

ACA COMPLIANCE OVERVIEW



Form W-2 Reporting Requirements

The Affordable Care Act (ACA) requires employers to report the aggregate cost of employer-sponsored group health plan coverage on their employees' Forms W-2. The purpose of the reporting requirement is to provide information to employees regarding how much their health coverage costs. The reporting does not mean that the cost of the coverage is taxable to employees.

Employers were first required to report the cost of health coverage on employees' Forms W-2 that were furnished in January 2013 (for the 2012 tax year). However, the IRS made the reporting requirement **optional** for small employers (those that file fewer than 250 Forms W-2) until further guidance is issued. **Thus, the W-2 reporting requirement is currently mandatory for large employers, but optional for small employers.**

LINKS AND RESOURCES

- IRS [webpage](#): Reporting Employer-Provided Health Coverage on Form W-2.
- IRS [webpage](#): Form W-2 Reporting of Employer-Sponsored Health Coverage.
- IRS [Q&As](#) on the Form W-2 reporting requirements.
- IRS [Notice 2012-9](#) provides guidance for employers including health coverage cost information on Forms W-2 for 2012 and later years.
- IRS [Notice 2011-28](#) provided interim guidance on the Form W-2 reporting requirement.

Affected Employers

- This requirement is optional for **small employers** (those that file fewer than 250 Forms W-2), unless and until the IRS issues further guidance.
- **Large employers** (those that file 250 or more Forms W-2) have been required to comply with this requirement since the 2012 tax year.
- Employers are not required to issue a Form W-2 including the aggregate cost of coverage to an individual if they do not otherwise have to issue a Form W-2 for that person (e.g., for a retiree or other former employee receiving no reportable compensation).

ACA COMPLIANCE OVERVIEW



Employers Subject to the Reporting Requirement

In general, all employers that provide “applicable employer-sponsored coverage” must comply with the Form W-2 reporting requirement. This includes government entities, churches and religious organizations, but does not include Indian tribal governments or tribally chartered corporations wholly owned by an Indian tribal government.

The Form W-2 reporting requirement is currently **optional for small employers** (those that had to file **fewer than 250 Forms W-2** for the prior calendar year). Thus, if an employer is required to file fewer than 250 Forms W-2 for 2024, the employer would not be subject to the reporting requirement for 2025. Small employers will continue to be exempt from the reporting requirement, unless and until the IRS issues further guidance. Large employers (those that file 250 or more Forms W-2) were required to comply with the reporting requirement starting in 2012.

The Internal Revenue Code’s aggregation rules do not apply in determining whether an employer filed fewer than 250 Forms W-2 for the prior year. Also, if an employer files fewer than 250 Forms W-2 only because it uses an agent to file them, the employer does not qualify for the small employer exemption.

Coverage That Must Be Reported

Under the Form W-2 reporting requirement, the information that must be reported relates to “applicable employer-sponsored coverage.” **Applicable employer-sponsored coverage** is, with respect to any employee, coverage under any group health plan made available to the employee by the employer which is excludable from the employee’s gross income under Code Section 106.

For purposes of this reporting requirement, it does not matter whether the employer or the employee pays for the coverage—it is the **aggregate cost of the coverage** that must be reported. The aggregate cost of the coverage is determined using rules similar to those used for determining the applicable premiums for COBRA continuation coverage. It must be determined on a calendar year basis.

This reporting rule does *not* require these types of coverage to be reported on the Form W-2:

- Coverage under a dental or vision plan that is not integrated into another group health plan;
- Coverage under a health reimbursement arrangement (HRA);
- Coverage under a multiemployer plan;
- Coverage for long-term care;
- Coverage under a self-insured group health plan that is not subject to COBRA (such as a church plan);
- Coverage provided by the government primarily for members of the military and their families;
- Excepted benefits, such as accident or disability income insurance, liability insurance or workers’ compensation insurance;
- Coverage for a specific disease or illness, hospital indemnity or other fixed indemnity insurance, provided the coverage is offered as independent, noncoordinated benefits and payment for the benefits is taxable to the employee; and
- Coverage under an employee assistance program (EAP), wellness program or on-site medical clinic if the employer does not charge COBRA beneficiaries a premium for the benefits.

ACA COMPLIANCE OVERVIEW



The ACA reporting obligation also does not apply to amounts contributed to an Archer medical savings account (Archer MSA) or to an HSA. Those amounts are already required to be separately reported on the Form W-2. Thus, even small employers must report all employer contributions (including an employee's contributions through a cafeteria plan) to an Archer MSA or to an HSA on Form W-2.

Similarly, salary reduction contributions to a health flexible spending arrangement (health FSA) under a cafeteria plan are not required to be reported. However, if the amount of the health FSA for the plan year (including optional employer flex credits) exceeds the salary reduction elected by the employee for the plan year, the amount of the health FSA minus the salary reduction election must be reported.

Example: ABC Company maintains a cafeteria plan that offers permitted taxable benefits (including cash) and qualified nontaxable benefits (including a health FSA). The plan offers a flex credit in the form of a match of each employee's salary reduction contribution. Sandy makes a \$700 salary reduction election for a health FSA. ABC Company provides an additional \$700 to the health FSA to match Sandy's salary reduction election. The amount of the health FSA for Sandy for the plan year is \$1,400. The amount of Sandy's health FSA (\$1,400) for the plan year exceeds the salary reduction election (\$700) for the plan year. ABC Company must include \$700 (\$1,400 health FSA amount minus \$700 salary reduction) in determining the aggregate reportable cost.

In addition, employers may choose to include in the Form W-2 aggregate reportable cost, the cost of coverage that is not otherwise required to be reported (such as HRA coverage), provided the coverage is applicable employer-sponsored coverage and is calculated under a permissible method. Some employers may want to report these types of coverage to demonstrate to employees the full value of coverage offered.

Methods of Reporting

Coverage Provided after Termination of Employment

If an employer provides coverage (such as continuation coverage) to an employee who terminates employment during the year, the employer may apply any reasonable method of reporting the cost of coverage for that year, as long as that method is used consistently for all employees. Regardless of the method used, an employer does not have to report any amount for an employee who requests a Form W-2 before the end of the calendar year in which the employee terminated employment.

Example: Bob is an employee of XYZ Company from January 1 through April 25. Bob had individual coverage under XYZ Company's group health plan through April 30, with a cost of coverage of \$350 per month. Bob elected continuation coverage for the six months following termination of employment, covering the period May 1 through Oct. 31, for which he paid \$350 per month. XYZ Company will have applied a reasonable method of reporting Bob's cost of coverage if it uses either of the following methods consistently for all employees who terminate coverage during the year:

- Reports \$1,400 as the reportable cost under the plan for the year, covering the four months during which Bob performed services and had coverage as an active employee; or
- Reports \$3,500 as the reportable cost under the plan for the year, covering both the monthly periods during which Bob performed services and had coverage as an active employee, and the monthly periods during which Bob had continuation coverage under the plan.

ACA COMPLIANCE OVERVIEW



Programs with Non-reportable Benefits

Also, if a program offers benefits that must be reported as well as other benefits that are not subject to reporting, an employer may use any reasonable allocation method to determine the cost of the portion of the program providing a reportable benefit. If the portion of the program that provides a reportable benefit is only incidental in comparison to the portion of the program providing other benefits, the employer is not required to include either portion of the cost on the Form W-2.

Coverage Periods Spanning Calendar Years

If a coverage period, such as the final payroll period of a calendar year, includes December 31 and continues into the next calendar year, the employer has the following options:

- Treat the coverage as provided during the calendar year that includes December 31;
- Treat the coverage as provided during the following calendar year; or
- Allocate the cost of coverage between each of the two calendar years using a reasonable allocation method that is consistently applied to all employees. The allocation method should generally relate to the number of days in the period of coverage that fall within each of the two calendar years.

Penalties

Even though the ACA's W-2 reporting requirement is for informational purposes only, violations of the reporting requirements are subject to [existing rules](#) on filing Forms W-2. While there is no explicit guidance on whether penalties apply for good faith mistakes in reporting the cost of coverage, the IRS has stated that an amended return (Form W-2c) is required if an original Form W-2 fails to include the required information.

Compliance Steps for Employers

Employers that file 250 or more Forms W-2 should ensure that they are in compliance with the W-2 reporting requirement. They should make sure that they can identify the applicable employer-sponsored coverage that is provided to each employee and calculate the aggregate cost of that coverage.

Employers may also have to address questions from employees regarding whether their health benefits are taxable under this reporting requirement. They can assure employees that this reporting is for informational purposes only, to show employees the value of their health care benefits so they can be more informed consumers. The amount reported does not affect tax liability, as the value of the employer contribution to health coverage continues to be excludible from an employee's income, and is not taxable.