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## W-2 Health Insurance Reporting Review

*Issue Date: January 7, 2013*

It's that time of year again, and large employers need to remember to include the cost of health insurance in employee W-2s. The ACA requires employers to report the "aggregate cost" of certain types of employer provided health coverage on an employee's W-2. The reporting requirement does not affect the tax status of the benefits, but was designed to assist in collecting the data necessary to administer various provisions of the ACA. The reporting requirement has been delayed by the IRS for small employers.

### Requirement Delayed for Small Employers

The IRS has provided transition relief for small employers. The reporting requirement has been delayed for employers who filed fewer than 250 W-2s in the previous tax year. IRS Notice 2012-9 states that "until further guidance is issued, 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".

For purposes of applying this transition relief, the W-2 count is determined without application of any entity aggregation rules for related employers. Consequently, related employers who may be considered under common control for other ACA purposes can be considered separately to determine whether they are subject to the W-2 reporting requirement.

### What Must Be Reported?

The "applicable cost" of coverage is the entire plan cost, including both the employer and employee contributions. Self-funded plans are generally allowed to utilize the method used to determine applicable COBRA rates to calculate the aggregate cost of a plan. Applicable cost must be calculated on a monthly basis based on the specific coverage (e.g. single or family) maintained by the employee.

"Applicable employer-sponsored coverage" includes coverage under any group health plan made available to employees which is excludable from the employee's gross income under §106. However, certain benefits are specifically excluded from the reporting requirement. Benefits not required to be included in the W-2 reporting are:

- o Health Reimbursement Arrangements (HRAs).
- o Stand-alone dental or vision coverage that meets the HIPAA definition of an "excepted benefit."
- o Coverage issued as a supplement to liability insurance.
- o Workers' compensation or similar insurance.
- o Long-term care insurance.
- o Liability insurance, credit-only insurance and automobile medical payment insurance.
- o Coverage only for a specified disease or illness, hospital indemnity or other fixed indemnity insurance provided that such coverage is not coordinated with the employer's other health plans.



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### Other Administrative Issues

IRS Notice 2012-9 includes guidance on a number of administrative issues.

- o The W-2 requirement does not apply to coverage under a Section 125 health flexible spending arrangement (HFSA) if contributions occur only through employee salary reduction elections. However, if the employer makes a contribution to an HFSA, the cost would be reportable.
- o The W-2 requirement does not apply to payments or reimbursements of health insurance premiums for a 2% owner of an S corporation who is required to include the premium payments in gross income.
- o 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 these types of coverage provided under COBRA. However, if the employer charges a COBRA premium for any of these types of coverage, the cost of the plan must be included in the aggregate cost for all employees, not just those who have experienced a COBRA event.
- o Employers may include the cost of coverage under programs not required to be included under applicable interim relief, such as the cost of coverage under a Health Reimbursement Arrangement (HRA).

Notice 2012-9 also provides guidance on some administrative issues such as how to calculate the reportable amount if an employer is provided notice after December 31 of events that occurred on or before December 31, such as an employee providing an employer notice of a divorce that occurred during a prior calendar year, and how to calculate the reportable amount where coverage extends over the payroll period including December 31.

### Summary

Additional reporting details are provided in the IRS employer W-2 filing instructions and in the following IRS resources:

- o Notice 2012-9 is available at <http://www.irs.gov/pub/irs-drop/n-12-09.pdf>
- o The IRS has published a chart that describes which benefits are subject to the W-2 reporting requirement. <http://www.irs.gov/newsroom/article/0,,id=254321,00.html>
- o The IRS has also posted a W-2 Q&A at: <http://www.irs.gov/uac/Employer-Provided-Health-Coverage-Informational-Reporting-Requirements:-Questions-and-Answers>

*As always, should you have any questions, please contact your Parker, Smith & Feek Benefits Team*

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