

legislativeUPDATE

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W-2 HEALTH COVERAGE REPORTING DELAYED

The Internal Revenue Service (IRS) issued a [Notice](#) announcing that employers won't have to report the value of employer-sponsored group health plan coverage on Forms W-2 issued for 2011. Reporting for the 2011 tax year will be optional, and employers taking advantage of the extended compliance date will not be treated as having failed to meet the wage and tax statement reporting requirements or be subject to any penalties. The IRS anticipates issuing guidance on this reporting requirement before the end of 2010. The extension notice was issued in response to concerns that employers would need additional time to adjust payroll systems to comply with the new reporting obligation.

The health care reform law included the new W-2 reporting mandate effective for tax years starting on or after January 1, 2011, which meant employers would have to begin including this information on W-2s provided to employees in January 2012 (or possibly sooner for employees terminating their employment in 2011). The extension notice means generally that employers won't have to include this information on W-2s until January 2013 (or sooner for employees terminating in 2012). The IRS did not indicate whether the additional guidance will include a firm deadline for compliance.

If an employer does decide to report the aggregate cost of employer coverage on the Form W-2 for 2011, the IRS has also released a draft [W-2 Form](#) that includes a new area in Box 12 that would be used to report the cost of the employee's health coverage. **The new draft W-2 Form confirms that the reportable amounts are not taxable and are reported only for informational purposes.** It is intended to provide employees with greater transparency into overall health care costs. The reporting will be a way to verify medical coverage for the mandates starting in 2014. Also, the W-2 will be a way to track coverage values for the "Cadillac" excise tax (starting in 2018) on medical coverage above the thresholds.

The law requires that employers report the "aggregate" value of health benefits (employer and employee contributions) on all employees' W-2 Forms. For this purpose, health benefits include:

- Health plans;
- Prescription drug benefits;
- Dental and vision plans, unless they are "stand alone" plans (i.e., employees may elect only dental or only vision and are not required to also enroll in medical coverage);

- Executive physicals;
- On-site clinics if they provide more than de minimis care;
- Medicare supplemental policies; and
- Employee assistance programs.

Contributions to HSAs, HRAs, and health FSAs are included in the definition of “coverage” under the 2018 excise tax provisions, so presumably those amounts may need to be reported on the W-2 to the extent that they are not currently reported on the W-2. We expect the IRS will issue guidance on this, clarifying exactly what will be required to be reported on the W-2 and how that information will be reported.

The value to be reported is to be determined using the applicable COBRA rates (minus the 2% administrative fee if charged). The guidance will clarify what employers must include in the calculation and how to calculate certain benefits for which employers usually do not determine COBRA premiums (such as worksite clinics and pharmacies, and employee assistance programs).

As new information is issued on health reform, Conner Strong will issue alerts and updates. Should you have any questions, **please contact your Conner Strong representative toll-free at 1-877-861-3220.**

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