

## TAXABILITY OF HEALTH INSURANCE BENEFITS – 2014 AND BEYOND

It has been a common practice for churches to reimburse staff for the cost of health insurance coverage purchased on the individual market on a pre-tax basis. Recent changes under the Affordable Care Act restrict the ability of churches to continue to make such reimbursements. The following chart outlines the different methods through which staff can receive health insurance coverage and whether your church and your staff can pay for such coverage on a pre-tax or after-tax basis.

Small Business Health Options Program (“SHOP”)	Premium Payments	Considerations
<p>If you have 50 or fewer full-time equivalent employees (FTEs), you may qualify to purchase group health care coverage for your employees through the SHOP. If you have fewer than 25 FTEs, you may qualify for tax credits if you purchase insurance through the SHOP.</p> <p>You must offer coverage to all of your FTEs. FTEs are generally those who work an average of 30 hours or more per week. Note that two part-time employees generally equal one FTE.</p> <p>Each state has a SHOP Marketplace where small employers can purchase this coverage through a designated agent, broker or insurance company. Because SHOP coverage is offered through the state, each state may have different requirements for enrollment. Some states may require you to provide coverage to your employees’ dependents.</p>	<p><b><u>Pre-Tax:</u></b></p> <p>Your church may pay for all or a portion of the cost of SHOP coverage on a pre-tax basis. If you want employees to share in the cost of coverage, your church may use a cafeteria plan, as described in Section 125 of the Internal Revenue Code of 1986, as amended (the “Code”), to allow employees to pay their portion of the SHOP premiums with pre-tax dollars.</p>	<p>Your church can enroll in coverage at any time during the year. If you enroll by the 15<sup>th</sup> of the month, coverage can usually begin by the 1<sup>st</sup> of the following month. Employers with only one employee, such as solo pastor churches, can utilize the SHOP.</p> <p>Most states require at least 70% of your FTEs to enroll in your SHOP plan (excluding dependents). For example, if you have 10 FTEs, you must offer coverage to all 10 and at least 7 of them must enroll in the plan. Some states may require a higher enrollment percentage, while others may require a lower percentage. If you don’t reach the minimum participation rate, you can withdraw your offer of coverage.</p> <p>Employees who have health coverage through another job, their spouse’s job, Medicare, Medicaid, TRICARE or the Department of Veteran’s Affairs do not count for purposes of an employer’s minimum participation requirement. Employees with other types of individual health insurance coverage, such as coverage purchased on the Health Insurance Marketplace or through an individual health insurance policy (see below), do count towards this requirement.</p> <p>The minimum participation requirement is waived if you enroll in SHOP coverage between November 15 and December 15 of each calendar year.</p>
Marketplace/Exchange Coverage	Premium Payments	Considerations
<p>Employees may apply for health insurance coverage directly through the Health Insurance Marketplace, also known as the “Exchange.”</p>	<p><b><u>After-Tax ONLY:</u></b></p> <p>Employees must pay for this coverage on an after-tax basis. Beginning in 2014, your church may not provide its employees with a pre-tax reimbursement for the cost of coverage obtained through the Exchange. However, you may increase an employee’s wages by an amount equal to the cost of that coverage.</p>	<p>Any increase in wages for the cost of Exchange coverage must be included as income on the employee’s annual Form W-2 and is subject to federal and state income taxes. You may “gross up” the amount of the increase to offset the taxes due.</p> <p>Your church <b>cannot</b> use a health reimbursement arrangement (“HRA”) or an employer payment plan to reimburse premiums on a pre-tax basis.</p>

Individual Health Insurance Policy	Premium Payments	Considerations
<p>Employees may purchase an individual health insurance policy from an insurance company on the private market.</p>	<p><b><u>After-Tax ONLY:</u></b></p> <p>Employees must pay for this coverage on an after-tax basis. Beginning in 2014, you may not provide a pre-tax reimbursement for the cost of an individual policy. However, you may increase an employee's wages by an amount equal to the cost of that coverage.</p>	<p>Any increase in wages for the cost of an individual policy must be included as income on the employee's annual Form W-2 and is subject to federal and state income taxes. You may "gross up" the amount of the increase to offset the taxes due.</p> <p>Your church <b>cannot</b> use a HRA or an employer payment plan to reimburse premiums on a pre-tax basis.</p>
Employer-Sponsored Group Health Plan	Premium Payments	Considerations
<p>You may purchase a fully-insured employer-sponsored group health plan through the private insurance market.</p>	<p><b><u>Pre-Tax:</u></b></p> <p>Your church may pay for all or a portion of the cost of group health plan coverage on a pre-tax basis. If you want your employees to share in the cost of coverage, you may use a cafeteria plan, as described in Section 125 of the Code, to allow employees to pay their portion of the premiums with pre-tax dollars.</p>	<p>Generally, an employer-sponsored group health plan sponsored by a small employer is prohibitively expensive because of the low number of employees covered.</p> <p>If you sponsor a group health plan, you may establish a health flexible spending account ("FSA"), an HRA or, where applicable, a health savings account ("HSA") (only applies to high-deductible health plans) to assist your staff with paying for other medical expenses on a pre-tax basis. HRAs must be integrated with an employer-sponsored group health plan beginning in 2014 and cannot be offered on a standalone basis without violating the market reforms under the Affordable Care Act.</p>

*FCMM Benefits & Retirements, with the counsel of Ballard Spahr LLP, developed this chart for tax educational purposes only. Neither FCMM nor Ballard Spahr can provide your church or your staff with legal or tax advice. You should consult with an attorney or accountant if you have specific questions about how this information relates to your church and your staff.*