



Health care reform provision at-a-glance

W-2 Reporting Requirements

The Patient Protection and Affordable Care Act (or health care reform law) requires employers to report the cost of employer-sponsored health benefits. This will be a new, separate entry on the W-2 form. Here's what you need to know.

To whom the provision applies

The W-2 reporting provision applies to both plans that are grandfathered and not grandfathered, both fully insured and self-funded.

What the provision requires

Employers must report the aggregate cost of "applicable employer-sponsored coverage." The health care reform bill required this information for tax years starting on or after January 1, 2011 (meaning it would be reported on employees' W-2 forms they receive in 2012). However, the IRS issued a notice in October making this reporting voluntary for the 2011 tax year. Read the IRS notice at <http://www.irs.gov/pub/irs-drop/n-2010-69.pdf>

The requirement applies to anyone who is still receiving benefits from the employer, including COBRA participants and retirees (even though retiree-only plans are exempted from the health care reform law).

Costs to be included in the calculation

The health care reform bill didn't specify the costs to be included in the W-2 calculation. Instead, it stated that the rules will be similar to those of Internal Revenue Code section 4980B(f) – the method for calculating applicable premiums for COBRA continuation coverage. Based on that description, various sources have determined that the following types of coverage may be included in the W-2 calculation:

- Medical plans, including limited benefit plans
- Prescription drug plans
- Dental and vision coverage provided as part of the medical plan
- Employer contributions to health reimbursement arrangements and health savings accounts
- Employee assistance programs
- Employee physicals
- On-site health clinics
- Medicare supplement insurance

We expect further guidance, so this list is subject to change. The Treasury Department and IRS have stated that guidance in this area will be published by year-end, likely in a Q&A format.

Even though the W-2 calculation will be based on COBRA rules, employers should not assume that the W-2 amount will be the same as the COBRA amount for two reasons:

- The W-2 reporting requirement extends to plans that don't ordinarily count toward the COBRA premium
- The COBRA calculation allows for an administrative fee and the W-2 calculation does not

Reporting the value of health care coverage on W-2 forms is optional for the 2011 tax year. In future years, the information will be required. This provision is a reporting requirement only. It will not impact employees' taxable income.

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Questions and answers

Does this mean employees will pay taxes on their health insurance?

No. This provision is a reporting requirement only. It will not impact employees' taxable income. The IRS has stated: "The amount reported does not affect tax liability, as the value of the employer contribution to health coverage continues to be excludible from an employee's income and it is not taxable."

Where will this information appear on the W-2 form?

The IRS has not determined final placement, but an advance proof copy of the 2011 form indicates this information will appear in Box 12. You can view the draft form on the IRS website at http://www.irs.gov/pub/irs-utl/draft_w-2.pdf

Are there any types of coverage I don't have to include?

According to various sources, employers would not need to include these amounts in the W-2 calculation:

- Accident insurance
- Disability insurance
- Employee contributions to health care flexible spending accounts and health savings accounts (reported elsewhere on W-2)
- Long-term care insurance
- Plans paid for with after-tax dollars
- Stand-alone dental and vision coverage
- Workers' compensation insurance

We expect further guidance, so this list is subject to change.

Does the calculation need to be adjusted if an employee is only covered for part of the month?

The provision doesn't indicate how to calculate for partial-month coverage. We expect further clarification is forthcoming.