

Benefits BRIEF



Form W-2 Reporting Obligations For Health and Welfare Benefits

• December 2021 •

At the close of each year, employers begin to turn their attention to the completion of Form W-2 reporting. To avoid the costly administration of issuing corrected forms – as well as the penalties associated with filing incorrect statements – employers should review any reporting liability they may have in relation to their health and welfare benefits. As always, employers should consult with a trusted tax advisor for more detailed guidance.

ACA Reporting

Under the Affordable Care Act (ACA), certain employers are required to report the total cost of employer-sponsored coverage on an employee's Form W-2. First required for the 2012 tax year, the reporting requirement applies to employers that filed 250 or more Forms W-2 in the prior year. To comply, these employers must report the aggregate cost of employer-sponsored coverage in Box 12 of Form W-2 using Code DD.

- **Coverage Subject to Reporting:** The reporting requirement encompasses employer-sponsored health coverage, whether the coverage is insured or self-insured, and regardless of the number of participants in the plan. In general, this includes **major medical coverage, employer contributions to a Health Flexible Spending Account (FSA), wellness programs, and employee assistance programs (EAPs)**. Stand-alone dental and vision coverage, Health Reimbursement Arrangements (HRAs), and Health Savings Account (HSA) contributions are excluded from this reporting requirement.
- **Determining the Cost of Coverage:** The aggregate cost of coverage provided to an employee over the course of the year will **include both employer and employee contributions** and should reflect the cost of coverage for any **additional persons covered** by the plan, such as spouses and dependents. Insured plans can use the actual premium charged for coverage. In contrast, self-insured plans can use the applicable COBRA premium rates (without the 2% administration fee) (a.k.a., fully insured

equivalent rates, illustrative rates, or funding rates).

This W-2 reporting requirement is informational only. Amounts reported will not affect the tax liability of individuals and are instead intended to provide useful consumer information to employees. However, **information reporting penalties may be assessed to employers for noncompliance.**

Imputed Income

While the Internal Revenue Code (IRC) permits the value of many employer-provided benefits to be excluded from an employee's gross income, there are **important exceptions**. Two common exceptions apply to health coverage provided to domestic partners and to employer-provided group-term life insurance.

- **Domestic Partner Coverage:** Because domestic partnerships are not recognized by federal law, the value of health coverage provided to an employee's **domestic partner must be imputed to the employee as taxable income** and included in Boxes 1, 3, and 5 of Form W-2.

To impute income, the employer must determine the fair market value of the coverage provided to the domestic partner, less any post-tax contributions made by the employee. This calculation may be based on either the COBRA premium rate (without the 2% administrative fee) for the partner or the cost differential between employee-only and employee-plus-domestic-partner coverage levels.

- **Group-Term Life Insurance:** If an employee receives more than \$50,000 of employer-provided group-term life insurance coverage, the **cost of insurance in excess of \$50,000** must be imputed as income to the employee and reported in Boxes 1, 3, and 5 of Form W-2, as well as Box 12 using Code C.

To determine the cost of coverage, the employer must use the uniform table of life insurance rates provided by the IRS. The Table establishes increasing rates based on age, and the employer should use the employee's age at the end of the tax year.

This imputed income rule applies both to employer-paid group-term life insurance coverage and to **voluntary coverage (that is, coverage paid for entirely by the employee using after-tax dollars) where the rates "straddle" the Table I rates**. Rates will "straddle" Table I where at least one employee's coverage is lower than the Table I rate, and the rate for at least one other employee's coverage is higher than the Table I rate.

HSA Contributions

Employers are required to report contributions made to an employee's HSA in Box 12 of Form W-2 using Code W. The amount reported should include all contributions made on a pre-tax basis through a cafeteria plan – **both employee and employer contributions**. Where an employer contribution is not excludable from the employee's income, that amount must also be reported in Boxes 1, 3, and 5.

Contributions for a calendar year may be made up until April 15 of the following year. Though these contributions are allocated to the prior year, they must be reported on the employee's Form W-2 for the current year (the year in which the contributions are actually made). Then, the employee will use [IRS Form 8889](#) to make the appropriate reconciliation.

ADDITIONAL RESOURCES

[*Form W-2 Reporting of Employer-Sponsored Coverage*](#)

Internal Revenue Service

[*Domestic Partner Benefits: A Short Course for Employers*](#)

January 2021 Benefits Brief

[*Employer's Tax Guide to Fringe Benefits*](#)

IRS Publication 15-B

[*Health Savings Accounts and Other Tax-Favored Health Plans*](#)

IRS Publication 969