IRS Begins Issuing 226-J Letters for Tax Year 2024

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In July of 2026, the IRS began issuing 226-J letters to Applicable Large Employers ("ALEs") for the 2024 calendar year. Letter 226-J describes the proposed Employer Shared Responsibility Payment ("ESRP," also referred to as a "penalty") owed for a calendar year.

> **Note.** ALEs that offer group health plan coverage are often surprised to receive a Letter 226-J. While in some cases the penalty assessment is valid, often there are errors in Forms 1094-C or 1095-C that trigger proposed penalty assessments. Usually correcting the filings through the response to the Letter 226-J can mitigate penalty exposure.

The IRS compiles Letter 226-J based on information provided in employer ACA filings, along with information reported by individuals who received premium tax credits through the Marketplace. The IRS uses the information provided on employers' Form 1094-C and related Forms 1095-C to determine whether employers met their obligations under the ACA ESRP requirements.

Letter 226-J includes an "ESRP Summary Table" that shows how the IRS arrived at the proposed penalty amount. This table indicates whether the employer is subject to the "A" penalty for failure to offer coverage to at least 95% of ACA full-time employees ("ACA FTEs") or the "B" penalty for failure to offer coverage that is affordable or minimum value. The Letter also includes an "Employer Premium Tax Credit (PTC) Listing" which identifies which ACA FTEs received PTCs during the calendar year, and how those subsidies correlate with the employer's offer of coverage as documented on the 1095-C.

Employers should compare the information reflected in these tables to their original ACA filings and supporting records to determine whether the proposed assessment is accurate.

The letter will identify the tax year and include a response deadline that is at least 90 days after the date of the letter. Employers generally respond using Form 14764 ("ESRP Response"), along with any explanation and supporting documentation needed to dispute the proposed assessment. It is important that the IRS receive the response by the deadline printed on the letter. In order to appeal any penalty, the IRS must receive a timely response to the initial Letter 226-J.

An employer that requests corrections in response to an IRS inquiry related to these forms may be liable for penalties based on the number of forms that are corrected. For forms filed in calendar year 2024, the penalties are:

- $330/form for failure to furnish accurate Forms 1095-C to the employee.
- $330/form for failure to file accurate Forms 1094-C and 1095-C with the IRS.

A reasonable cause exception remains available and may provide relief from penalties for entities that can show a reasonable cause for failing to timely or accurately complete their reporting requirements.

Employer Action

- Monitor incoming mail for IRS Letter 226-J and other ACA Employer Shared Responsibility Payment (ESRP) notices.
- Retain ACA reporting documentation, including Forms 1094-C and 1095-C, for several years after filing.
- Maintain records of employee offers of coverage and enrollment elections.
- Keep current and historical plan documents and Summary Plan Descriptions readily accessible.
- Preserve affordability calculations used to determine ACA compliance.
- Document employee classifications (e.g., full-time, part-time, variable-hour) and any related eligibility determinations.
- Retain employee waiver and declination forms for individuals who were offered coverage but did not enroll.
- Be prepared to provide supporting documentation if the IRS proposes an ESRP assessment.
- Remember that the IRS may assess ACA penalties for up to six years after the ACA reporting deadline.
- Seek assistance when completing or correcting Forms 1094-C and 1095-C to help ensure reporting accuracy.