

ACA: Reporting Health Coverage Cost on W-2s

The Affordable Care Act (ACA) requires certain employers that offer group health coverage at work to report the coverage cost on the employee's Form W-2. Reporting is for informational purposes only. There are no tax consequences.

Overview

Employers that file 250 or more Forms W-2 must report the aggregate cost of applicable employer-sponsored healthcare coverage on each employee's form.

The cost amount is reported in Box 12 using code DD. This item is informational only and has **no** tax consequences. This item does not change or replace any other W-2 processes or requirements. Penalties may be imposed on employers that fail to report the healthcare coverage cost on Form W-2.

The "250 or more Forms W-2" count is determined by the employer and does not include aggregation for controlled groups. This means that all entities (by federal tax identification number) in a controlled group count their own number of Forms W-2 separately from each other.

Exceptions

The following are exempt from this W-2 reporting requirement:

- Small employers, which are those that filed fewer than 250 Forms W-2 for the prior tax year. (For example, if you filed fewer than 250 Forms W-2 for 2023, you are exempt from this requirement for 2024.)
- Multiemployer plans.
- Qualified small employer health reimbursement arrangements (QSEHRAs). A QSEHRA is not a group health plan, and the W-2 reporting requirement explained here does not apply. Instead, the special W-2 reporting rule explained in the **For QSEHRAs Only** section applies, including QSEHRAs offered by employers that previously filed fewer than 250 Forms W-2.

Affected Employers

The ACA requires all employers to report the aggregate cost of applicable employer-sponsored healthcare coverage on the employee's Form W-2. The cost is reported in Box 12 using code DD. The amount is informational only and has **no** tax consequences. Penalties may be imposed on employers that fail to comply with this reporting requirement.

Exceptions

The following are exempt from this reporting requirement:

- Small employers that were only required to file fewer than 250 Forms W-2 for the prior tax year (those that filed fewer than 250 Forms W-2 for 2023 are exempt from this requirement for 2024).
- Employers that contribute to a multiemployer plan.

Applicable Coverage

For purposes of the W-2 reporting requirement, ***applicable employer-sponsored coverage*** means all group health coverage, whether paid by the employer or employee, pre-tax or after-tax, and whether the plan is self-funded or insured, grandfathered or non-grandfathered.

In general, any group health coverage that is subject to COBRA is considered applicable employer-sponsored coverage, although some exceptions apply.

Exceptions

The following costs are not required to be reported:

- Dental and/or vision plans that are not integrated into another medical or health plan (e.g., dental or vision benefits provided under a separate policy from medical benefits, or dental or vision benefits for which the employee has a separate choice of declining or electing and paying an additional contribution for benefits separately from medical benefits).
- Wellness programs, employee assistance plans (EAPs), on-site health clinics, etc., provided that the employer does not charge a COBRA premium.
- Health reimbursement arrangements (HRAs) (even if subject to COBRA).
- Programs that are not considered group health coverage, such as long-term care plans, and voluntary specific disease or critical illness policies that are funded by employee after-tax premiums.
- Health savings accounts (HSAs), Archer medical savings accounts (MSAs), or employee salary-reduction contributions to flexible spending accounts (FSAs). (Special rules may apply to FSAs that include employer contributions or credits.)
- Health costs or reimbursements that are “includible income” for tax purposes, such as cases affecting a 2% shareholder-employee of a Subchapter S corporation or highly compensated employees in a discriminatory plan.

Applicable Employees

The requirement to report the aggregate health coverage cost pertains to Forms W-2 issued to all employees.

Exceptions

Employers are not required to complete W-2 reporting of health coverage costs in Box 12 for:

- Midyear forms. A worker that terminates employment during the year may request a Form W-2 before the regular distribution date (typically the following January). However, employers are not required to report health coverage costs on an “early” Form W-2 and do not need to provide another form in January.
- Former workers, COBRA beneficiaries, and retirees, if Form W-2 is not required for any other reason.
- Union employees if the employer contributes to a multiemployer plan.

Some workers may receive Forms W-2 from the employer and a disability carrier (or third-party sick pay provider). An example is an employee who works part of the year, is off work due to disability for part of the year, and has health coverage in both time periods. In this case, the employer must report all health coverage costs. The disability carrier or third-party sick pay provider is not responsible for reporting health coverage costs.

Cost Calculation

The standard method to determine the reportable aggregate health coverage cost for Form W-2 is to use applicable COBRA rates (minus administrative fees). The cost must be reported on a calendar year basis (January 1 through December 31), regardless of the group plan year or renewal date.

For each employee, the reportable cost will be the health coverage costs paid by both the employee and the employer attributable to the employee throughout the year. For instance, if John’s only health coverage was an insured medical plan and his coverage level was single for January through June and family level for the remainder of the year, the reportable cost for John’s Form W-2 will be the sum of the monthly single premium rate times six plus the monthly family premium rate times six.

Some plans use composite rates for active employees and tiered rates for COBRA beneficiaries. In this case, the IRS guidance allows the employer to use either the composite or tiered rates or to use composite for one group and tiered for the other, as long as the employer’s method is consistent for each group.

Miscellaneous

The IRS provides guidance on miscellaneous items that typically arise from health plan administration. Examples include:

- **Coverage Changes:** Employers will report the tax year's health coverage costs using information available to them as of December 31 of that tax year. Although coverage changes may be processed after year-end (such as a December status change reported to the carrier in January), the employer is not required to issue a corrected Form W-2.
- **Year-End Straddle:** The last coverage period of the year may extend into the following year. In this case, the employer may choose to apply one of the following methods, as long as the same method is applied consistently to all employees:
 - Treat the entire period as provided for in the first year;
 - Treat the entire period as the second year; or
 - Allocate the period between the two years.

For QSEHRAs Only

Employers must report the total amount of the employee's permitted QSEHRA benefit on Form W-2 in Box 12, using code FF. Report the total payments and reimbursements available to the employee for the calendar year, regardless of the amount the employee actually received. The IRS provides [guidance](#) to assist employers in determining the reportable QSEHRA amount.

Official Guidance

The IRS provides the following guidance, [Form W-2 Reporting of Employer-Sponsored Health Coverage](#), to assist employers and payroll administrators in complying with the reporting requirement.