



## For Your Benefit.

### **IRS Revises W-2 Reporting Requirements for Health Care Reform**

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In May, 2011, the IRS issued [Notice 2011-28](#), clarifying a Patient Protection and Affordable Care Act (PPACA) of 2010 requirement that employers begin reporting the aggregate cost of health care to their employees on IRS W-2 forms.

Initially, the PPACA required that all employers provide such reporting beginning in January, 2012 for the 2011 tax year. However, that requirement was postponed by one year in IRS [Notice 2010-69](#). Thus employers were told that they need not begin to provide this information to employees until January, 2013 for the 2012 tax year, but could choose to voluntarily do so at the initial earlier date. Very few employers were contemplating using the 2011 tax year to test their systems on a voluntary basis. However, some payroll groups did advocate doing just that, calculating and running a test of the payroll and reporting systems so that the 2012 tax year reporting done in January, 2013 would be fully vetted.

Now, employers who issued fewer than 250 W-2's in January, 2013 for the 2012 tax year will not be required

to report any health care costs "until further notice," according to the new IRS release. The requirement still holds for employers who issue 250 or more W-2's starting in January 2013. That is, each year, the employer is required to look back at the number of W-2's issued the prior year. If that number is 250 or greater, the employer must begin complying with PPACA requirement.

#### ***What is Reported?***

Employers need to begin the calculation process by examining which plans are to be included in the new requirement. First, all health plans other than certain "excepted benefits" such as dental, vision, accident, disability income, and "other similar insurance coverage, specified in regulations, under which benefits for medical care are secondary or incidental to other insurance benefits." However, note that if dental, vision, or other "excepted" benefits are incorporated as part of the health plan (not as separate plan documents), then those plan costs are also included. Next, excluded too is the cost of items such as specific disease insurance, hospital indemnity programs and the like from the reportable calculation.

The "applicable premium" for included benefits is straightforward for fully-insured plans. For self-funded plans, the Notice provides two alternative

methods for calculating the reportable cost: the actuarial method or the past cost method. In essence, these are the same two sole approaches that self-funded plans may use to calculate their COBRA costs (less the two percent administrative surcharge). Like COBRA, the "applicable premium" may only be set once in any 12 month period. The "applicable premium" is

the total cost of reportable items, regardless if it is employer- or employee-paid.

Lastly, it's important to note that the new W-2 health care cost reporting is not taxable to the employee, but is only an informational item, much like the reporting of eligible dependent care expenses on the W-2.

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