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Enjoy the Tax Benefits of Offering Health Insurance Through Your Small Business

Though you may be tracking every penny your business spends, did you know that the money you put into health insurance for your employees can come back to you as tax incentives? There are several short- and long-term benefits to this process because healthier employees are more productive, while health-related productivity losses total \$530 billion annually. Because employees feel valued, they stay longer, lowering turnover expenses. But for many small businesses, the fact that the monetary cost of providing health benefits to employees can be offset by the federal government makes a big difference.

As one of the most valued benefits offered and the top one requested by employees, health insurance helps you attract and retain top talent. Offering a qualified health plan also provides you with opportunities to lower your tax liability, allowing you to offer quality insurance without hurting your budget. But what can you look forward to in terms of tax breaks?

Tax Exemption Opportunities

Your contributions to employees' small-group health insurance benefits will be tax-exempt, per the [Employer's Tax Guide to Fringe Benefits](#) available from the Internal Revenue Service. This allows you to deduct these costs directly from your revenues and are not considered a part of your business' tax calculations. They're also not subject to federal income tax withholding, Medicare, Social Security, federal unemployment or railroad retirement tax act taxes, nor are they reported on W-2 forms. This allows your small business to lower or even eliminate your tax liability.

Tax Deduction Options

By making formal contributions to your employees' health care costs or offering a formal health care insurance plan, you can fully deduct the funding you put into place for this health care as a business expense. Some common health care insurance-related deductions you can take include the following:

- You can write off contributions made to cover employees' premiums, provided that you pay at least half of the premium. You aren't required to pay dependent or spouse premiums to claim this tax write-off.
- These employer contributions are considered a tax benefit for your employees, with the dollars dedicated for all premiums for employees, spouses and dependents not considered wages by the federal government, so your employees may be able to do more with the funds for those premiums if they're given a raise to cover the expense.
- Did you make reimbursements through an approved Medical Reimbursement Plan, including Health Reimbursement Arrangements (HRAs)? These plans are tax-advantaged, employer-funded accounts for health care that provide tax benefits to both the employee and employer, with employee reimbursements being tax-free and

excluded from gross income and employers able to deduct HRA reimbursements from your business and FICA payroll taxes.

- Health Savings Account (HSA) contributions for employees are a deductible business expense for your company and can be excluded from employee income, while these contributions are not subject to Medicare, Social Security and federal income tax withholdings.

Tax Credit Possibilities

In addition to exemptions and deductions, there is a small business health care tax credit which can cover up to 50% of your employee health insurance premiums, if you meet particular requirements:

- Have less than 25 full-time employees with an average annual salary among those employees of less than \$53,000. Additional part-time employees are not usually counted into this part of the process.
- Pay at least 50% of employee premiums in your group health insurance policy, but dependent and spouse premium payments are not required to be paid by your business.
- Buy coverage for yourself in the same plan as your full-time employees use. Though part-time employees don't have to have coverage, the group policy may need to be purchased through the Small Business Health Options Program Marketplace to qualify.

Other Benefits of Offering Small Business Health Insurance

Lower Your Payroll Taxes

Because health insurance premiums are paid using pretax dollars, their taxable income also goes down. These lower amounts mean that your company will pay lower business payroll taxes, making it easier for you to leverage your finances where they'll make the most sense for your business, without lowering the amount of money that is actually flowing through your business on a daily basis.

Lower Your Own Health Insurance Costs

By offering health insurance coverage to your employees, you and your family can also be part of the group plan. Group plans typically have a wider range of pre-deductible benefits, including preventative care, low co-pays for regular care and medications and coverage for primary doctor coverage. You'll also typically have a wider range of options for the same price as you'd pay on an individual marketplace.

If you have any questions or would like to discuss the tax benefits in more detail, please contact us Frankel Zacharia, LLC at 402.496.9100.