



## Compliance Corner Overview

### W-2 Reporting of Employer-Provided Health Coverage

January 2013

One of the provisions of health reform included in the Patient Protection and Affordable Care Act (PPACA) is the requirement that employers report the value of employee health coverage on the annual W-2 form. The W-2 is the document used to report taxable wages and payroll deductions. It is generally issued early in a calendar year to report on wages earned in the prior year, i.e., a W-2 issue in January 2013 would report earnings from 2012.

Many questions have arisen regarding the use of a tax-reporting document to report health premiums that are, generally, not taxable income for an employee. The Internal Revenue Service has offered numerous assurances that this new collection of data is intended to be for employee informational purposes only. It is not intended to be a precursor to taxing health benefits.

#### Effective Date

Initially, this reporting requirement was to be effective for the 2011 tax year, meaning the W-2 that would have been provided to employees in January 2012. Regulators deferred the compliance requirement since many employers had to make computer-system and other changes necessary to report the data. Therefore, the IRS issued guidance that reporting for 2011 would be voluntary.

For years after 2011, employers are required to report the cost of health benefits when they issue W-2s. Additional “transitional” relief applies to smaller employers; it makes the reporting voluntary for the 2012 tax year and until further guidance is issued. Most employers – public and private – will ultimately be subject to this reporting requirement. However, the reporting requirement will not apply to tribally chartered corporations wholly owned by federally recognized Indian tribal governments.

#### Transitional Relief for Smaller Employers

For 2012 Forms W-2, and until further guidance, an employer “is not subject to the reporting requirement for any calendar year if the employer was required to file fewer than 250 Forms W-2 for the preceding calendar year.” It’s important to note that an employer may have fewer than 250 employees yet file more than 250 W-2s. The relief is based on the number of forms filed, not the number of employees employed by the employer.

Employers that file fewer than 250 Forms W-2 are also exempt from filing such returns electronically. The filing requirement will not apply to future calendar years until the IRS publishes guidance giving at least six months of advance notice of any change to the transition relief.

Many provisions of PPACA require the application of “controlled group” rules for compliance purposes. These rules require consideration of multiple companies that have high joint ownership or similar aggregations. However, for the W-2 reporting obligation and the transitional relief, the employer is determined without the application of any aggregation rules.



The transition relief also applies to:

- Multi-employer plans
- Health Reimbursement Arrangements
- Dental and vision plans that either
  - are not integrated into another group health plan or
  - give participants the choice of declining the coverage or electing it and paying an additional premium
- Self-insured plans of employers not subject to COBRA continuation coverage or similar requirements
- Employee assistance programs, on-site medical clinics or wellness programs for which the employer does not charge a premium under COBRA continuation coverage or similar requirements
- Employers furnishing Forms W-2 to employees who terminate before the end of a calendar year and request a Form W-2 before the end of that year.

### **Coverage to Be Reported**

The value of health care coverage is reported on the Form W-2 in Box 12. Generally, the amount reported is the actual premium paid by both the employer and the employee during the year. Employers may also use the COBRA premium, less any administrative fee.

If an employee changes coverage or if there is an increase or decrease in premium costs during the year, the W-2 reporting should reflect any resulting change in health plan costs. When a change occurs mid-month, an employer can prorate the amount or use another reasonable method.

The standard for determining whether coverage is subject to the reporting requirement is based upon the same standard under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The amount reported should not include the amount of salary reduction contributions to an FSA. HRA amounts can be included, but they are not required. Also, specialized coverage is excluded if it is paid on an “after-tax” basis.



The IRS devised the chart below as a guide:

**Form W-2 Reporting of Employer-Sponsored Health Coverage**

Coverage Type	Form W-2, Box 12, Code DD		
	Report	Do Not Report	Optional
Major medical	X		
Dental or vision plan not integrated into another medical or health plan			X
Dental or vision plan that gives the choice of declining or electing and paying an additional premium			X
Health Flexible Spending Arrangement (FSA) funded solely by salary-reduction amounts		X	
Health FSA value for the plan year in excess of employee's cafeteria plan salary reductions for all qualified benefits	X		
Health Reimbursement Arrangement (HRA) contributions			X
Health Savings Arrangement (HSA) contributions (employer or employee)		X	
Archer Medical Savings Account (Archer MSA) contributions (employer or employee)		X	
Hospital indemnity or specified illness (insured or self-funded), paid on after-tax basis		X	
Hospital indemnity or specified illness (insured or self-funded), paid through salary reduction (pre-tax) or by employer	X		
Employee Assistance Plan (EAP) providing applicable employer-sponsored healthcare coverage	Required if employer charges a COBRA premium		Optional if employer does not charge a COBRA premium
On-site medical clinics providing applicable employer-sponsored healthcare coverage	Required if employer charges a COBRA premium		Optional if employer does not charge a COBRA premium
Wellness programs providing applicable employer-sponsored healthcare coverage	Required if employer charges a COBRA premium		Optional if employer does not charge a COBRA premium
Multi-employer plans			X
Domestic partner coverage included in gross income	X		
Governmental plans providing coverage primarily for members of the military and their families		X	
Federally recognized Indian tribal government plans and plans of tribally chartered corporations wholly owned by a federally recognized Indian tribal government		X	
Self-funded plans not subject to Federal COBRA			X
Accident or disability income		X	
Long-term care		X	
Liability insurance		X	
Supplemental liability insurance		X	
Workers' compensation		X	
Automobile medical payment insurance		X	
Credit-only insurance		X	
Excess reimbursement to highly compensated individual, included in gross income		X	
Payment/reimbursement of health insurance premiums for 2% shareholder-employee, included in gross income		X	
<b>Other Situations</b>	<b>Report</b>	<b>Do Not Report</b>	<b>Optional</b>
Employers required to file fewer than 250 Forms W-2 for the preceding calendar year (determined without application of any entity aggregation rules for related employers)			X
Forms W-2 furnished to employees who terminate before the end of a calendar year and request, in writing, a Form W-2 before the end of that year			X
Forms W-2 provided by third-party sick-pay provider to employees of other employers			



## Additional Guidance

Employers may have situations where it is unclear if a Form W-2 should be provided. A rule of thumb is that employers only have to report health plan costs if they would otherwise provide a Form W-2 for that individual. For example, an employer that reimburses the cost of Medicare premiums for a retiree would not have to report this information on a W-2 unless the retiree was due a Form W-2 for other reasons, such as deferred compensation.

The Form W-2 reporting should include both taxable and non-taxable health benefits if the benefits are reportable. An example of taxable benefits that would be included would be the premiums paid for a domestic partner.

Employers are not required to include the cost of coverage under an employee assistance program (EAP), wellness program or on-site medical clinic if the employer does not charge a premium for any of these programs.

IRS guidance emphasizes that employers should be consistent in applying any reasonable reporting methods they use. For example, an employer may report only the cost of coverage for an active employee, excluding COBRA coverage costs after the employee terminates. Alternatively, the employer may, in this same situation, report premiums that include COBRA payment. The importance is that the employer should treat all cases of this kind in the same manner.

Many employers will have payroll and coverage periods that overlap from one calendar year to the next. In that case, employers can allocate all of the costs to one year -- the year ending or the year beginning. Or the employer can allocate the cost of coverage between the two calendar years based on the number of days in the period of coverage that fall in each year. Once an employer has determined which method to use, the method should be applied consistently to all employees.

## Resources

There are a number of complex situations not covered by this brief overview. Employers may wish to consult with their accountant regarding reporting issues. In addition, there are a number of resources available on the IRS website including:

2012 Form W-2

<http://www.irs.gov/pub/irs-pdf/fw2.pdf>

IRS Notice 2012-4

<http://www.irs.gov/pub/irs-irbs/irb12-04.pdf>

IRS Frequently Asked Questions

<http://www.irs.gov/faqs/index.html>

IRS Form W-2 Informational Reporting Chart

<http://www.irs.gov/newsroom/article/0,,id=254321,00.html>