

## **W-2 Reporting Requirements**

Under the Patient Protection and Affordable Care Act (“PPACA”), employers will be required to calculate and report the aggregate cost of applicable employer-sponsored health insurance coverage on employees' Form W-2s for taxable years beginning Jan. 1, 2011. However, because the Internal Revenue Code allows employees to request their Form W-2s earlier than required if they terminate employment during the year, employers should be ready to implement this change in early 2011. This reporting requirement is for informational purposes only; the amount reported does not affect the employer or employee's tax liability.

The Internal Revenue Service has yet to issue regulations or guidance regarding this new requirement. As such, this information is subject to possible change or clarification.

The coverage costs that must be reported under the new requirement include medical plans – including vision or dental benefits to the extent they are integrated into the medical plan – and pharmacy plans.

The following employer-provided benefits are not required to be reported on Form W-2 under PPACA:

- Long-term care, accident or disability income benefits
- Liability insurance
- Workers compensation insurance
- Specific disease or illness policies (such as cancer policies) and hospital (or other) indemnity insurance policies where the full premium is paid by the employee on an after-tax basis
- Archer medical savings account (“MSA”) or health savings account (“HSA”) contributions of the employee or the employee's spouse
- Salary reduction contributions to a health flexible spending account (“FSA”)
- Stand-alone fully insured vision or dental plans<sup>[1]</sup>

In determining the value of health insurance coverage, the employer must calculate the applicable premiums for the taxable year for such health coverage for the employee under the rules for COBRA continuation coverage under IRC Sec. 4980B(f)(4) and accompanying Treasury regulations. The value that the employer is required to report is the aggregate COBRA premium excluding the administrative fee (2 percent maximum), not just the portion of the premium that the employee or employer pays.

Employers should contact their tax or payroll professionals for answers to specific questions about implementing this IRS requirement.