (typically based on one of the income safe harbors from the list above).
2. Multiply this amount by the annual affordability threshold percentage (currently set at 9.96% for 2026).
3. If the result is greater than or equal to the Employee Required Contribution Amount reported in Line 15 (see previous section), then the coverage is considered affordable.

Aside from determining affordability, another key consideration for Line 16 reporting purposes is whether the employee enrolled in or waived the coverage offered to them. For employees who were offered coverage in a given month, the most common Line 16 Safe Harbor codes are as follows, and these are generally the same for both ICHRA and non-ICHRA offers of coverage:

- **2C** - employee was offered and enrolled in coverage for the entire month
- **2F** - employee was offered affordable coverage, but NOT enrolled, and affordability was determined based on the **W-2 wages** income safe harbor
- **2G** - employee was offered affordable coverage, but NOT enrolled, and affordability was determined based on the **Federal Poverty Line** income safe harbor
- **2H** - employee was offered affordable coverage, but NOT enrolled, and affordability was determined based on the **Rate of Pay** income safe harbor

For the most current Form 1095-C codes, consult the IRS website.

Line 17 Zip Codes

Line 17 should only be completed when the corresponding Line 14 Offer of Coverage Code is 1L, 1M, 1N, 1O, 1P, 1Q, 1T, or 1U. This means that Line 17 is not applicable when reporting Codes 1R or 1S in Line 14.

Common ICHRA Form Code Combinations

There are several common code combinations when completing the Form 1095-C. These common combinations typically reflect an employee's employment status, whether they are full-time or part-time, if coverage is considered affordable, and whether the policy was waived or if the employee enrolled in the ICHRA. See the chart below for an overview and explanation of the common code combinations.

Common ICHRA Code Combinations

Line 14 Code	Line 16 Code	Explanation
1N	**2C**	The full-time employee was offered an affordable ICHRA. The affordability is based on **home residency** zip. The employee enrolled in the ICHRA policy.
1N	**2G, 2H, or 2F**	The full-time employee was offered an affordable ICHRA. The affordability is based on **home residency** zip. The employee waived coverage. Employer-preferred affordability safe harbor applies (FPL vs. Rate of Pay vs. W-2 wages)
1Q	**2C**	The full-time employee was offered an affordable ICHRA. The affordability is based on **work location** zip. The employee enrolled in the ICHRA policy.

Line 14 Code	Line 16 Code	Explanation
1Q	**2G, 2H, or 2F**	The full-time employee was offered an affordable ICHRA. The affordability is based on **work location** zip. The employee waived the ICHRA policy. Employer-preferred affordability safe harbor applies (FPL vs. Rate of Pay vs. W-2 wages)
1R	**2C**	The full-time employee was offered an **unaffordable** ICHRA. The employee enrolled in the ICHRA policy.
1R	**Blank**	The full-time employee was offered an **unaffordable** ICHRA. The employee waived coverage.
1S	**2C**	The **part-time** employee was offered an affordable ICHRA. The employee enrolled in the ICHRA policy.
1S	**Blank**	The **part-time** employee was offered an affordable ICHRA. The employee waived coverage.

Note: It is generally considered uncommon to see ICHRA offers of coverage reported using codes 1L, 1M, 1O, 1P, 1T, or 1U. This is because employees are typically allowed to use their ICHRA funds to pay for any available plan or coverage tier they desire, and they are typically not prohibited from using the ICHRA funds to pay for premiums or healthcare expenses for their spouses and/or dependents.

As a result, codes **1N** or **1Q** are considered the most common codes reported in Line 14 for affordable ICHRA offers of coverage, because the employee typically has full discretion to use their ICHRA funds for any coverage or healthcare expenses for themselves, their spouses, and/or their dependents.

Source: irs.gov

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