



W-2 Reporting Bulletin

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on the employees' Form W-2. *[If you provide additional benefits under any other employer-sponsored group health plan, you need to make an independent determination of your reporting obligations for that coverage.]*

Currently, if your school district filed more than 250 Form W-2(s) in the prior calendar year, you are required to report the cost of health coverage on the Form W-2(s). The FAQs follow guidance from the IRS. At the end of this document, there is a link to the IRS's website. There is also a link to a chart outlining the reportable coverage type(s). Please remember you are reporting for the calendar year, which will include 6 months of one year's premium cost and 6 months of the following year's premium cost.

For example, if you filed more than 250 W-2s in 2014, you must report the cost of the health coverage on the employees' 2015 W-2, which is generally issued in early 2016. You would report the aggregate cost of the health coverage for the last six months of 2013-2014 premium and first 6 months of the 2014-2015 premium.

Note that the guidance has remained the same since the requirements first became effective for groups who issued 250 or more Forms W-2 in the prior year. The IRS has not yet issued guidance for groups who do not meet this threshold.

Laura and Mark

1. Does the cost of an employee's health care benefits shown on the Form W-2 mean that the benefits are taxable to the employee?

No. There is nothing about the reporting requirement that causes or will cause excludable employer-provided health coverage to become taxable. The purpose of the reporting requirement is to provide employees useful and comparable consumer information on the cost of their health care coverage.

2. When will employers have to start reporting the cost of health care coverage on the Form W-2?

The requirement for certain groups began in 2012.

Compliance for employers who issued more than 250 Forms W-2 in the prior year must continue to comply with the reporting requirement.

W-2 Reporting Bulletin

The IRS had not indicated when groups who issued 250 or less Form W-2s will need to begin reporting the cost of coverage. However, it is anticipated that these groups will be given at least 6 months to comply with any reporting requirement.

There is also relief for reporting certain types of coverage (outlined in Question 5).

3. What type(s) of coverage must be reported? [see quick reference tool at this link: http://www.vehi.org/media/doc/W2_Quick_Reference_Tool_2015.pdf]

Unless an employer qualifies for transitional relief), in addition to group health plan coverage, the following must be reported:

Prescription drug plans, if any, offered in addition to VEHI health plans;

Healthcare FSA(s) (employer contributions only, if any); and

Specified disease or illness (for example, cancer-only policies) or hospital indemnity or other fixed indemnity insurance (employer contributions and employee pre-tax contributions).

4. What type(s) of coverage are not reported?

Your reporting should NOT include:

Long Term Care, accident, or disability income benefits;

Health reimbursement arrangements (delayed until further notice; Question 5);

Specified disease or illness (for example, cancer-only policies) or hospital indemnity or other fixed indemnity insurance where the full premium is paid by the employee on an after-tax basis;

HSA contributions of the employee or the employee's spouse; and

Employee salary reduction contributions to a Health FSA.

Heads Up: Employer contributions (and any employee contributions made under a cafeteria plan) to an HSA are included in Box 12, using Code W, but should not be included in the amount reported for the cost of employer-sponsored coverage in Box 12 using Code DD.

5. What transition relief is being provided? To which employers and types of coverage does it apply and how long does it last?

W-2 Reporting Bulletin

For certain employers and with respect to certain types of coverage listed below, the requirement to report the cost of coverage will not apply until the IRS publishes guidance giving at least six months of advance notice of any change to the transition relief. However, reporting by these employers and for these types of coverages may be made on a voluntary basis.

The transition relief applies to the following:

(1) **Employers filing fewer than 250 Forms W-2 for the previous calendar year** (for example, employers filing fewer than 250 Forms W-2 in the prior calendar year **will not be required to report the cost of coverage on the Forms W-2**). For purposes of this relief, the number of Forms W-2 the employer files includes any forms it files itself and any filed on its behalf by an agent under § 3504; and

(2) Health Reimbursement Arrangements (Question 4).

6. What amount should the employer report on the Form W-2 for health coverage? The amount the employer paid? The amount the employee paid? Or both?

In general, the amount reported should include both the portion paid by the employer **and** the portion paid by the employee.

7. Where on the Form W-2 should the employer report the cost of these health care benefits?

The cost of these health care benefits will be reported in box 12 of the Form W-2, with Code DD, to identify the amount.

8. How do you calculate the amount of cost to report on employees' Form W-2(s)?

VEHI members should use the rates associated with the plan and tier (single, two-person or family coverage) selected by each employee.

Heads up: Treasury has emphasized that the rates must be calculated properly under the COBRA rules for self-funded plans. For reporting purposes, the additional 2 percent administrative fee is not included.

9. What do we do when an employee terminates employment in the middle of the year?

You may apply any reasonable method of reporting the cost of coverage for an employee who terminated employment during the calendar year, provided that the method is used consistently for all employees receiving coverage who terminate employment during the year. For example, calculating the total cost per month and then multiplying it by the number of covered months is a reasonable method.

Under the transition rules that apply until future guidance, if the terminated employee requests a W-2 before the end of the calendar year, the employer is not required to report any amount of health benefits on that W-2.

10. If there is a change in election due to a status change, should this be taken into account?

Yes. If there are changes to an employee's elections during the calendar year, such as a status change from single to family coverage, that change in cost should be reflected.

11. Do dependents or beneficiaries receive the reportable cost on their W-2?

No, the reportable cost is included on the W-2 of the employee electing the coverage (primary covered person). Even if that employee's covered dependents include another employee also eligible for coverage as an employee (for example, a spouse or adult dependent child), the full cost is reported on the W-2 of the employee electing the coverage.

12. Are retirees or other former employees (for example, COBRA beneficiaries) who received no compensation during the calendar year entitled to a Form W-2 including the cost of coverage?

No. Unless the employer is required to issue a W-2 to an individual, such as a former employee, the employer is not required to report the cost of coverage provided to the individual.

13. What about changes in coverage reported by an employee that retroactively affect the cost of coverage? For example, what if an employee reports a new spouse after December 31 that increased the cost of December's coverage?

If an employee notifies you of a coverage change after the close of the calendar year that has a retroactive effect on his or her coverage for the prior year, you are not required to include it in the calculation of the aggregate reportable cost for that prior year. In addition, you are not required to furnish a Form W-2c if a Form W-2 has already been provided for a calendar year, for this type of notification (for example, if a Form W-2 is provided to employees on January 15, and an employee notifies you of a retroactive change on January 20).

14. How do we count the cost of coverage when the final payroll falls in the next calendar year?

The IRS provides an employer with three options:

Include the cost as being provided during the reporting year (as though it occurred before December 31). Remember to exclude it in the next reporting year;

Include the cost as being provided during the next reporting year; or

Prorate the cost of coverage for the coverage between the two calendar years using any reasonable allocation method that relates to the number of days in the coverage period..

The same method must be used for all employees.

15. Is the total of the aggregate reportable costs attributable to an employer's employees required to be reported on Form W-3, Transmittal of Wage and Tax Statements?

No.

Detailed FAQ from the IRS on the W-2 reporting obligations:

<http://www.irs.gov/uac/Employer-Provided-Health-Coverage-Informational-Reporting-Requirements:-Questions-and-Answers>

Chart of Reportable Coverage Type(s):

<http://www.irs.gov/uac/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage>