Benefits
BULLETIN

IRS Adjusts ACA Affordability Percentage and ESR Penalties for 2026

• July 24, 2025 •

The IRS released **Rev. Proc. 2025-25**, which announced the 2026 indexing adjustments for two important percentages under the Affordable Care Act (ACA).

- **Affordability Percentage Increased to 9.96%.** Under the employer shared responsibility provisions (ESRP) of the ACA, an applicable large employer (ALE) that sponsors a group health plan must offer "minimum essential coverage" (MEC) to at least 95% of its full-time employees (and their dependents), and such coverage must meet affordability and minimum value requirements under the Code. If at least one full-time employee qualifies for a subsidy and buys health insurance in the Health Insurance Marketplace, the employer may face one of two potential penalties under Code §4980H(a) or Code §4980H(b), commonly referred to as the "A" and "B" penalties.

  Employer-sponsored coverage is considered "affordable" if the portion that the employee is required to pay for the lowest cost, self-only minimum value coverage does not exceed a certain percentage of the employee's household income. This percentage has **increased from 9.02% in 2025 to 9.96% in 2026**. Because employers generally do not know the employee's household income, the IRS has provided three safe harbors for ALEs to determine whether an offer of coverage is affordable: **Federal Poverty Line (FPL), rate of pay, and Form W-2**.

- **Premium Tax Credit Eligibility.** Individuals eligible for the premium tax credit must contribute a certain percentage of their household income to the cost of Exchange coverage. Enhanced subsidies have kept these percentages fixed from 2021 through 2025. These subsidies are set to expire at the end of 2025, unless Congress provides an additional extension. The One Big Beautiful Bill Act changed how these percentages are applied across household income bands. For 2026, the adjusted percentage **ranges from 2.0% to 9.5%** (the percentage increases as the taxpayer's household income increases, determined by household income bands).

Additionally, the IRS issued **Rev. Proc. 2025-26**, announcing updated penalty amounts under the ACA's employer shared responsibility rules, often referred to as the "pay-or-play" rules.

- **Pay-or-Play Penalties Increased for 2026.** For the 2026 calendar year, the adjusted penalty under §4980H(a) will increase to $3,340 per full-time employee minus the first 30 employees. This penalty applies when an employer fails to offer minimum essential coverage to at least 95% of its full-time employees and their dependents, and at least one full-time employee receives a premium tax credit for purchasing individual coverage through the Marketplace.

  Under Section §4980H(b), the penalty applies when an employer does offer coverage to at least 95% of full-time employees and their dependents, but the coverage is either unaffordable or does not provide minimum value. In that case, the employer may face a penalty of $5,010 per year for each full-time employee who receives a premium tax credit.

Action Items for Employers

ALEs should take steps to develop their contribution strategy for plan years beginning in 2026, including determining the affordability safe harbor that works best for their plan. The higher 2026 affordability percentage means employers may be able to increase their employee premium costs and still stay affordable in 2026. For example, employers with a calendar year plan who use the Federal Poverty Line (FPL) safe harbor can increase the affordable employee contribution amount from $113.20 (2025) to $129.89 (2026).

ADDITIONAL RESOURCES

Questions and Answers on Employer Shared Responsibility Provisions under the Affordable Care Act
Source: IRS, ALE Info Center