



IRS Issues Additional Guidance On W-2 Reporting

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The Patient Protection and Affordable Care Act (PPACA) requires employers to report the aggregate cost of employer-sponsored group health plan coverage on their employees' Forms W-2. The purpose of the reporting requirement is to provide information to employees regarding how much their health coverage costs and is not for tax purposes.

This requirement was originally effective for the 2011 tax year and the IRS later made reporting *optional* for 2011. On March 29, 2011 the IRS released guidance in Notice 2011-28 further delaying mandatory compliance with the requirement for small employers (those filing fewer than 250 W-2 forms) until further guidance is issued. The effective date still remains 2012 tax year for all other employers.

Notice 2011-28 contains interim guidance for employers including methods of calculating the cost of coverage to be reported and the method of reporting on the W-2 form. More notable items include:

- Clarifies that the cost of coverage under certain plans is not required to be included on an employee's Form W-2. These plans include multiemployer plans, health reimbursement arrangements (HRAs), and dental or vision plans that are not integrated into a group health plan providing health care coverage.
- Salary reduction contributions to a health flexible spending arrangement (FSA) under a cafeteria plan are not required to be reported. However, if the amount of the health FSA for the plan year (including optional employer flex credits) exceeds the salary reduction elected by the employee for the plan year, the amount of the health FSA minus the salary reduction election must be reported.
- The reporting requirement does not apply to amounts contributed to an Archer medical savings account (Archer MSA) by the employee (or spouse) or amounts contributed to a health savings account (HSA) by the employee (or spouse). Those amounts are already required to be separately accounted for on the Form W-2.
- Clarifies that the reporting rule does not require an employer to issue a Form W-2 including the aggregate cost of coverage to an individual if the employer does not otherwise have to issue a W-2 for that person. For example, an employer would not have to issue a Form W-2 to a retiree or other former employee receiving no reportable compensation.
- It does not matter whether the employer or the employee pays for the coverage – it is the aggregate cost of the coverage that must be reported. The aggregate cost of the coverage is determined using rules similar to those used for determining the applicable premiums for purposes of COBRA continuation coverage. It must be determined on a calendar year basis.

To read the full interim guidance, see Notice 2011-28 at <http://www.irs.gov/pub/irs-drop/n-11-28.pdf>.

For additional information, please contact your Lawley Benefits Consultant.

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