



Benefit Bullets

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IRS FAQ Guidance - Consequences to Employers Who Reimburse for Individual Plans

There has been much discussion on options for employers, especially those in the small group market, who may want to forgo offering group health insurance, but opt for reimbursing employees for the cost of individual premiums. IRS Notice 2013-54 indicated that such arrangements cannot provide any tax advantage or they would be considered a group health plan subject to market reforms including the prohibition on annual limits for essential health benefits, and the requirement to provide certain preventive care without cost sharing.

The IRS FAQ released on May 13, 2014 specifies for the first time that the penalty for utilizing such an arrangement could be as high as \$100 per day excise tax per applicable employee (which is \$36,000 per year, per employee). This clarification should remove any ambiguity surrounding Notice 2013-54.

Effective date

While this notice was issued this month, the regulations referenced have been in effect since January 1, 2014 and some provisions were applicable even earlier.

Who is affected?

Any employer who has implemented a tax advantaged arrangement (pre-tax) to compensate employees for individual plans. Employers offering group benefits do not need to be concerned with the implications of this notice.



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What must employers do?

Employers that are offering to compensate employees for all or a portion of their individual health insurance premium should be doing so as a taxable benefit. Any other type of pre-tax arrangement could be problematic and subject to the excise tax referenced above

Where to get more information?

Here is the link to the IRS FAQ:

<http://www.irs.gov/uac/Newsroom/Employer-Health-Care-Arrangements>

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