



New Clarifications and Guidance on W-2 Reporting

Insights

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The Health Care Reform Act requires employers to report the aggregate cost of employer-provided health coverage on each employee's W-2, beginning with the 2012 tax year (i.e., W-2 forms generally issued in 2013).

Recently, new guidance and clarifications were released by the IRS which will be required beginning with 2012 reporting, and voluntarily applicable for 2011 reporting. Below are some of the highlights about the new clarifications.

Subject of Guidance or Clarification	Overview
Exempt Employers	Small employers (less than 250 Form W-2s in preceding year) are exempt. Notice clarified that the 250 limit includes Forms W-2 filed by employer "agent" under Code section 3504.
Health FSA	Notice clarifies that tribally chartered corporations wholly owned by Federally recognized Indian tribal governments are exempt. Amount of health FSA is not required to be included in aggregate reportable cost if amount is funded only through employee salary reduction
Excepted Benefits (Dental, Vision)	Cost of coverage not required to be included in aggregate reportable cost if excepted benefit under HIPAA. Previously, it was required if cost was integrated into health plan. Now, if health plans charge additional premium/contribution for dental/vision, then cost is excluded.
Calculating Reportable Cost/Composite Rate	If composite rates for active employees, but not COBRA, employer may choose which rate to use as long as it's consistent.
Excess Reimbursements & S Corporations	Excess reimbursements to highly compensated individuals not included in reportable cost. Also, similar rule applies to coverage of 2% Shareholder-employees of S Corporations.
EAP & Similar	If no premium is charged for EAP, wellness program or onsite medical clinic

Programs	to COBRA participants, then such coverage is not reportable. If premium is charged, then cost is included. Also, employer not subject to federal continuation coverage requirements (i.e., ERISA, PHSA) is not required to include cost of coverage.
Hospital Indemnity/Specified Disease Insurance	Cost is not reportable if coverage is offered as an independent, non-coordinated benefit and is included in employee's income or paid on after-tax basis. If paid for on a pre-tax basis under cafeteria plan, cost of coverage is reportable.
Third-party Sick Pay Provider (TPSPP)	TPSPPs who furnish W-2s are not required to include cost of employer-sponsored group health coverage. However, employer must include cost even if W-2 includes sick pay or if TPSPP is furnishing a separate W-2 for the sick pay.
Reporting Exempted Benefits	Employers may include the cost of coverage of certain amounts that are not required, including cost of coverage under an HRA, multiemployer plan, an EAP, wellness or on-site medical facility (provided such coverage is applicable employer-sponsored coverage).
Programs that included health & non-health benefits	Employer may use any reasonable allocation method of determining cost of coverage for portion of program providing employer-sponsored coverage. If non-health benefit is incidental cost (comparative to other benefits), then may report the whole amount. If health benefit is incidental cost of non-health benefits in the program, then the cost is not required to be reported.
Status Changes After Year-End	The aggregate reportable cost may be based on information available at year-end (Dec. 31), without regard to any election/notification that retroactively changes or affects coverage (i.e., divorce). Also, Form W-2c is required.
Coverage Period Spanning 2 calendar years	If coverage period includes Dec. 31, but continues into the subsequent year, employers may 1) treat coverage as provided under calendar year that includes Dec. 31, 2) treat the coverage as provided during following year, or 3) allocate cost to both years based on reasonable allocation method (e.g., days of coverage). However, method must be consistent to all employees.
Multiple Employers	If employee works for multiple related employers but those employers do not share a common paymaster, then employers may 1) report aggregate cost on one of the Forms W-2, or 2) allocate among the Forms W-2 using reasonable allocation method.

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