

Tax Considerations for Employer Group Health Insurance

Small Business Health Collaborative



Premiums paid by employers and employees towards these programs are *not* counted towards taxable income. Individual Health insurance programs do not have the same benefit.

Facts for Employees

- Your employer's contribution to a group health plan premium on your behalf does NOT raise your taxable income.
- You are allowed to make your contributions to a group health plan premium out of your paycheck on a pre-tax basis through a Section 125 payroll deduction plan.
- If you purchase individual health insurance it is not given preferred tax treatment. If your employer gives you a stipend to help pay for this type of insurance, that stipend increases your taxable income .

Employer Considerations

- Every dollar ran through the 125 plan reduces an employer's payroll. Therefore, you don't have to pay FICA or workers' comp premiums on those dollars. In many cases, this savings can add up to as much as 20 percent of every dollar being passed through the plan.
- A Section 125 plan must have a formal plan document, provide notices to the employees of its existence, and creates ongoing requirements. Most employer's that have these plans, utilize a third party vendor to make sure they are in compliance with the IRS.
- Although individual health insurance premiums may appear lower, than your group health insurance premiums, choosing to switch may result in overall increased costs when you consider the increase to your salary based when you provide stipends that are now counted as taxable income.

What is a Section 125 Plan?

Section 125 of the IRS tax code outlines which employee benefits can and can not be administered with preferred tax treatment. Some examples of Section 125 qualified expenses are:

- Group Health Insurance Premiums
- Group Dental Insurance Premiums
- Flexible Spending Accounts
- Flex Transit Accounts

Learn More

IRS Employer's guide to fringe benefits

<http://www.irs.gov/publications/p15b/ar02.html>

