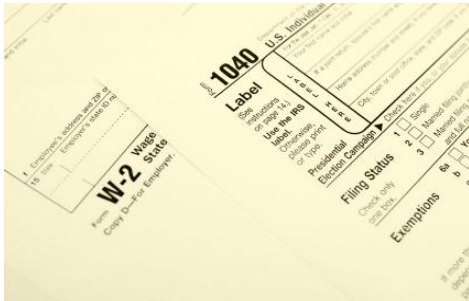


Health Care Coverage and Form W-2

By Robert Ellerbrock April 04, 2011



Late last month, the IRS issued guidance on how employers will report the aggregate cost of employer-sponsored health coverage provided to an employee on Form W-2. The Patient Protection and Affordable Care Act (PPACA) imposed the reporting requirement, originally effective for the 2011 Form W-2s (for issuance in 2012). However, an earlier IRS Notice postponed this reporting requirement until the 2012 Form W-2s (for issuance in 2013).

Calculation of Aggregate Cost. The aggregate cost of coverage provided to the employee includes amounts that both the employer and the employee pay. In addition, the aggregate cost includes any portion of the cost of coverage that is includable in the employee's gross income (for example, the cost of coverage provided to over-age 26 dependents). The reporting requirement applies to only "applicable employer sponsored coverage," defined as coverage under any group health plan that is excludable from the employee's gross income under Internal Revenue Code Section 106, or that would be so excludable if it were employer-provided coverage that same section.

In Notice 2011-28, the IRS provides that an employer should determine the aggregate cost of coverage in a manner similar to that used to determine COBRA premiums. That Notice specifies that the employer may use one of the following methods to determine cost to be reported:

- the COBRA applicable premium method under Code Section 4980B(f)(4),
- the premium charged method, or
- the modified COBRA premium method (where the employer subsidizes COBRA premiums or bases them on premiums calculated in a prior year.)

The Notice clearly states that this reporting requirement is for the employees' information only, to inform them of the cost of their health care coverage. Such reporting does not affect whether or not the health coverage is taxable. Nothing in this requirement or the related guidance causes otherwise excludable employer-provided health care coverage to become taxable.

Some Relief for Smaller Employers. For employers who will have fewer than 250 Form W-2s in 2011 (for issuance in 2012), the Notice postpones the reporting requirement for at least one year. The Notice provides that this relief will continue until the issuance of further guidance.

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