

EMPLOYEE BENEFITS

W-2 Reporting Issues for Health and Welfare Benefit Plans

December 2023

As we approach the end of the 2023 calendar year, employers should keep in mind certain health and welfare benefits-related information that must be reported on the W-2 Earnings Statements they provide to employees.

Below are six common health and welfare benefits-related W-2 reporting issues that employers generally encounter:

1. Health coverage.

The ACA requires that employers who issue at least 250 W-2s reflect the applicable premium for health coverage on Box 12 of Form W-2. Reporting health care costs is optional for employers issuing fewer than 250 W-2s, but the IRS encourages reporting the applicable cost of health coverage. To determine whether the employer issued at least 250 W-2 forms, employers must count only the W-2s issued under their own unique Federal Employer ID Number (FEIN). W-2s issued by other entities with their FEINs that are part of the same controlled or affiliated service group (as defined in [Code § 414](#)) are not considered. This information does not increase the employees' taxable income (Box 1 wages). The applicable premium is based on one of the three following methods:

- a. For fully insured plans, the total premium rate (employer and employee contributions) is reported.
- b. For self-insured plans, the applicable premium may be based on either:
 - i. The COBRA rate (excluding the 2% COBRA administration fee), which is determined based upon either the actuarial or past-cost method; or
 - ii. A modified COBRA method, which may be used if the employer subsidizes the cost of COBRA (so that the COBRA premium charged to qualified beneficiaries is less than the COBRA applicable premium) or the actual premium charged by the employer to qualified beneficiaries for each period in the current year is equal to the COBRA applicable premium for each period in a prior year.
- c. Employee elective contributions to a health FSA are not required to be reported; however, if the employer makes contributions to the employee's health FSA over and above the employee's election amount, that amount should be included in the Box 12 calculation.
- d. Stand-alone dental and vision benefits may be excluded from the calculation (their inclusion is optional).
- e. Small employers (with fewer than 50 full-time and full-time equivalent employees) who provide a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) should enter the amount they have budgeted (the maximum available benefit for the year, not the actual reimbursement paid to the employee), in Box 12.

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2. Employer-provided group-term life insurance. (See [IRS Publication 15-B](#).)

- a. After excluding the “premium” value associated with the first \$50,000 of employer-provided group-term life insurance coverage, any additional “premium” value (based on Table I rates) for a non-discriminatory group-term life plan is included in employees’ taxable earnings (Boxes 1, 3 and 5).
- b. For discriminatory plans, the entire value is taxable for key employees (the income exclusion for the “premium” value for the first \$50,000 of group-term life insurance benefit coverage does not apply). For non-key employees, the income exclusion rule is still applicable.
- c. Voluntary term life insurance policies that “straddle” the Table I rates (i.e., at least one employee pays more than the Table I premium rate and at least one employee pays less) are employer-provided group-term life insurance and must be included in determination of imputed income described above. However, the employer can reduce the imputed income to an employee by the amount an employee pays for such coverage on a post-tax basis.

3. Health care benefits for domestic partners and other non-dependents.

[Internal Revenue Code §106](#) permits the value of group health coverage an employer provides to be excluded from an individual’s taxable income if such benefits are provided to employees or former employees and their spouses and dependents (as defined in [Internal Revenue Code §105\(b\)](#)). Employers offering health coverage (e.g., medical, dental and vision) must include the fair market value cost of the coverage provided (employer and employee contributions) for domestic partners (unless the partner is considered the employee’s tax dependent) and other non-dependents as imputed income to an employee, which is reported in an employee’s Form W-2 in Boxes 1, 3 and 5.

4. Dependent Care Assistance Plans (DCAPs).

The total amount of DCAP benefits, including all amounts reimbursed in cash (e.g., reimbursements under a dependent care FSA), the fair market value of benefits provided in-kind by the employer, and any payments by an employer to a day-care facility on behalf of an employee must be reported in Box 10. If the amount of cash reimbursements is unknown at the time the Form W-2 is issued, a reasonable estimate may be used. For a DCAP provided through a Section 125 plan, the amount of the employee’s salary reduction contributions plus any employer contributions constitutes a reasonable estimate according to IRS guidance.

Reimbursement of dependent care expenses that exceed the calendar year exclusion limit are reportable in Form W-2 boxes 1, 3 and 5.

5. Health Savings Accounts (HSAs).

Employer contributions (including employee contributions through the employer’s cafeteria plan) should be reported in Box 12. Employer HSA contributions not excluded from employees’ income (i.e., they are outside the employer’s cafeteria plan) are reportable in Form W-2 boxes 1, 3 and 5.

6. Third-Party Sick Pay Reporting for Disability Benefits.

Disability benefits are subject to payroll tax (FICA and FUTA) for the first six months of benefit when the coverage is either (1) employer-paid and the value of coverage is not imputed as income to employees, or (2) employee-paid with pre-tax contributions. Generally, the employer is responsible for the employer match and must report the value of the benefit as third-party sick pay. However, some exceptions may apply (for example, if the insurer is making the employer and employee FICA matching contribution and providing the employee with a W-2 on behalf of the employer). (Refer to IRS [Publication 15-B](#) for more details.) The applicable codes are described in the General Instructions (see the link below).

You can find the General Instructions for Forms W-2 and W-3, including the applicable information reporting codes, [here](#).

The above information is intended to be a high-level overview of some of the key issues concerning W-2 reporting of employee benefit plans. This summary is not intended to be considered legal or tax advice. Employers and plan sponsors should consult with their legal or tax advisors or their payroll vendors if they have specific questions regarding W-2 reporting.



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