

ACA: Form W-2 Reporting Requirement

The ACA requires employers that sponsor fully insured or self-insured group health plans to report information to the IRS annually via Form W-2 regarding the cost of health coverage provided to employees during the prior calendar year. This publication discusses the ACA's Form W-2 reporting requirements, including the employers and plans subject to the requirement, the types of coverage that are reportable, the methods of calculating the cost of those coverage types, and the penalties for noncompliance. In addition, the Resources section of the publication includes links to forms, instructions, and other resources that may be helpful to employers.

THE FORM W-2 REPORTING REQUIREMENT

Effective for Form W-2 reporting in 2013 (for calendar year 2012) and annually thereafter, employers are required to report the aggregate cost of applicable employer-sponsored group health plan coverage on each covered employee's Form W-2. The employer must report the cost of coverage on a calendar-year basis, regardless of the employer's ERISA plan year or medical policy or contract year.

Employers must file copies of their annual Forms W-2 with the Social Security Administration by each January 31; this deadline applies regardless of whether the employer is filing paper forms or electronically. Employers must also provide copies B, C, and 2 of Form W-2 to their employees by the same deadline. When the due date falls on a weekend or federal holiday, the due date is extended to the next business day.

The Form W-2 cost of coverage reporting is intended for informational purposes for the employee and does not cause the cost of such coverage to be included in the employee's income or otherwise become subject to federal taxation. For further information about other ACA reporting requirements, see the PPI publication [ACA: Employer Mandate Reporting Requirements](#).

Employers are not required to provide Form W-2 cost of coverage reports to former employees (such as COBRA participants and retirees) who received health benefits in the prior year but who would not receive a Form W-2 except for the reporting requirement.

EMPLOYERS SUBJECT TO THE REQUIREMENT

Generally, all employers, including private companies, governmental entities, church organizations, and tax-exempt organizations, are subject to the Form W-2 reporting requirement.

A small employer exception for employers who filed fewer than 250 Forms W-2 in the previous calendar year remains in place. Unless changed by future guidance, employers that file fewer than 250 Forms W-2 in the calendar year are exempted from the reporting requirement for the next calendar year.

For purposes of determining the small employer reporting exception, the limit of 250 includes Forms W-2 filed by an employer's agent under IRC Section 3504. For example, if an employer would have filed 300 Forms W-2 in any given reporting year had it not used an agent, that employer would be subject to the reporting requirement for the following reporting year.

The Form W-2 reporting requirement remains on hold for employers filing fewer than 250 Forms W-2.



Importantly, the employer aggregation rules do not apply for purposes of determining the small employer reporting exception. For example, a subsidiary that filed 200 Forms W-2 in the prior year is exempt from the reporting requirement in the current year, even if the controlled group filed 250 or more Forms W-2 in the prior year. Lastly, there is an exemption for federally recognized Indian tribal governments (including tribally chartered corporations wholly owned by federally recognized Indian tribal governments).

Employers that file fewer than 250 Forms W-2 for one calendar year, self-insured plans that are not subject to COBRA (including church plans), and multiemployer plans continue to be exempted from the Form W-2 reporting requirement until further notice.

Note that the small employer exception for Form W-2 cost of coverage reporting is distinct from – and should not be confused with – the requirements related to electronic filing of Forms 1094-B/1095-B or 1094-C/1095-C. For employer mandate reporting in 2024 and thereafter, employers that file 10 or more returns of any type (i.e., counting Forms 1094-B/1095-B, 1094-C/1095-C, W-2, and 1099 together) to the IRS in a calendar year must do so electronically. Prior to 2024, the threshold for required electronic filing of these forms was 250 or more forms.

REPORTABLE PLAN INFORMATION

Employers must report on Form W-2 the cost of “applicable employer-sponsored coverage,” which is generally defined as any group health plan coverage provided by the employer to an employee that is excludable from the employee’s income (usually under IRC Section 106). Employers must report the appropriate cost of coverage amount in Box 12 of Form W-2 using code DD. The chart below outlines the various contributions and coverages that are included in the definition of applicable employer-sponsored coverage.

Applicable Employer-Sponsored Coverage

Required for Form W-2 Reporting	Optional for Form W-2 Reporting
Major medical coverage	Employee health FSA contributions (through salary reductions)
Executive medical plan coverage	HRA coverage
Combined medical/dental/vision plan (note that reporting is optional for stand-alone dental and vision coverage)	HSA (both employer and employee contributions) and Archer MSA contributions (employer contributions) (note that HSA and Archer MSA contributions are separately required to be reported on Forms W-2 but not as costs of employer-sponsored coverage)
Employee assistance program (EAP) (only included if a COBRA premium is charged for continued coverage)*	Noncoordinated coverage for specified disease or illness (e.g., cancer coverage)
Employer health FSA contributions (including employer flex credits)	Coverage under a HIPAA-excepted benefit, including a stand-alone vision or dental plan**
On-site medical clinics (only included if a COBRA premium is charged for continued coverage)*,***	Coverage for long-term care
Prescription drug coverage	Multiemployer plans
Point solution program coverage	Self-insured group health plans not subject to COBRA (e.g., plans sponsored by church organizations)
	Coverage provided under a government plan that provides coverage primarily for members of the military and their families

*The cost of coverage provided under an EAP, wellness program, or on-site medical clinic is only includible in the aggregate reportable cost if the employer charges a COBRA premium. Employers not subject to COBRA are not required to include the cost of coverage under an EAP, wellness program, or on-site medical clinic.

**Generally, in order for a dental or vision benefit to be a HIPAA-excepted benefit, employees must have the right not to elect the dental or vision benefit; employees who elect the dental or vision benefit must be required to pay a cost-share contribution toward the respective coverage.

Importantly, employers are required to report the aggregate cost of applicable employer-sponsored coverage, including amounts paid by the employer and the employee, regardless of whether employee contributions (if any) are made on a pre- or post-tax basis. The aggregate cost includes costs for all covered individuals, including spouses and dependent children. It also includes all amounts reported as income as a result of coverage (such as the cost of coverage for adult dependents over age 26 or for domestic partners).

With respect to reporting the aggregate cost of coverage for point solution programs, note that the fair market value of point solution program benefits or services must be included in Form W-2 cost of coverage reporting regardless of whether the point solution program is considered medical care (and therefore non-taxable) or nonmedical care (and therefore taxable).

Note that, unlike other HRAs, benefits provided under Qualified Small Employer HRAs (QSEHRAs) are reported on Form W-2, but they do not count towards the aggregated reportable cost and the employer uses a different reporting code.

PERMISSIBLE REPORTABLE COST CALCULATION METHODS

Employers may use any one of three methods to determine the Form W-2 reportable cost of coverage.

- **COBRA Applicable Premium Method:** Report the cost of coverage based on the COBRA applicable premium. Employers may use a good-faith estimate of the COBRA applicable premium.
- **Premium Charged Method:** Report the cost of coverage based on the premium charged by the insurer for coverage of the employee and any enrolled dependents. Only employers with fully insured plans may use this method.
- **Modified COBRA Premium Method:** Employers that subsidize the COBRA cost should nonetheless report the actual COBRA applicable premium cost.

Regardless of the method used to calculate the aggregate reportable cost, all plans must be reported on a calendar-year basis (even if the employer sponsors a non-calendar-year plan). The reporting must accurately reflect the aggregate costs of discrete periods of coverage for employees who begin, change, or terminate coverage during the calendar year. Employers should track actual coverage for each employee over the course of the entire calendar year and report accordingly, using one of the above methods and in accordance with the above rules.

SPECIAL CONSIDERATIONS FOR CALCULATING THE COST OF COVERAGE

There are special rules for certain situations, including changes in coverage and cost of coverage, employers charging blended or composite rates, and non-calendar-year plans.

Changes in Coverage and Cost of Coverage

As noted above, cost of coverage reporting must reflect an employee's coverage changes during the calendar year, including coverage enrollments, terminations, or tier changes. For changes during a discrete coverage period (such as mid-month changes), employers may use any reasonable method to determine the reportable cost for that period, so long as the employer uses the same method for all covered employees. Reasonable methods would include prorating or averaging the reportable costs for the month, or using the reportable cost at the beginning or end of the month. Employers must also take into account a change in coverage or cost of coverage from one plan year to the next (for non-calendar-year plans) and report calendar year coverage costs accordingly.

Further, the aggregate reportable cost for a calendar year may be based on information available to the employer as of December 31 of that year, without regard to any election or notification made after such date that retroactively affects coverage. Therefore, any election or notification that is made or provided in the subsequent calendar year that has a retroactive effect on coverage in the earlier year is not required to be included in the calculation of the aggregate reportable cost for the calendar year. Additionally, an employer that receives an employee's retroactive election or notification is not required to furnish a corrected Form W-2 (i.e., Form W-2c) to that employee if a Form W-2 has already been provided for the calendar year.

For mid-year terminations, employers have flexibility to report only the cost of coverage received prior to termination or also to report the cost of COBRA coverage. Note that employers are not required to report any cost of coverage amount on Form W-2 if an employee terminates employment and requests a Form W-2 prior to the end of the calendar year.

MULTIPLE EMPLOYERS

If an employee has multiple employers during a calendar year, each employer must report the employee's cost of coverage. If, however, the employee has a common paymaster (i.e., related employers) among the multiple employers, then only the common paymaster must report the cost of the coverage. If the employee transfers from a predecessor to a successor employer, the successor employer can report the cost of coverage for both employers. Lastly, if related employers employ the same employee, but do not use a common paymaster, the employers may either report the total aggregate cost of coverage on a single Form W-2 or allocate the cost between the employers and report the divided cost on separate Forms W-2.

In addition, employers that contribute to a multiemployer plan are not required to include the cost of health benefits under the multiemployer plan.

ADDITIONAL GUIDANCE

105(h) and S Corporations: The aggregate reportable cost of coverage does not include excess reimbursements paid to highly compensated individuals that are included in income when a self-insured plan violates IRC Section 105(h) nondiscrimination rules. A similar exclusion rule applies to coverage provided to 2% shareholder-employees of S corporations.

Reporting Benefits Otherwise Exempted Under Interim Relief: Employers may, at their discretion, include in the Form W-2 cost of coverage reporting any of the applicable employer-sponsored coverages that are exempt from reporting under interim relief, including coverage under an HRA, multiemployer plan, EAP, wellness program, or on-site medical clinic, provided the cost of such applicable employer-sponsored coverage is calculated using a permissible method (as outlined in IRS Notice 2012-9).

Hospital Indemnity/Other Fixed Indemnity Insurance: Generally speaking, the cost of hospital indemnity, other fixed-indemnity insurance, or coverage only for a specified disease or illness is not required to be included in the aggregate reportable cost of coverage if the benefit is offered as an independent, noncoordinated benefit and is paid for with after-tax dollars or is includible in gross income. However, this exception does not apply if the employer makes any contribution to the cost of coverage that is excludable from income, or if the employee purchases the policy on a pre-tax basis under a cafeteria plan. In that case, the employer's contributions must be reported.

Third-Party Sick Pay Providers: Third-party providers that issue Forms W-2 to employees exclusively to report sick pay have no responsibility to include any employer cost of coverage reporting on those Forms W-2.

PENALTIES FOR NONCOMPLIANCE

Failure to properly report the cost of employer-sponsored health coverage on Forms W-2 may result in penalties. Depending on whether the failure is timely corrected and the size of the employer, the penalties can range from \$60 to \$310 per Form W-2, up to maximums ranging from \$220,000 to \$3,783,000.

Forms W-2 issued incorrectly must be corrected, in which case employers should consult with their tax advisor.

SUMMARY

Employers that sponsor fully insured or self-insured group health plans and that filed 250 or more Forms W-2 in the previous calendar year must report the aggregate cost of applicable employer-sponsored coverage on Forms W-2 or face steep penalties for noncompliance. (The Form W-2 filing requirement remains on hold for employers that filed fewer than 250 Forms W-2 in the previous year.) Reporting must be done on a calendar year basis and must accurately reflect any coverage changes that occurred during the calendar year, including new or terminated enrollments or changes to coverage tiers. Employers should work with payroll administrators and HR personnel to determine which benefits to report and how to calculate the related costs.

RESOURCES

[Notice 2012-9](#)

[Form W-2](#)

[Form W-2c and Instructions \(for corrected returns\)](#)

[Form W-2 Instructions](#)

[IRS, Employer-Provided Health Coverage Informational Reporting Requirements: Questions and Answers](#)