

New 1099 and W2 Reporting Requirements

BenefitMall would like to inform you that the Patient Protection and Affordable Care Act (PPACA) adopted last spring includes two new reporting requirements that will increase the amount of information that businesses and their employees must report to the Internal Revenue Service (IRS). The first requirement will impact how businesses report the value goods and services purchased through third parties – probably through Form 1099-MISC; and the second will impact how employers report the aggregate value of their employees' health insurance coverage on Form W-2.

PART I: NEW 1099 REPORTING REQUIREMENTS

Based upon the new health care reform law, all businesses, charities, and government entities will likely have to track and report all payments totaling \$600 or more in a calendar year associated with any single vendor for either goods or services purchased. The PPACA also repeals the longstanding reporting exception for payments to a corporation. This provision takes effect in 2012, and Congress estimates it will raise \$17 billion over 10 years. Presumably, Form 1099-MISC will be used to comply with the new reporting rule, or the IRS may develop a new form.

Historically, Form 1099 filings were limited to services only. The new reporting requirement will require businesses to issue more paperwork every time they pay rent for their offices, buy new equipment to make their workers more efficient or increase capacity, or simply purchase basic office supplies like coffee and paper towels for their break rooms.

It is possible that Congress might take some action to limit or repeal this provision before it goes into effect. But that is mere speculation at this point.

1099 Reporting: What Should Employers Do Next?

There are some proactive steps your clients can take now to prepare for the new reporting requirement. The way vendor information is collected and managed will be more important than ever. Basic information should include every vendor's name and TIN, the amounts spent at each vendor and the total annual amount spent at each vendor. It should be requested that each vendor, particularly regular vendors, complete IRS Form W-9 to have on record. Form W-9 will provide you with the vendor's legal name, address, and TIN.

PART II: NEW FORM W-2 REPORTING REQUIREMENTS

Section 9002(a) of the new health care reform law provides that employers must disclose the aggregate cost of applicable employer-sponsored health coverage(s) provided to employees on the employee's Form W-2. The cost of the health benefit is not considered taxable income, but will appear on the employee's W-2 for informational reporting purposes. The coverage costs, whether under an insured or self-insured plan, must be reported under the new requirement.

On October 12, 2010, the IRS announced a one-year delay in the start date of this requirement (See <http://www.irs.gov/pub/irs-drop/n-2010-69.pdf>). The new reporting requirement goes into effect for Form W-2s issued in 2012 (instead of the original date of 2011).

Why add this additional reporting burden? The drafters of PPACA could have created this new requirement to better educate employees on the cost of their health insurance benefits, help businesses determine whether they have a high-cost plan that will be subject to the PPACA's excise tax on "Cadillac" health plans, and/or maybe to allow the federal government to track the individual insurance mandate that goes into effect in 2014.

If an employee participates in more than one employer-sponsored insurance coverage program under multiple plans, the aggregate value of all such health coverage (except certain benefits discussed below) must be disclosed. Here is an illustrative example:

If an employee enrolls in one or more employer-sponsored health insurance coverage programs under a major medical plan, a dental plan and a vision plan, the employer is required to report the total value of the combination of all of these health-related insurance coverages. For this purpose, employers generally use the same value for all similarly situated employees receiving the same category of coverage (such as single or family health insurance coverage). Employers will not be required to provide a specific breakdown of the various types of coverage, but must only report an aggregate cost.

Reporting is required not only for current employees, but also to former employees who are provided with health coverage. This will include early retirees, retirees, terminated employees on COBRA and surviving spouses if they are on the employer's health plan. Many of these individuals would not typically receive a Form W-2 from the employer, at least not for taxable years following their termination of employment. Accordingly, an employer's overall W-2 reporting requirements may increase dramatically.

Reported Coverage

Pursuant to this new 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 The IRS Code Sect. 106.

Plans for which coverage costs MUST BE reported under the new requirement include:

- Medical plans
- Prescription drug plans
- Executive physicals
- On-site clinics if they provide more than de minimis care
- Medicare supplemental policies
- Employee assistance programs
- Coverage under dental and vision plans (unless they are "stand-alone" plans)

Coverage Not Reported

Coverage that is NOT included in the aggregate cost of coverage include:

- Long-term care
- Accident or disability income insurance
- Coverage for a specific disease or illness
- Hospital indemnity or other fixed indemnity insurance
- Salary reduction contributions to a health Flexible Spending Arrangement (FSA) under a cafeteria plan
- Contributions to an Archer Medical Savings Account (Archer MSA)
- Contributions to a Health Savings Account (HSA)

Additional Information

Items that are required to be reported separately on Form W-2:

- The individual's name
- Social security number
- Wages
- Tax deducted
- The total amount incurred for dependent care assistance under a dependent care assistance program
- The amount contributed to any HSA by the employee or his or her spouse

How to Value Plans

The aggregate cost of coverage under the plans (including the employee and employer portions of cost) is determined under rules similar to COBRA—minus the two percent

administrative charge permitted under COBRA. For purposes of this reporting requirement, it does not matter whether the employer or the employee pays for the coverage.

Effective Dates:

- December 31, 2011: The new Form W-2 reporting requirements are effective for tax years beginning after midnight.
- January 2012: Employers will need to update their payroll systems because employees are entitled to request their Form W-2s early if they terminate during the year.
- January 2013: The first Form W-2 to include the aggregate cost of employer-sponsored health coverage will be the 2011 Form W-2.

W-2 Reporting: What Employers Should Do Next?

Although this requirement is not fully effective until the 2012 tax year, employers should not wait to prepare for these changes. An employee who terminates in the month of January 2012 is entitled to receive a W-2 with the new information included shortly after the employee's termination. Employers should ensure that they or their payroll provider are prepared to gather this information in advance of having to complete the Forms W-2 for the tax year 2012. In doing so, they should make sure they can identify the applicable employer-sponsored coverage that was provided to each employee and be prepared to calculate the aggregate cost of that coverage.

The IRS Notice and press release indicate that further guidance will be issued in the near future. Presumably, this guidance will provide more details on the items that must be reported and how the cost of those items is to be determined.

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In order for you to conveniently share this information with your clients, please view the fillable document, [W-2 and 1099 Employer Reporting Requirements](#).

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Sincerely,



Michael Gomes
Executive Vice President

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