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Employers Must Prepare to Report Health Coverage on W-2 Forms

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Beginning in 2012, the Patient Protection and Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on their W-2 forms. This reporting is for informational purposes only and is not included in employees' taxable wages. The IRS recently issued new guidance describing the types of health plan coverage the mandate applies to and how to calculate the cost.

Unless specifically exempt, all employers, including governmental entities, tax-exempt organizations and churches are subject to this requirement. There is a temporary exemption for small employers who issued fewer than 250 W-2 forms in the previous calendar year. Plan sponsors are also exempt from reporting coverage under multi-employer plans, health reimbursement arrangements, dental, and vision plans that are not integrated with a group health plan, and self-insured plans of employers not subject to COBRA or similar requirements. The employer is not required to generate W-2 forms for participants who receive no reportable compensation, such as retirees, COBRA-qualified beneficiaries, disabled former employees, or surviving spouses.

The mandate requires employers to report the "total cost of all applicable employer sponsor coverage" provided to an employee, including the value of coverage provided to dependents. Employers can choose from several different methods for calculating

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reportable coverage cost, so long as the method selected is applied consistently to all participants in that plan. The IRS has outlined three permissible methods, including:

- COBRA Applicable Premium Method – Employers may report the applicable COBRA continuation premium (not including any 2% COBRA administrative fee)
- Insured Coverage Premium – Insured group health plans may use the premium charged by the insurer
- Modified COBRA Premium Method – Employers that subsidize the cost of coverage or that determine the cost of coverage by applying the cost of coverage from a prior year may use a reasonable good faith estimate

The amount reported must include both employer and employee contributions towards the cost of coverage. A health care flexible spending account (FSA) that is funded solely with employee salary reductions is not reported. However, if the employer contributes to the FSA or provides flex credits that employees can contribute toward FSA contributions, the employer must report any amounts exceeding the employee's salary reduction contributions.

Although this provision was originally intended to go into effect during the 2011 calendar year, the compliance deadline has been extended to the 2012 calendar year, to apply to W-2 forms provided in January 2013. Over the next few months, employers will need to modify their payroll systems and determine how they will calculate the cost of coverage.