How to Report Health Care Costs on an Employee’s W-2
As of January 1, 2013, certain employers must report the cost of health care coverage provided under an employer-sponsored group health plan on employees' W-2 forms. This requirement became effective as of January 1, 2012, but was deferred by making the requirement optional for employees' tax year 2011 W-2 forms. The requirement is now effective for employee tax year 2012 W-2 forms issued in 2013.

The IRS has provided some additional relief to employers who issue fewer than 250 W-2 forms in the previous calendar year, as those employers do not have to report health care costs on tax year 2012 W-2 forms. This reference guide provides key information related to this new requirement stemming from the Patient Protection and Affordable Care Act (PPACA).

_This reference guide highlights important information employers will need to know relating to this requirement._

**Q. What legal statute mandates this requirement?**
A. PPACA Section 9002 amended Section 6051(a) of the Internal Revenue Code to require certain employers to track health care costs on employees' W-2 forms.

**Q. Does an employer have to report the cost of coverage on its employees’ W-2 forms?**
A. Under PPACA, employers that provide applicable employer-sponsored group health plan coverage must report the cost of this coverage on an employee’s W-2.

Applicable employer-sponsored coverage is defined as coverage under any group health plan made available to the employee by an employer, which is excludable from the employee’s gross income under section 106 of the Internal Revenue Code, or would be so excludable if it were employer-provided coverage.

This requirement applies to:
- Businesses.
- Tax-exempt organizations.
- Federal, state and local government entities (except with respect to plans maintained primarily for members of the military and their families).
- Churches and religious organizations.
- Employers that are not subject to the COBRA continuation coverage requirement.

This requirement does not apply to:
- Federally recognized Indian tribal governments.
- Any tribally chartered corporation wholly owned by a federally recognized Indian tribal government.
In some cases, the reporting obligations are optional for employers. For example:

- Employers that filed fewer than 250 W-2 forms for the preceding calendar year
- The employee is terminated before the end of a calendar year but requests, in writing, a W-2 form before the end of the year. In this case, the employee must be provided a W-2 within 30 days; however, the employer is not required to report any amount.
- The W-2 is provided by third-party sick-pay provider to employees of other employers

**Q. What types of coverage must the employer report?**

**A.** An employer is not required to issue a W-2 solely to report the value of health care coverage for retirees or other employees or former employees if the employer would not otherwise provide a W-2.

However, if a W-2 is being issued for an employee, the following types of coverage must be reported:

- Major medical
- Health FSA value for the plan year in excess of employee’s cafeteria plan salary reductions for all qualified benefits
- Hospital indemnity or specified illness (insured or self-funded), paid through salary reduction (pre-tax) or by employer
- Employee Assistance Plan (EAP) providing applicable employer-sponsored health care coverage (Note: this is required only if the employer charges a COBRA premium)
- On-site medical clinics providing applicable employer-sponsored health care coverage (Note: This is required only if the employer charges a COBRA premium)
- Wellness programs providing applicable employer-sponsored health care coverage (Note: This is required only if the employer charges a COBRA premium)
- Domestic partner coverage included in gross income

The following types of coverage do not have to be reported:

- Health FSA funded solely by salary-reduction amounts
- HSA contributions (employer or employee)
- Archer MSA contributions (employer or employee)
- Hospital indemnity or specified illness (insured or self-funded) paid on after-tax basis
- Government plans providing coverage primarily for members of the military and their families
- Federally recognized Indian tribal government plans and plans of tribally charted corporations wholly owned by a federally recognized Indian tribal government
- Accident or disability income
- Long-term care
- Liability insurance
- Supplemental liability insurance
- Workers’ compensation
- Automobile medical payment insurance
• Credit-only insurance
• Excess reimbursement to highly compensated individual, included in gross income
• Payment/reimbursement of health insurance premiums for 2 percent shareholder-employee, included in gross income
• Reporting the following types of coverage is optional:
  • Multiemployer plans
  • Dental or vision plan not integrated into another medical or health plan
  • Dental or vision plan that gives the choice of declining or electing and paying an additional premium
  • HRA contributions
  • Employee Assistance Plan (EAP) providing applicable employer sponsored health care coverage (Note: This is optional only if the employer does not charge a COBRA premium)
  • On-site medical clinics providing applicable employer-sponsored health care coverage (Note: This is optional only if the employer does not charge a COBRA premium)
  • Wellness programs providing applicable employer-sponsored health care coverage (Note: This is optional only if the employer does not charge a COBRA premium)
  • Self-funded plans not subject to federal COBRA

Q. Where does the employer report this on its W-2 forms?
A. If you are subject to the reporting requirement, the value of health care coverage should be reported in Box 12 on the W-2 with Code DD to identify the amount.

Q. How is the cost of coverage treated by the IRS?
A. Simply reporting the cost of coverage on an employee’s W-2 form will not make the benefits taxable. This requirement is only meant to provide employees with useful and comparable consumer information on the cost of their health care coverage.

Q. Should both the employer and employee’s amount they paid for health care coverage be reported on the W-2 form? Or just the employee’s share?
A. The amount reported on the W-2 should reflect the amount paid by both employer and employee.

Q. How should the employer report the cost of coverage if an employee was terminated during the calendar year?
A. Any reasonable method of reporting the cost of coverage may be utilized by an employer provided that the method is used consistently for all employees receiving coverage under the plan.
Q. If an employee was previously employed by another employer, should the current employer report the previous employer’s health care costs?
A. Typically, no. Each employer will issue a separate W-2 form for the employee pursuant to the IRS guidance stating that each employer that provides employer-sponsored coverage must report the aggregate reportable cost of coverage.

However, if both the former and current employers are related, within the meaning of IRS Code section 3121(s) and one such employer is a common paymaster within the meaning of the code, the common paymaster is required to include the aggregate reportable cost of the coverage, and the employer that was not the common paymaster must not report the cost of coverage.

In addition, if the current employer qualifies as a successor employer under IRS Code section 3121 (a)(1), the current employee, as the successor employer, can follow an optional procedure delineated in Rev. Prov. 2004-53, 2004-2 C.B. 320 and issue one W-2 that reflects wages paid to the employee during the calendar year by both the predecessor and current employers. If this option is selected, the current employer must include the aggregate reportable cost of coverage provided by both the previous and current employers. In this case, the previous employer must not report the cost of coverage it provided.

Q. If an employee has COBRA coverage for an applicable premium period, how should the employer calculate the reportable cost of coverage for this period?
A. For this time, the reportable cost will equal the COBRA applicable premium for that period, so long as this amount was calculated in good faith with a reasonable interpretation of the statutory requirements.

Q. Where can an employer go for additional information?
A. For more information on how to complete a W-2, visit: http://www.irs.gov/

To find answers to other frequently asked questions about health care reform, we invite you to visit the reform Q&A page at: www.HealthcareExchange.com
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The information contained in these materials was drafted prior to the July 2 announcement that many employer reporting requirements and the Employer Shared Responsibility provision would be delayed to 2015. We have worked to revise these materials to reflect the change, but we will await further federal guidance before updating this information in a comprehensive manner.

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