

Employer's reporting of health insurance coverage on Forms W-2 is optional for 2011

IRS has announced that employers won't have to report the aggregate cost of employer-sponsored group health plan coverage on Forms W-2 issued for 2011. Reporting for 2011 will be optional, and employers taking advantage of the reprieve will not be treated as having failed to meet the Code Sec. 6051 wage and tax statement reporting requirements or be subject to any penalties. IRS anticipates issuing guidance on this reporting requirement before the end of this year.

Background. For tax years beginning on or after Jan. 1, 2011, Code Sec. 6051(a)(14), which was added by § 9002 of the Patient Protection and Affordable Care Act of 2010 (Health Care Act, P.L. 111-148, 3/23/2010), generally provides that the aggregate cost of the applicable employer-sponsored health insurance coverage (as defined in Code Sec. 49801(d)(1)) must be reported on Form W-2. For this purpose, the aggregate cost is to be determined under rules similar to the rules of Code Sec. 4980B(f)(4), referring to the definition of the "applicable premium" under the rules providing for COBRA continuation coverage.

Interim relief. Notice 2010-69 provides interim relief to employers with respect to reporting the cost of coverage under an employer-sponsored group health plan on Form W-2 under Code Sec. 6051(a)(14). Specifically, Notice 2010-69 provides that reporting the cost of this coverage is not mandatory for Forms W-2 issued for 2011. IRS has determined that this relief is necessary to provide employers with the time they need to make changes to their payroll systems or procedures in preparation for compliance with the new reporting requirement.

In addition, IRS announced that it has issued a draft Form W-2 for 2011. The draft Form W-2 includes the codes that employers may use to report the cost of coverage under an employer-sponsored group health plan. IRS will be publishing guidance on the new requirement later this year. IRS stresses that the amounts reportable are not taxable, and that the new reporting requirement is intended to be informational only and to provide employees with greater transparency into overall health care costs. (IR 2010-103; <http://www.irs.gov/newsroom/article/0,,id=228881,00.html>)

The draft Form W-2 (2011) as of Oct. 12, 2010 can be viewed on the IRS website at http://www.irs.gov/pub/irs-utl/draft_w-2.pdf.

Observation: For tax years beginning after Dec. 31, 2017, Form W-2 reporting of health insurance coverage will take on practical importance. Under Code Sec. 49801, a 40% nondeductible excise tax will be levied on insurance companies and plan administrators for employer-sponsored health coverage to the extent that annual premiums exceed \$10,200 for single coverage and \$27,500 for family coverage. An additional threshold amount of \$1,650 for single coverage and \$3,450 for family coverage will apply for retired individuals age 55 and older and for plans that cover employees engaged in high risk professions.