

\$\$...Want to save money on your taxes?..\$\$

By Malinda Shafman

Most of us would definitely answer YES to that question. This article will explore a regulation that allows employers and employees to save on taxes when employees are contributing to the purchase of certain qualified benefits.

The regulation is Internal Revenue Code (IRC) Section 125. This code provides for the creation of cafeteria plans. Below are the common kinds of cafeteria plans:

1. **Premium Only (also called premium conversion) Plans (POP)**, through which employees' premium contributions to employer sponsored health and welfare plans may be made on a pretax basis. These plans can generally be implemented with no change in benefits and few administrative changes.
2. **Flexible Spending Accounts (FSA)** to which employees contribute and are reimbursed from on a pretax basis for un-reimbursed medical or dependent care expenses. Two types of FSAs are allowed under Sec. 125: a health FSA that reimburses employees for health care expenses and a dependent care FSA that reimburses employees for certain child care expenses under IRC Sec. 129. These plans are generally more complex and are best administered by a third party.
3. **Full flex or full cafeteria plans**, whereby employees choose from a menu of benefit selections. The Sec. 125 choice is between taxable salary and/or taxable benefits and nontaxable contributions to qualified benefits. These plans also warrant third party administration.

What are some of the qualified benefits allowed under a cafeteria plan?

- Health insurance plans
- Dental insurance plans
- Vision insurance plans
- Cancer insurance plans
- Accident insurance plans
- Hospital Confinement insurance plans
- Out of pocket medical expenses
- Dependent care assistance (daycare, nursery, pre-school, after school care, eldercare)

Cafeteria plans require a written plan document to be distributed to employees and all participants must be employees. Sec. 125 also prohibits discrimination in favor of highly compensated participants and key employees.

Cafeteria plans provide employees valuable benefits while increasing disposable income, reducing taxes, and reducing the employer's employment taxes.

If you are interested in seeing the benefit of implementing a cafeteria plan, you can estimate savings with online calculators located at www.insurancecoordinators.com and www.bankrate.com/calculators/tax-planning/section-125-cafeteria-plan-calculator.aspx. Then if your employees are contributing towards qualified benefits, contact your accountant or give me a call to discuss in more detail how you can save on taxes by setting up a cafeteria plan.