



IRS Releases ACA Affordability Rates for 2021

The Internal Revenue Service has issued Revenue Procedure 2020-36 to implement the 2021 index adjustments for certain Affordable Care Act (“ACA”) contribution percentages used to determine affordability under the employer shared responsibility mandate.

Background

Under the ACA, contribution percentages are used to determine: (i) whether an Applicable Large Employer (“ALE”) is subject to the ACA’s employer shared responsibility penalty for failure to provide full-time employees with affordable coverage that has “minimum value”; (ii) whether an individual is exempt from the ACA’s individual mandate penalty (if it is reimposed by Congress) due to lack of access to affordable coverage; and (iii) the amount of an eligible taxpayer’s ACA premium tax credit.

NOTE: ALEs are employers that had 50 or more full-time equivalent employees during the preceding calendar year.

The ACA provides that an ALE’s coverage is affordable if the employee’s required contribution for self-only coverage does not exceed a certain percentage of the employee’s household income for the tax year. ALEs that fail to provide affordable coverage are liable for a penalty of \$3,000 per year (as indexed) for each full-time employee who receives a premium tax credit through an ACA Marketplace.


Revenue Procedure 2020-36


For 2021, the required contribution percentage has increased to 9.83% (up from 9.78% for 2020). This means that if an employee’s share of the premium for employer-provided coverage for 2021 is more than 9.83% of his or her household income, the coverage is not

considered affordable for that employee and the ALE may be liable for a penalty if that employee obtains a premium tax credit through a Marketplace.

Revenue Procedure 2020-36 is available at: <https://www.irs.gov/pub/irs-drop/rp-20-36.pdf>

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Boynton Beach:

1880 N. Congress Avenue, Suite 200
Boynton Beach, FL 33426
Tel: (561) 293-3590

New York:

200 Park Avenue, Suite 1700
New York, NY 10166
Tel: (212) 338-5159

St. Louis:

1099 Milwaukee Street, Suite 140
St. Louis, MO 63122
Tel: (314) 236-0065

Boston:

99 Summer Street, 13th Floor
Boston, MA 02110
Tel: (617) 357-5200

Chicago:


180 N. LaSalle Street, Suite 3200
Chicago, IL 60601
Tel: (847) 990-9034


San Diego:

8677 Villa La Jolla Drive, Suite 888
San Diego, CA 92037
Tel: (619) 232-8702

Tampa:

101 East Kennedy Boulevard, Suite 2140
Tampa, FL 33602
Tel: (813) 603-2959

 [@wagnerlawgroup](https://twitter.com/wagnerlawgroup)

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Lincoln, MA:

55 Old Bedford Road, Suite 303
Lincoln, MA 01773
Tel: (617) 532-8080

San Francisco:

315 Montgomery Street, Suite 900
San Francisco, CA 94104
Tel: (415) 625-0002

Washington, D.C.:

800 Connecticut Avenue, N.W., Suite 810
Washington, D.C. 20006
Tel: (202) 969-2800

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