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New Guidance on W-2 Health Cost Reporting

Employers are required to provide a written statement to each employee showing the amounts paid to the employee during the calendar year, on or before January 31 of the succeeding year (or, if the employee terminates employment during the year, within 30 days after the date of receipt of a written request from the employee submitted before January 2). The W-2 statement is used to satisfy this requirement.

The healthcare reform law added a new requirement that employers report the cost of employer provided healthcare coverage on employees' W-2 statements. Under the reform law as originally issued, employers were required to provide this health care cost information on 2011 W-2 statements (distributed to employees in 2012). An IRS [Notice](#) issued last fall waived the requirement for 2011 W-2 statements and extended the requirement to apply to 2012 W-2s (issued to employees in 2013). Therefore, employers will not be required to report the cost of health coverage until January 2013.

The IRS has now released [Notice 2011-28](#) which provides further relief for certain smaller employers (those filing fewer than 250 W-2s) by making the cost of coverage reporting requirement optional at least for 2012 W-2s, and continuing this optional treatment for smaller employers until further guidance is issued. Therefore, small employers will not be required to report the cost of health coverage until January 2014 (and the reporting date is further extended provided no subsequent guidance is issued). The new IRS Notice also makes clear that employers will not have to issue W-2s to retirees or others who receive health care coverage but who receive no compensation from the employer necessitating a W-2 (because they don't receive wages or salary).

The new Notice uses a helpful question-and-answer format to provide guidance for employers that are subject to this requirement for the 2012 Forms W-2 and those that choose to voluntarily comply with it for either 2011 or 2012. The Notice includes information on how to report, what coverage to include, and how to determine the cost of the coverage. Employers must report the fair market value of nontaxable health care coverage made available to the employee. The value includes both employer and employee contributions (both pre-tax and post-tax) for the following benefits:

- Medical plans, including prescription drug benefits, Medicare supplement policies, and employee assistance programs (EAPs);
- Dental and vision benefits, unless they are stand-alone (HIPAA-excepted) benefits elected separately from medical plans;
- Executive physicals;
- On-site clinics, unless they only provide de minimus care; and
- Health flexible spending account (FSA) contributions above the amount elected by employees (employer FSA contributions).

The IRS 2011 [draft Form W-2](#) includes the codes employers use to report the cost of coverage under an employer provided group health plan. The new Notice states that employers do not have to report the following:

- Health reimbursement arrangement (HRA), Health savings account (HSA), and Archer MSA contributions; Employee health FSA contributions (employers must already report them on the W-2); and
- HIPAA-excepted benefits, including stand-alone vision and dental benefits, accident, disability, supplemental liability, auto and other liability insurance, auto medical payment insurance, workers' compensation, hospital or other indemnity insurance, disease-specific, and similar limited benefits.

Note: The new Notice emphasizes that this cost of healthcare coverage reporting is intended only "to provide useful and comparable consumer information to employees on the cost of their health care coverage." It does NOT cause otherwise excludable employer-provided health coverage to become taxable to the employee. Employer-provided health coverage continues to be excludable from an employee's income, and is NOT taxable. However, in 2018, the value of benefits above certain thresholds will be taxed, according to current provisions in the healthcare reform law.

Should you have questions about this or any aspect of healthcare reform, contact your Conner Strong account representative toll free at 1-877-861-3220. For a complete list of Legislative Updates issued by Conner Strong, visit our online [Resource Center](#).