



# Client Bulletin

Keller»Benefit  
Services

## Guidance on Form W-2 Reporting of Health Care Costs

A key provision of health care reform requires employers to report the value of employees' health coverage on Form W-2s beginning with the 2012 tax year. This reporting is only to inform employees of the cost of their health coverage, which will continue to be excluded from income for employees, spouses, and children up to age 26. The cost of coverage continues to be taxable to other non-tax dependents such as domestic partners.

The IRS just issued additional guidance, as follows.

### Delayed Requirement for Smaller Employers

Last year, the IRS delayed mandatory W-2 reporting until the 2012 calendar year. This new guidance provides further delays for employers who provide **less than 250 Form W-2s** in the **prior calendar year**. For example, if you issue less than 250 Form W-2s for 2011, you are not required to report the cost of health coverage for 2012. This delay appears to be in effect until the IRS issues further guidance.

### Determining the Health Cost to Report

For employers who will be subject to the W-2 reporting requirement, this new guidance generally confirmed much of what we already expected with a few helpful clarifications.

#### Health plan costs to **INCLUDE**:

- Medical insurance premiums and self-insured medical plan premium equivalents
- Health care FSAs with employer contributions or flex credit plans only (see health FSA section)
- Dental and vision insurance - only if linked to the medical plan
- Employee Assistance Plans (EAPs) that provide medical benefits
- Supplemental medical plans
- Limited benefit "mini-med" plans
- On-site medical clinics

#### Health plan costs to **EXCLUDE**:

- Standalone dental and vision plans
- Health care FSAs solely funded by employee salary reductions, no employer funds
- Health Reimbursement Arrangements (HRAs) - *NEW*
- Long term care insurance
- Disability insurance
- Accident only, specific illness, hospital indemnity insurance plans

#### Health Care FSAs - Special Rule if Employer Contributions or Flex Credits

The majority of health care FSAs are solely funded through employee salary reductions and will therefore be exempt from reporting on the Form W-2. However, employers who contribute to an employee's FSA through matching, fixed, or any other contribution method will need to include the employer FSA contribution in the health coverage cost reported on the Form W-2. For employers who have flexible credit plans, you only need to include FSA benefits that exceed the employee's salary reduction. Since flex credit arrangements can be complicated and vary greatly, we recommend you discuss your specific FSA plan with your Keller consultant.

*Continued on Next Page*



# Client Bulletin

---

Keller»Benefit  
Services

## Guidance on Form W-2 Reporting of Health Care Costs

### Administering the Form W-2 Reporting

The cost of health coverage is reported on the Form W-2 in Box 12 under code DD but is not included on the employer's Form W-3. All health coverage must be reported regardless of whether it is paid by the employer or employee and regardless of whether a portion of the coverage is taxable to the employee (such as domestic partner coverage). The cost of coverage must reflect any mid-calendar year increases or decreases in cost including change in premiums and change in enrollment. Employers should use COBRA premiums to determine the cost of coverage.

### **Retirees and Terminated Employees**

For employees who are covered under your health plan but would not normally receive a W-2 (such as retirees), you do not have to provide a W-2 just to report the cost of coverage. For employees who terminate coverage mid-calendar year and enroll under COBRA, employers have the option to include or not include the cost of COBRA coverage on the employee's W-2.

At this time, we recommend that you contact your payroll vendor for administrative issues related to reporting the cost on Form W-2s. As always, please contact your Keller consultant for more information regarding reporting requirements and other health care reform provisions