

IRS Releases Employer Mandate Penalties for 2027

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On May 4, 2026, the Internal Revenue Service (IRS) released updated Employer Shared Responsibility (ESR) penalty amounts applicable to Applicable Large Employers (ALEs). These penalty amounts are adjusted annually for inflation.

Background

Applicable Large Employers (ALEs), defined as employers with 50 or more full time employees (including full time equivalents) in the prior calendar year, are required under the Affordable Care Act (ACA) to offer minimum essential coverage (MEC) that provides minimum value (MV) and is affordable to full time employees and their dependents.

Failure to meet these requirements may result in penalties under:

- **IRC §4980H(a)** if the employer fails to offer MEC to at least 95% of full time employees and their dependents, or
- **IRC §4980H(b)** if the employer offers coverage that does not meet minimum value or affordability standards, when at least one full time employee receives a premium tax credit (PTC) through the Health Insurance Marketplace.

Penalties are assessed on a monthly basis and calculated based on the number of months during which a full time employee receives a PTC.

If the IRS determines that a penalty applies, it will issue a penalty assessment letter based on information reported on Forms 1094 C and 1095 C filed by the employer.

Current Penalty Amounts

- **4980H(a)** – Failure to offer MEC to at least 95% of full time employees and their dependents: **\$3,340**
- **4980H(b)** – Failure to offer minimum value (60%) and affordable coverage (9.96%) based on the lowest cost, self only plan: **\$5,010**

Penalty Amounts for the 2027 Calendar Year

- **4980H(a)** – Failure to offer MEC to at least 95% of full time employees and their dependents: **\$3,780**
- **4980H(b)** – Failure to offer minimum value (60%) and affordable coverage (affordability rate TBD) based on the lowest cost, self only coverage: **\$5,670**

The affordability threshold for 2027 is typically released in the fourth quarter of the prior year.

Employer Action Steps

- Review current medical plan offerings to confirm coverage meets minimum value and affordability requirements.
- Monitor upcoming IRS guidance for the 2027 affordability percentage, expected later this year.
- Employers nearing the 50 full time employee threshold, or that experienced growth this year, should calculate ALE status to determine 2027 compliance obligations.
- Newly designated ALEs should become familiar with ESR Mandate requirements, including counting hour rules, full time determinations, reporting obligations, and affordability safe harbors.