Tax Qualified Plans

The federal government has multiple laws allowing the use of pre-tax dollars by employers and employees to fund benefits. These options are known as Tax-Qualified Plans. Groups that maximize their use of such tools see significant savings and bring significant additional benefits to their employees. Sometimes, the benefits to the employees are savings, too. Below are some of the different Tax-Qualified Plans.

Section 125

Cafeteria plans, also known as Flexible Spending Accounts (FSAs), give both employers and employees a valuable tax reduction. Since Section 125 employee pre-tax premium, dependent day care and out-of-pocket medical expenses are not considered taxable income, a company's total taxable payroll is reduced, directly lowering payroll-related taxes. Employees have reduced taxable income so their take-home pay can actually increase. A basic version of this plan can be implemented by an employer just to pay premiums with pre-tax dollars; this is known as a Pre-Tax Premium (PTP) or Premium-Only Plan (POP).

Section 105

A Medical Reimbursement Plan is funded with employer dollars and lets employers reimburse employees for healthcare expenses on a tax-free basis. The employer typically saves money because they can purchase a less expensive health insurance plan, such as a higher-deductible plan, and make up the difference to employees by reimbursing for additional out-of-pocket costs.

Section 132(f)

Transit & Parking Benefit Plans have become popular since Congress enacted the Balanced Budget Act of 1997, allowing employers to offer employees a choice between cash and employer-paid parking or public transportation expenses. Since this benefit is not considered income, it is tax-free to employees. These dollars are also excluded from wages for FICA purposes, and are deductible as a normal business expense.

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