



# Facilitating Section 125 deductions with an ICHRA.



Combining an ICHRA with a Section 125 Plan gives maximum benefits to both the employee and the employer.

When a company has both a Section 125 Plan and an ICHRA, an employee who pays insurance premiums above the ICHRA reimbursement allowance can take the additional amount above the reimbursement level and receive it as non-taxed income through the employer.

For example, a single female employee aged 50 in Minnesota with a \$55,000 annual salary has a \$250 monthly employer contribution towards her insurance through an HRA. In her case, she decides on a benefit rich gold health insurance plan, along with a dental and vision insurance plan. Her combined monthly premium is \$600 a month, significantly more than the \$250 employer contribution. Therefore, because her employer allows for Section 125 Cafeteria Plan deductions, the extra \$350 in premium she pays every month above the employer reimbursement can be deducted directly from her gross income, for a lower taxable income. On an annual basis, the employee's annual premium balance of \$4200 can result in \$1,111 less in taxes for the employee and \$321 less in taxes for the employer.

## How does an employer make this work logistically?

Normally the employer, through their payroll services, is expected to administer the Section 125 deductions. To facilitate this in the case of an ICHRA, there are typically two steps:

1. The employer facilitates the Section 125 deduction through payroll as normal. In our example, the employer's payroll service (whether in house or through a third party payroll provider) records a \$350 Section 125 deduction.
2. The employer then pays the \$350 directly to the employee through their preferred method of expense reimbursement. This can be through payroll or through normal accounts payables. This income is not taxed, but instead is an expense.

Compare this model to that of traditional group health insurance. Employee contributions to group health insurance are deducted through the standard Section 125 reporting. These funds are then applied by the employer to their group health insurance bill to their insurance company. In the case of ICHRA, the employer is no longer paying the insurance company but instead paying the employee, as an expense, the exact amount of their deduction.

The end result provides additional tax savings for the employee and payroll tax savings for the employer.

Companies using Benafica as their HRA service provider will find employee HRA reimbursement amounts and Section 125 deductions amounts on their monthly invoice. Only HRA reimbursement amounts will be paid to employees by Benafica.

Contact Benafica if you are interested in taking advantage of these tax savings by emailing [info@benafica.com](mailto:info@benafica.com).