

GOLDENBULLETS

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THOUGHT YOU'D LIKE TO SEE THIS:

Taxation of Health Insurance: Key Points You Need to Know

EXCLUSION OF BENEFITS: Benefits paid under accident and health insurance policies you purchase personally are excluded from your gross income—even if they exceed your medical expenses. Likewise, coverage and benefits under Medicare, Medicaid, and military and Veterans' health care programs are not taxable.

EMPLOYER-PROVIDED HEALTH INSURANCE: Key tax-advantaged accounts available to help pay health care expenses are:

1. Flexible Spending Accounts (**FSAs**) (employer-established programs that reimburse employees for specified, incurred expenses).
2. Health Reimbursement Accounts (**HRAs**) (an employer reimburses covered employees for specified medical (health and accident) expenses—not covered by insurance or otherwise reimbursable.)
3. Health Savings Accounts (**HSAs**) (allows taxpayers to pay for unreimbursed medical expenses (such as deductibles, co-payments, and services not covered by insurance) on a tax advantaged basis).

KEY TAX IMPLICATIONS OF EMPLOYER PAID HEALTH COVERAGE:

1. Most employer-paid health insurance coverage is excludable from your income and employment taxes.

2. Health coverage and benefits available through cafeteria plans are exempt.
3. Self-employed taxpayers may deduct 100% of health insurance costs.

TAX IMPLICATIONS TO EMPLOYEES: Generally, health insurance paid by your employer is:

1. Excluded from your gross income in determining your tax liability. These income and employment tax exclusions apply to both single and family coverage, which includes your spouse and dependents.
2. Not considered in computing either your (or your employer's) share of employment taxes.

Generally, benefits are excluded from your income as an employee if they are:

1. Reimbursements for medical expenses, or
2. Payments for permanent physical injuries.

Benefits which are neither medical expense reimbursements nor payments for permanent physical injuries are taxable in proportion to the share of the insurance costs paid by the employer that were previously excluded from gross income.

Benefits are also taxable to the extent you received a tax benefit from deducting expenses in a prior year (e.g., if you claimed a medical expense deduction for 2005 expenditures and then received an insurance reimbursement in 2006).

Benefits received by highly compensated employees under discriminatory “self-insured” plans are partly taxable. A self-insured plan is one in which the employer has not shifted the risk to a third party, such as an insurance company, and has assumed the risk for health care plan costs.

DEDUCTION ALLOWED TO EMPLOYERS: Premiums employers pay for health insurance are deductible by your employer as a business expense.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO CHAT ABOUT THESE OR OTHER ISSUES OF INTEREST.

IF YOU PREFER TO RECEIVE “GOLDEN BULLETS” BY EMAIL, PLEASE SEND A NOTE TO ME AT: rwilson@fraserlawfirm.com. Thanks.

“Golden Bullets” is provided as a source of general information about current developments in the practice of estate planning and related topics. If you have questions regarding this issue or estate planning in general, please contact me prior to taking action.

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Honest, Experienced, Responsive and Compassionate