



IRS provides guidance on premium assistance and tax credit for continuation health coverage

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WASHINGTON —The Internal Revenue Service today provided guidance on tax breaks under the American Rescue Plan Act of 2021 for continuation health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

Notice 2021-31 provides guidance for employers, plan administrators, and health insurers regarding the new credit available to them for providing continuation health coverage to certain individuals under COBRA.

The American Rescue Plan provides a temporary 100% reduction in the premium that individuals would have to pay when they elect COBRA continuation health coverage following a reduction in hours or an involuntary termination of employment. The new law provides a corresponding tax credit for the entities that maintain group health plans, such as employers, multiemployer plans, and insurers. The 100% reduction in the premium and the credit are also available with respect to continuation coverage provided for those events under comparable State laws, sometimes referred to as “mini-COBRA.”

Notice 2021-31 provides information regarding the calculation of the credit, the eligibility of individuals, the premium assistance period, and other information vital to employers, plan administrators, and insurers to understand the credit.

COBRA provides certain former employees, retirees, spouses, former spouses, and dependent children the right to temporary continuation of health coverage at group rates. COBRA generally covers health plans maintained by private-sector employers with 20 or more full and part-time employees. It also covers employee organizations or federal, state or local governments. State mini-COBRA laws often provide similar benefits for insured small employers not subject to Federal COBRA.

The IRS will continue to update information related to health plans on IRS.gov.