

## Reporting the Cost Of Healthcare On W2s

by Joe Wallin on January 27, 2012



Are you scrambling to do your W2s at the last minute? Not to put any more pressure on you, but if you have 250 or more employees and didn't see the [joint memo](#) by Stuart C. Harris, Sarah L. Bhagwandin, and Richard J. Birmingham two weeks ago about how the IRS recently provided new interim guidance to help employers report health care coverage costs on Form W-2, then I just wanted to give you a heads up.

As part of Congress's healthcare reform, the IRS now requires employers to report the cost of health care coverage provided to employees. Employers must report the aggregate cost of "applicable employer-sponsored coverage" on Form W-2, regardless of

whether the employee or the employer pays for the coverage. The IRS issued previous guidance in Notice 2011-28, but the newly issued [Notice 2012-28](#) clarifies employer's reporting obligations and replaces the previous guidance. We've provided some of the highlights below:

### When do I have to start reporting?

Employers must report the cost of employer-provided health coverage on Form W-2 starting with coverage provided in 2012. That is, reporting is mandatory beginning with the 2012 Forms W-2 that employers are required to give employees by the end of January 2013. But an employer can voluntarily report for the 2011 calendar year (with W-2s due by the end of this January).

### Will reporting affect my tax liability?

The requirement is for informational purposes only and provides useful consumer information to employees on the cost of their health care coverage. Reporting health care coverage costs will not cause those amounts to become taxable.

### Is there an exemption to reporting?

Until the IRS issues further guidance, employers that file fewer than 250 Form W-2s for the preceding calendar year are currently exempt from reporting. So if you file fewer than 250 2011 Form W-2s, you don't have to report health care costs on your 2012 Form W-2s. Also, tribally chartered corporations wholly owned by a federally recognized Indian tribal government are not subject to reporting requirements.

### What costs must be reported?

Costs include, with respect to any employee, coverage under any group health plan made available to the employee by an employer which is excludable from the employee's gross income under § 106 of the Code, or would be excludable if it were employer-provided coverage (within the meaning of § 106).

The new guidance clarifies that the following costs, among others, do not need to be included:

- The amount of a flexible spending arrangement (“FSA”) if contributions only occur through employee salary reductions
- Dental or vision plans if (1) they are offered under separate policy from which other health benefits are offered or (2) employees can opt-out of the dental or vision benefits, and if they do opt-in they must pay an additional premium for coverage.
- Coverage under an on-site clinic, employee assistance program (“EAP”) or wellness program where (1) the employer not subject to COBRA or (2) the employer is subject to COBRA but the employer does not charge a premium to COBRA participants for continued coverage under the program.

#### **What about terminated employees?**

If an employee is terminated during the year, that employee can request a W-2 and the employer must comply within 30 days of the employee’s request. But an employer does not have to report health coverage costs on the W-2 if the employee’s request comes before the end of the calendar year. In other words, an employer does not have to report its 2012 health care coverage to an employee terminated that year until 2013.

#### **What can I do to prepare for these new reporting requirements?**

Employers should work with their benefits record keepers and payroll department to create a schedule of what information is needed, who will provide it, and who will take a lead in overseeing all tasks to meet reporting requirements. A system should be developed to track information on W-2s and to avoid a crunch in January 2013. Notably, the penalty for noncompliance can be significant – as much as \$200 per failed W-2, up to a maximum of \$3 million per year.

Employers who file fewer than 250 W-2s should continue to monitor IRS guidance in the event that the IRS decides to require small employers to also report costs of health care coverage.

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