



March 30, 2011

IRS Issues Temporary Church Plan Relief from Health Coverage W-2 Reporting Requirement

On March 29, 2011, the Internal Revenue Service (IRS) issued **interim guidance (Notice 2011-28)** to employers about the new requirement to report the total cost (“value”) of health care coverage on each employee’s annual *Form W-2*. Employers that issue fewer than 250 *Forms W-2* and employers that provide coverage through a self-insured church plan (exempt from COBRA) are relieved of the requirement through the 2012 tax year (for *Forms W-2* due in January 2013). *This means that most United Methodist employers will not need to provide this information until January 2014 or later.*

Background

The Patient Protection and Affordable Care Act (PPACA) requires employers to report the aggregate cost of employer-provided health care coverage on employees’ *Forms W-2*. Initially this requirement was to be effective for the 2011 tax year—which means the information would have been required on *Forms W-2* issued in January 2012. As **posted** previously, **Notice 2010-69** issued in October 2010, made this requirement optional for all employers for the 2011 tax year *Forms W-2* (furnished in January 2012).

Extended Relief for Smaller Employers

IRS **Notice 2011-28**, released in March 2011, provides further relief for smaller employers that issue fewer than 250 *Forms W-2*. This requirement is optional for such employers for the 2012 tax year (i.e., *Forms W-2* furnished in January 2013) and will continue to be optional for smaller employers until the IRS issues further guidance. This means smaller employers (with fewer than 250 *Forms W-2*) will not be required to provide health care coverage cost information on employees’ *Forms W-2* any earlier than **January 2014**.

Extended Relief for Certain Types of Coverage

Notice 2011-28 provides additional temporary exemption with respect to certain types of employer-sponsored coverage. This transitional relief will continue at least through the 2012 tax year (for *Forms W-2* due in January 2013), or until the IRS issues further guidance.

The value of certain types of health care coverage need not be reported on employees’ *Form W-2*, including:

- coverage under a multiemployer (union) plan;
- coverage under a *self-insured church plan*;
- limited-scope dental and vision coverage, even if self-insured;
- contributions to health reimbursement arrangements/accounts (HRA); and employees’ contributions to health flexible spending accounts (FSA)¹.

¹ Employer contributions to FSAs should be reported.

The language of the PPACA had already excluded the value of contributions to an Archer medical savings account (MSA) or a health savings account (HSA).

Relief for Self-Insured Church Plans

In Q&A 21 of Notice 2011-28, the IRS states that the cost of coverage provided under a self-insured group health plan that is not subject to any federal continuation coverage requirements (i.e., most self-insured church plans) *is not required to be included* in the aggregate reportable cost reported on *Form W-2*. The cost of coverage under a church plan that is subject to COBRA—e.g., if the plan has elected to be subject to the Employee Retirement Income Security Act of 1974 (ERISA)—is not given the same exemption. This temporary relief applies at least through the 2012 tax year (January 2013 *Forms W-2*) and would remain in effect until the IRS issues guidance to the contrary.

*This means local churches, annual conferences and other church employers that provide coverage to clergy and employees through the General Board's HealthFlex Plan or other self-insured (self-funded) annual conference health plans will not be required to report the cost of that coverage to employees on Forms W-2 any earlier than **January 2014**.*

Employers in *insured* church plans do not benefit from the same relief as those in self-funded church plans. *Employers in insured plans, including insured church plans, must report the cost of coverage beginning with the 2012 tax year (January 2013)*. However, many employers in insured church plans will benefit from the transitional relief for smaller employers explained above. Employers that issue more than 250 *Forms W-2* and provide coverage through an insured church plan will need to begin reporting the value of that coverage (generally based on the premium charged by the insurer) in **January 2013**. Smaller church employers in insured plans will remain exempt until at least **January 2014**.

Impact on UMC Employers

The vast majority of United Methodist local churches and employers should benefit from the transitional relief in Notice 2011-28. Most UMC employers provide health coverage through self-insured church plans not subject to COBRA. Church employers that provide health coverage through insured annual conference plans or other insured church plans, or through a plan subject to COBRA, are likely to issue fewer than 250 *Forms W-2* and thereby be exempt as smaller employers at least until **January 2014**.

No Reporting for Retirees

Notice 2011-28 states that employers will not be required to report the value of coverage for anyone not otherwise entitled to a *Form W-2*, such as retirees, disabled former employees or surviving spouses.

No Reporting Mid-Year

An employer is not required to report the cost of coverage on a *Form W-2* for an employee who has requested the *Form W-2* before the end of the calendar year during which he or she terminated employment. Moreover, employers may apply any reasonable method of reporting the cost of coverage on *Form W-2* (issued in January of the following year) for employees who terminate employment during the calendar year, provided that the method is consistent for all such employees.

What to Report

Notice 2011-28 also provides guidance for employers that are subject to this requirement for the 2012 *Forms W-2* and those that choose to voluntarily comply for either the 2011 or 2012 tax year. The notice includes information on how to report, what coverage to include and how to determine the cost of the coverage. Employers in insured plans typically will use the premium charged by the insurance company as the cost

of coverage to be reported. Employers in self-insured plans subject to ERISA will use the method for calculating COBRA premiums to determine the cost of coverage. The IRS will have to issue future guidance about the method for employers in self-insured church plans to determine the cost of coverage.

Future Guidance

This interim transitional relief is intended to facilitate compliance with the PPACA's reporting requirement. The IRS reserves the right to limit the relief in Notice 2011-28 as it relates to relief with respect to terminated employees before the end of the year; relief for HRAs, dental and vision plans; and relief with respect to self-insured church plans. However, such future guidance will be prospective only and will not be applicable earlier than January 1 of the calendar year beginning at least six months after the future guidance is issued.

Employer Health Coverage Remains Non-Taxable

The IRS emphasized that this new reporting requirement is for employee information only, to inform them of the cost of their health coverage—it does not cause excludable employer-provided health coverage to become taxable. *Employer-provided health coverage continues to be excludable from an employee's income and is not taxable.*

Questions and Information

If you have questions or would like additional information, please send your inquiries to [**healthcarereform@gbophb.org**](mailto:healthcarereform@gbophb.org).

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