



W-2 Reporting: Cost of Employer Sponsored Coverage

What is the new requirement?

Under health care reform, employers must report the aggregate cost of applicable employer-sponsored coverage on an employee's W-2. The W-2 reporting requirement is first required for the 2012 tax year; the value must be reported on the Form W-2 issued in January 2013 for the 2012 tax year.

The IRS has stressed that the W-2 reporting requirement is informational only and will not affect the amount includible in income or the amount reported in any other box on Form W-2. The stated purpose is to provide useful and comparable consumer information to employees on the cost of their health care coverage.

What employers are subject to the requirement?

Employers that provide applicable employer-sponsored coverage during a calendar year are subject to the reporting requirement—including federal, state, and local government entities (a few exceptions apply, such as federally recognized Indian tribal governments). The chart on page 2 illustrates the requirements based on the type of employer.

However, 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 (per IRS Notice 2011-28).

How does this apply to retirees and terminated employees?

The interim guidance clarifies that if the employer is not otherwise required to issue a Form W-2 for an individual (such as a retiree or other former employee receiving no compensation), reporting is not required.

What is the aggregate reportable cost?

The aggregate reportable cost generally includes both the portion of the cost paid by the employer and the portion of the cost paid by the employee, regardless of whether the employee paid for that cost through pre-tax or after-tax contributions. It also includes the cost of coverage of the employee and any person covered by the plan because of a relationship to the employee, including any portion of the cost that is includible in the employee's gross income—thus, aggregate reportable cost is not reduced by any imputed income included in the employee's gross income.

There are three methods an employer may use in determining the reportable cost. Due to the complexity, employers should consult with their tax advisor to establish which method is most appropriate.

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Issue Date:
December 2011

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Type of Employer	Is Employer Subject to Reporting?
Private-sector employers	Yes
Employers required to file fewer than 250 Forms W-2 for preceding calendar year	No
Federal, state, and local government entities	Yes
Federally recognized Indian tribal governments	No
Churches and other religious organizations	Yes
Governmental entities maintaining plans primarily for members of the military and their families	No
Employers providing coverage under self-insured plans not subject to any federal continuation coverage requirements (e.g., some church plans)	No
Predecessor and successor employers	Yes
Related employers (within the meaning of Code § 3121(s))	No (but common paymaster must report)
Employers contributing to multiemployer plans	No

What is applicable employer-sponsored coverage?

Specific Types of Coverage	Is Coverage Subject to Reporting?
Major Medical plans (insured and self-insured)	Yes
Long-Term Care	No
Benefits under Code § 9832(c)(1)	No
Dental and vision coverage (if not integrated into a group health plan)	No
Independent, noncoordinated benefits under Code § 9832(c)(3)	No (but only under specified circumstances)
Coverage under HSAs	No
Coverage under Archer MSAs	No
Coverage under HRAs	No
Salary reduction elections to health FSAs	No (but separate rules apply for optional employer flex credits)
On-site medical clinics	Yes
Wellness programs	Yes (if medical benefits are provided)
EAPs	Yes (if medical benefits are provided)

Note: This information is a summary for informational purposes only and is not intended nor should it be relied upon as legal or tax advice. Due to the complexity of these and other tax rules, you should seek advice from a competent tax professional before determining how this may apply to your company and/or your employees.