Health Coverage Reporting User Guide for QuickBooks

The Patient Protection and Affordable Care Act (Pub L. No. 111-148) requires employers to report the aggregate cost of coverage under an employer-sponsored group health plan on employees' Form W-2. This reporting is informational only, to show employees the value of their healthcare benefits, and does not affect the employee's tax liability. (That is, the value of the employer contribution to health coverage continues to be excludible from an employee's income and is not taxable.) The IRS has since issued notices providing transitional relief by making the reporting requirement optional for some employers.

How does this impact me?

For tax years 2013 to present: The IRS has not changed the transitional relief. The reporting requirement is still optional for small employers. You are considered a small employer if you filed fewer than 250 Forms W-2 for the previous tax year; for example, employers that filed fewer than 250 Forms W-2 for 2014 are not required to report the cost of coverage on their 2015 Forms W-2.

What do I need to do in QuickBooks?

For employers who must report the cost of health coverage (those who filed 250 or more Forms W-2 for the previous tax year) or who choose to report, this User Guide explains how to track these costs in QuickBooks so that they automatically appear on Forms W-2.

To track health coverage costs by employee:

1. Be sure you've downloaded the latest Payroll Update (21601 or later).

2. Plan how you'll manage the reporting requirement (choosing a calculation method, calculating each covered employees' portion of the total cost of health care coverage, and deciding how to record these costs for each covered employee)

3. Set up a Company Contribution payroll item with a new tax-tracking type.

4. Record health care coverage costs per employee in **one of three ways**:

   a. Automatically when you pay employees by attaching the new payroll item to each employee record.

   b. Manually when you pay employees by entering the payroll item for each paycheck.

   c. Manually by making liability adjustments.

5. File Forms W-2 (box 12, code DD).

Frequently Asked Questions

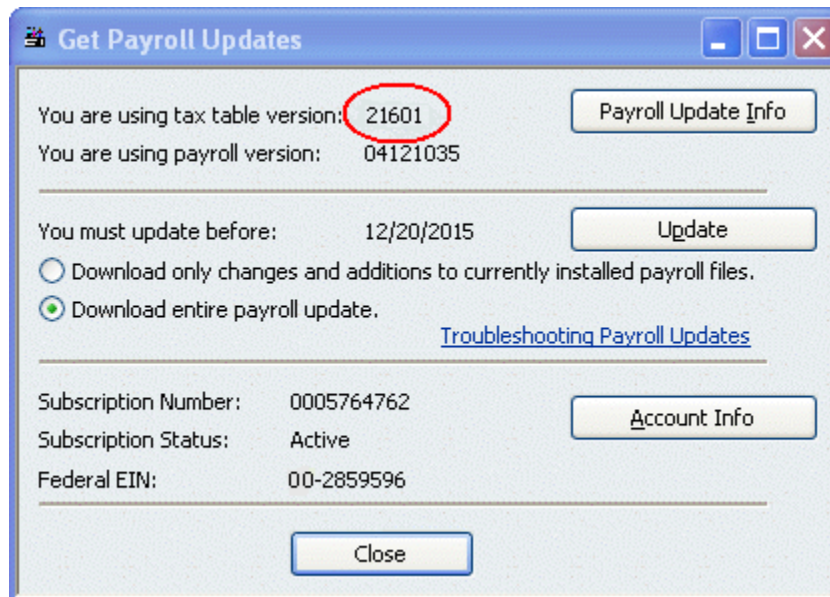## Download the latest payroll update

In order to use the tax-tracking type to track the cost of employer-sponsored health coverage so you can report it on employees' Forms W-2, you need to have downloaded the 21601 (or later) payroll tax table update.

To do this task:

1. From the **Employees** menu in QuickBooks, choose **Get Payroll Updates**.

2. Check the tax table version you are using. If it is lower than 21601, select **Download entire payroll update** and click **Update**.

(Some of the graphics in this guide reflect earlier versions of QuickBooks; however, the instructions apply to QuickBooks 2013, 2014, 2015, and 2016.)

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Planning what and how to report

Before you can set up health care coverage tracking in QuickBooks, you need to determine:

- Which health care plans and types of coverage you must include (and which must be excluded)
- Which calculation method you should use to calculate the reportable cost of each plan
- How you want to record those costs for each covered employee

We encourage you to refer to the notices and FAQs that the IRS publishes (including Notice 2012-9) to assist you in understanding the health care coverage reporting requirement and to talk to your tax advisor if you have questions about your specific situation.

Intuit Payroll tracks updates and changes to IRS guidance on this and other payroll-related topics, and you can find links to the latest information on health care coverage reporting here.

How do I track these costs in QuickBooks?

First, you set up a new payroll item for tracking health care costs. If you offer more than one applicable health plan, you may want to track the reportable costs under each plan using separate payroll items.

Once you know what the reportable costs per period are for each employee, you need to decide how you want to track these costs for employees. QuickBooks gives you three ways to associate reportable costs with your employees:

- Add the tracking payroll item for reportable costs to the payroll information in the employee record for each employee covered.

  This tracking method requires that you break down the reportable costs per period for each employee into the amount applicable per pay period. For example, if the reportable cost per quarter for an employee's health care coverage is $1500 and you pay employees twice each month, you would divide $1500 by the 6 pay periods in a quarter, and add a the health care tracking payroll item amount of $250 to the payroll information in the employee's record.

  The advantage of this tracking method is that QuickBooks automatically reports the payroll item on the employee's pay stub for every payroll run without any additional action on your part.

- Manually enter the tracking payroll item for reportable costs on each employee's paycheck when you pay employees.

  One advantage of this method is that you can report costs periodically on the same schedule as you incur them. For example, if your group health plan premium is paid quarterly, you can manually enter the reportable costs for the quarter on each covered employee's paycheck during a payroll run that coincides with the premium payment. This amount appears on the employee's pay stub.

  However, this method requires you to remember to make these manual entries for each covered employee during the payroll runs you choose for recording health care costs.

- [Make liability adjustments](#) to the payroll item for each covered employee periodically.

    Typically, you would make liability adjustments to the tracking payroll item for a covered employee if you needed to correct amounts previously recorded.

    However, you can also use a liability adjustment to record reportable costs for covered employees when you don't want these costs to appear regularly on employees' pay stubs.

You can use any combination of these tracking methods, depending on which accomplishes your purposes best. For QuickBooks Standard, Enhanced, and Assisted Payroll, all of these will flow to the employees' Form W-2. (QuickBooks Basic users can run a Transactions by Payroll Item report from the Payroll Summary report to obtain the per-employee totals to enter on Form W-2.)

Why doesn't QuickBooks calculate reportable costs for me?

After consulting with many of our customers, we found that not only do businesses have a wide variety of applicable health care plans and types of coverage, but they manage the accounting for these plans in a variety of different ways, including outside of QuickBooks. Since reporting health care coverage is informational and not a payroll tax or liability accounting function, we chose a solution that provides you with maximum flexibility in the way you manage your health care coverage accounting yet still allows you to report these costs to employees and have the amounts accumulate and flow to Form W-2 automatically.
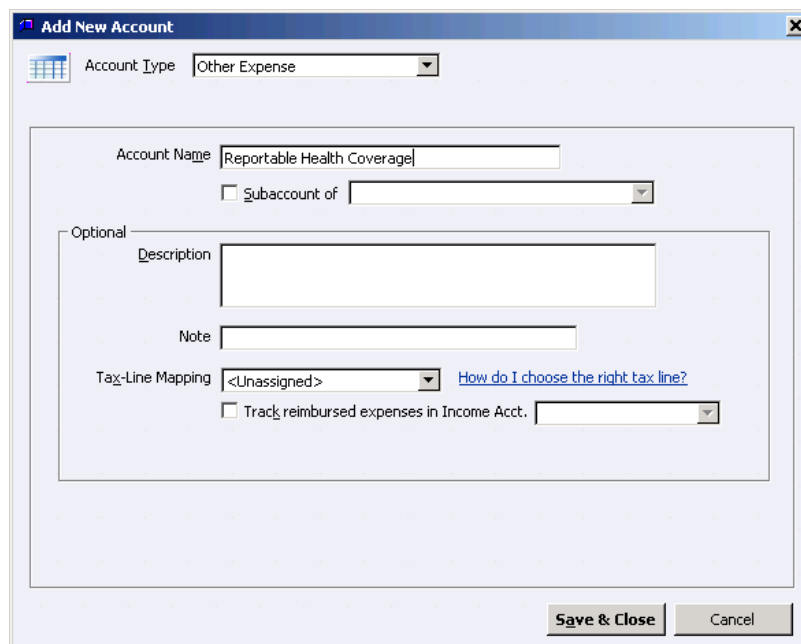
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Set up a Company Contribution payroll item

To track the cost of employer-sponsored health coverage, you need to first set up a new Company Contribution payroll item that you can use to record the reportable cost for each covered employee.

If you offer more than one applicable health plan, you may want to track the costs under each plan using separate payroll items.
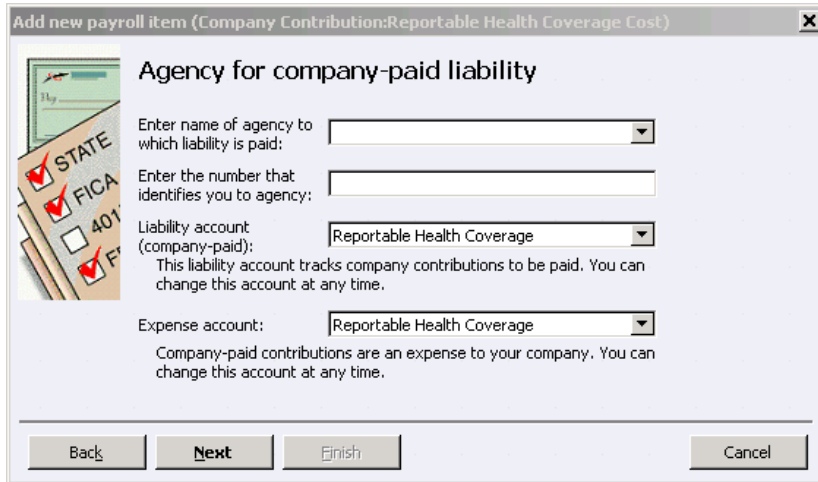
To do this task:

1. From the **Employees** menu, choose **Manage Payroll Items > New Payroll Item**.

2. Select **Custom Setup** and click **Next**.

3. Select **Company Contribution** and click **Next**.

4. Enter a unique name for this new payroll item, which will appear on employee pay vouchers and pay stubs and on payroll reports (for example, "Reportable Health Coverage Cost"). Click **Next**.

5. Leave the agency information blank since this is a tracking and reporting item only, not a true liability item.

6. Click the drop-down arrow next to the Liability account box, and select **<Add New>**.

7. In the Add New Account window, choose **Other Expense** as the Account Type and create a new Account Name (for example, "Reportable Health Coverage"). Click **Save & Close**.

8. Click the drop-down next to the Expense account box and select the new account you just created. (If you are creating more than one payroll item for tracking health

care costs, continue to use this account for both the liability and expense accounts.)
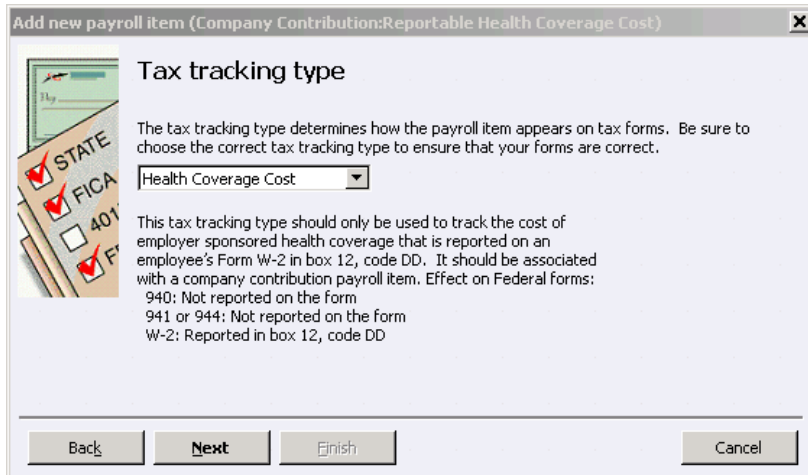Click **Next**.

Setting both the liability and expense accounts the same creates a "wash" item that shows a zero amount on your Profit & Loss statements. This allows you to track your health care costs for W-2 reporting purposes without these numbers impacting your financial reports.

9. Click **Yes** to ignore the warning that you have set your liability account and expense account to the same account.

10. Click the drop-down arrow for the tax tracking type, and select the new tax-tracking type **Health Coverage Cost**. Click **Next**.

11. Click **Next** to accept the default tax settings.

12. Click **Next** to accept the default settings on the Calculate based on quantity page.

13. Click **Finish** to accept the default settings on the Default rate and limit page.

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Attach payroll item to employee records

Once you have set up the new payroll item (for example, Reportable Health Coverage Cost) and determined the reportable cost for each employee covered by your company's group health plan, you can include the item in the employee's payroll and compensation information on the employee record.

Remember that this new payroll item is for the W-2 (box 12, code DD) reporting requirement only. You will still need to keep using any payroll items you have for deducting the employee-paid portion of health care premiums or for tracking the company-paid expense for health care premiums.

Note: If the employee's reportable cost changes during the year, be sure to update the amount in the employee record to reflect the change for future payrolls. If you need to make an adjustment for previously recorded amounts, make the correction on the employee's next paycheck (net increases only) or make a liability adjustment.

When you attach the new health care reporting payroll item to an employee record, QuickBooks records this item and the amount associated with it automatically on the employee's pay voucher or pay stub and reports these amounts on the Transactions by Payroll Item report (from the Payroll Summary report). For Standard, Enhanced, and Assisted Payroll, QuickBooks also supplies the total cost when you create the employee's Form W-2.

To do this task:

1. Be sure you have calculated the reportable cost for each covered employee for each payroll period.

2. From the **Employee** menu, choose **Employee Center**.

3. Double-click the employee name in the left column to open the employee's record.

4. Click the **Payroll Info** tab on the left.

5. In the Additions, Deductions, and Company Contributions section, click below the last item in the Item Name column. Click the drop-down arrow that appears and select the new payroll item (for example, Reportable Health Coverage Cost).

6. Enter the reportable amount for this employee for a payroll period (you don't need to enter a Limit amount), and click **OK**.

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Record costs manually when you pay employees

If you don't want to record health care costs for covered employees on every paycheck, you can enter costs manually using the new payroll item on periodic payroll runs. For example, suppose you pay your health care premiums quarterly and know the quarterly per-employee reportable cost but don't want to calculate the biweekly cost to record on every paycheck. You could choose one payroll run each quarter for which you manually enter the reportable cost for each covered employee as you prepare the payroll.

Caution: If you decide to record costs manually on a periodic basis, you have to remember to do it for each period for every covered employee.

When you use this method to record health care costs, QuickBooks shows the health care cost on the employee's pay voucher or pay stub and reports these amounts on the Transactions by Payroll Item report (from the Payroll Summary report). For Standard, Enhanced, and Assisted Payroll, QuickBooks also supplies the total cost when you create the employee's Form W-2.

To do this task:

1. Be sure you have calculated the reportable cost for each covered employee for the period.

2. Open the Payroll Center and, in the Pay Employees area, click **Start Scheduled Payroll** (or Pay Employees, if you don't have payroll schedules set up).

3. On the Enter Payroll Information window, complete the date and bank account information and put a check mark next to the employees you plan to pay.

4. Click **Open Paycheck Detail** to display the paycheck details for the first selected employee.

5. In the Other Payroll Items area under the Item Name column, click in the white space and then choose the new payroll item (for example, Reportable Health Care Costs). Under the Rate column, enter the reportable cost for that employee for the period.

6. Click **Save & Next** to move to the next employee's paycheck detail, and repeat steps 5 and 6 until you have recorded reportable costs for all covered employees. When you have entered the information for the last employee, click **Save & Close**.

7. Click **Continue** and review the payroll information on the Review and Create Paychecks page.

8. When you're ready, click **Create Paychecks**.

9. On the Confirmation and Next Steps screen, click **Print Paychecks** or **Print Pay Stubs**, as appropriate. If you have Assisted Payroll, be sure to click **Send** to send your payroll information to the Assisted Payroll service.

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Make liability adjustments

You can make liability adjustments to the new payroll item for any employee at any time if you need to correct the amount of reportable costs already reflected on pay vouchers and pay stubs.

In addition, you can use liability adjustments (instead of attaching the payroll item to the employee records or manually entering it during periodic payroll runs) if you don't want to record costs on employees' pay vouchers and pay stubs on a regular basis. For example, you could make a one-time liability adjustment at year end for each covered employee to record the total reportable costs for the year.

When you use this method to record health care costs, QuickBooks reflects and totals these amounts on the Transactions by Payroll Item report (from the Payroll Summary report). For Standard, Enhanced, and Assisted Payroll, QuickBooks will also supply the total reportable cost when you create the employee's Form W-2.

Assisted Payroll users: If you make liability adjustments, you must send them to the Assisted Payroll service by the service's published last-payroll deadline at the end of the year. The adjustments are automatically sent when you send a payroll for processing, or you can force QuickBooks to send this information by choosing **Employees > Send Payroll Data**.

Running a Transactions by Payroll Item report

Before you make any liability adjustment, it's a good idea to run a Transactions by Payroll Item report.

To do this task:

1. From the **Reports** menu, choose **Employees & Payroll > Payroll Summary**.

2. Click the drop-down next to the Dates box, and select **This Calendar Year**. (If you are running the report to check information for the previous tax year prior to preparing your Forms W-2, you should select **Last Calendar Year**.)

3. Click the drop-down next to the Columns box, and select **Total only**.

4. Scroll down to the health care reporting payroll item (under Employer Taxes and Contributions) and double-click the total amount for that item.

5. On the Transactions by Payroll Item report, click **Modify Report** (or **Customize Report**).

6. On the Display tab, click the drop-down next to the Total by box, and select **Employee**.

7. In the Columns list, scroll down and check **Payroll Item**. Uncheck **Income Subject to Tax**, **Wage Base**, and **Wage Base (Tips)**. Click **OK**.

QuickBooks displays a report by employee with the reportable costs associated with the payroll item listed for each paycheck record and liability adjustment.

Tip: You might find it useful to print this report for reference while you calculate the adjustments you need to make.

8. If you have more than one health care reporting payroll item, click **Modify Report** (or **Customize Report**) again. On the Filters tab, in the Filter list, choose **Payroll Item**. In the Payroll Item list, choose the next health care reporting payroll item. Click **OK**.

Making a liability adjustment

Once you have run the Transactions by Payroll Item reports, you are ready to make any necessary liability adjustments.

To do this task:

1. From the **Employees** menu, choose **Payroll Taxes and Liabilities > Adjust Payroll Liabilities**.

2. Enter an appropriate date and enter the same date as the Effective Date.

3. Select **Adjustment is for Employee**, click the drop-down arrow, and select the employee whose costs you need to adjust.

4. Click the drop-down arrow under the Item Name column, and select the health care reporting payroll item you want to adjust.

5. Enter the amount of the adjustment. To increase the costs reported, enter the amount as a positive number; to decrease the costs reported, enter the amount as a negative number.

6. Leave the Wage Base and Income Subject to Tax columns blank.

7. Describe the liability adjustment in the Memo column.

8. If you need to make a liability adjustment for another employee, click **Next Adjustment**, and repeat steps 3 through 6.

9. When you have made all the necessary liability adjustments, click **OK**.

Tip: When you finish making liability adjustments, it's a good idea to <u>run another Transactions by Payroll Item report</u> (from the Payroll Summary report) to

compare to your first report and ensure that your adjustments were recorded as you expected.

Assisted Payroll users: Remember to send any liability adjustments to the Assisted Payroll service by the service's published last-payroll deadline at the end of the year. The adjustments are automatically sent when you send a payroll, or you can force QuickBooks to send this information by choosing **Employees > Send Payroll Data**.

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File employee Forms W-2

Assisted Payroll users: You can ignore this section. The Assisted Payroll service prepares and files W-2s and W-3s for you. The total value of the payroll item will automatically populate box 12 with code DD on the Form W-2. (Box 12a on Form W-3 does not include this value.)

Basic Payroll users: Prepare your employees' Forms W-2 by hand, using the Transactions by Payroll Item report (from the Payroll Summary report) to determine health coverage costs.

Standard and Enhanced Payroll users: Once you have downloaded the latest payroll tax table update, the total value of the health coverage payroll item (or items) automatically populates box 12 with code DD on Form W-2. (Box 12a on Form W-3 does not include this value.) Although you can override the values in the box if you believe they are incorrect, doing so does not change your QuickBooks data. To change your QuickBooks data, you should make a liability adjustment. You should check with your tax advisor or accountant before making any changes.

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Frequently Asked Questions

Q: Can I just add the new Health Coverage Cost tax-tracking type to one of my existing payroll items?

A: No. You need to create a new payroll item for the W-2 (box 12, code DD) reporting requirement only. You will still need to keep using any payroll items you have for deducting the employee-paid portion of health care premiums or for tracking the company-paid expense for health care premiums.

Q: When setting up the Liability and Expense account to use for this payroll item, why am I selecting Other Expense as the Account Type instead of Other Liability?

A: With this recommended set up, the value being tracked will not appear on the Payroll Liability Balance report.

Q: Which employers are subject to the reporting requirements?

A: The Affordable Care Act specifies that all employers that provide applicable employer-sponsored coverage during a calendar year are subject to the reporting requirement. This includes federal, state and local government entities, churches, and other religious organizations, and employers that are not subject to the COBRA continuation coverage requirements, to the extent such employers provide applicable employer-sponsored coverage under a group health plan. It does not include federally recognized Indian tribal governments. Also, until further guidance is issued by the IRS, it does not include employers that are tribally chartered corporations wholly owned by a federally recognized Indian tribal government. (See Q&A-3 in Notice 2012-9.)

However, the IRS has provided the following transitional relief:

- For tax year 2011 (the 2011 Form W-2), no employers were required to report health coverage costs.

- For tax year 2012 and later (until the IRS changes its transitional relief guidance), only employers who were required to file 250 or more Forms W-2 for the previous tax year are required to report health care coverage costs in the current tax year.

The IRS's transitional relief for reporting is prospective. That is, it remains in effect through at least the tax year following the year in which the IRS changes its guidance. (For example, if the IRS changes its guidance in 2016, those changes won't go into effect until tax year 2017 or 2018.) We'll always give you plenty of advance warning in this document if the IRS changes reporting guidance.

Q: Is the total reportable cost from all employees' Forms W-2 required to be reported on the Form W-3?

A: No. (See Q&A-10 in Notice 2012-9.)

Q: Should the reportable costs be included in any other box on Form W-2?

A: No. The reportable costs of health care coverage are only reported in box 12 with code DD.

Q: What if I have QuickBooks 2012?

A: The 2015 Forms W-2 and W-3 will not be supported for QuickBooks 2012. Live technical support and add-on business services, like payroll, are discontinued for QuickBooks 2012 on May 31, 2015. (Your payroll services are valid only when you are using a supported version of QuickBooks.) Learn more about upgrading to a current version of QuickBooks at www.intuit.com/policy or visit www.quickbooks.com.)

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Revision history

Date	Revision Details
12/14/11	Original document
01/09/12	Updated IRS Notice number and link to latest IRS information (Notice 2012-9)
03/16/12	Added video links, clarified use of new tax tracking type with a new payroll item, updated IRS Notice 2012-9 link, and added link to IRS chart showing coverages that must be reported and those that are optional under transitional relief.
03/29/12	Corrected link to Intuit support article.
09/24/12	Updated steps in "Attach payroll item to employee records" to reflect user interface changes in QuickBooks 2013.
12/12/12	Updated information on W-2 filing.
3/8/13	Updated information for tax year 2013.
3/5/14	Updated information for tax year 2014.
12/17/15	Updated information for tax year 2015 and later.