

One Less Thing: IRS Delays Deadline for Reporting Health Care Costs on Form W-2

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Employers attempting to keep up with the myriad health reforms ushered in by the Patient Protection and Affordable Care Act of 2010 ("PPACA") will have one less requirement to comply with for next year. The IRS has announced relief for employers on the new Form W-2 reporting requirement that mandates reporting the cost of coverage under the employers' group health plans, making it optional for 2011.

The Internal Revenue Service ("IRS") delayed a mandatory reporting obligation under Form W-2. Specifically, the deadline under PPACA Section 9002 that originally required employers to report the cost of coverage of their employer-sponsored group health plans on an employee's Form W-2 for 2011 (that is, for health coverage received in 2011) will not take effect for 2011 (www.irs.gov/pub/irs-drop/n-2010-69.pdf).

Section 9002 of PPACA added Section 6051(a)(14) to the Internal Revenue Code (the "Code"), which would have required employers to calculate and disclose the "aggregate cost" of the "applicable employer-sponsored coverage" on each employee's Form W-2. These reported amounts would not be taxable, and would have been provided for informational purposes only. The "aggregate cost" of coverage is to be determined according to rules similar to those used to determine "applicable premiums" for COBRA continuation of coverage under Code Section 4980B(f)(4). "Applicable employer-sponsored coverage" includes health plan coverage made available to the employee, which is excludable from the employee's gross income under Code Section 106, regardless of whether the employee or the employer paid for the coverage. However, such coverage does not include amounts contributed to the employee's or the employee's spouse's Archer MSA or health savings account, as well as any salary reduction contributions to a flexible spending arrangement.

While the original effective date was for the 2011 tax year, the IRS has delayed mandatory compliance to both give employers sufficient time to adjust their payroll systems or procedures and, hopefully, to provide clarity surrounding the definition of "applicable employer-sponsored coverage." Employers can voluntarily report the cost of such coverage on each employee's 2011 Form W-2, should they wish to do so.

Employers can expect further IRS guidance on the Form W-2 reporting requirements before the end of 2010. In the interim, the IRS has released a draft Form W-2 including the new reporting fields and code (www.irs.gov/pub/irs-utl/draft_w-2.pdf).

If you have any questions about the content of this publication, please contact the Pillsbury attorney with whom you regularly work or the Executive Compensation & Benefits group.

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