HRA Offers small employers tax-advantaged health care option

In December, Congress passed the 21st Century Cures Act. The long and complex bill covers a broad range of health care topics, but of particular interest to some businesses should be the Health Reimbursement Arrangement (HRA) provision. Specifically, qualified small employers can now use HRAs to reimburse employees who purchase individual insurance coverage, rather than providing employees with costly group health plans.

The need for HRA relief

Employers can use HRAs to reimburse their workers' medical expenses, including health insurance premiums, up to a certain amount each year. The reimbursements are excludable from employees' taxable income, and untapped amounts can be rolled over to future years. HRAs generally have been considered to be group health plans for tax purposes.

But the Affordable Care Act (ACA) prohibits group health plans from imposing annual or lifetime benefits limits and requires such plans to provide certain preventive services without any cost-sharing by employees. And according to previous IRS guidance, "standalone HRAs" — those not tied to an existing group health plan — didn't comply with these rules, even if the HRAs were used to purchase health insurance coverage that did comply. Businesses that provided the HRAs were subject to fines of $100 per day for each affected employee.

The IRS position was troublesome for smaller businesses that struggled to pay for traditional group health plans or to administer their own self-insurance plans. The changes in the Cures Act give these employers a third option for providing one of the benefits most valued by today's employees.

The QSEHRA

Under the Cures Act, certain small employers can maintain general purpose, standalone HRAs that aren't "group health plans" for most purposes under the Internal Revenue Code, Employee Retirement Income Security Act and Public Health Service Act.

More specifically, the legislation allows employers that aren't "applicable large employers" under the ACA to provide a Qualified Small Employer HRA (QSEHRA) if they don't offer a group health plan to any of their employees. Annual benefits under a QSEHRA:

- Can't exceed an indexed maximum of $4,950 per year ($10,000 if family members are covered),
- Must be employer-funded (no salary reductions), and
- Can be used for only IRC Section 213(d) medical care.

QSEHRA benefits must be offered on the same terms to all “eligible employees” (certain individuals can be disregarded) and may be excluded from income only if the recipient has minimum essential coverage. There is a notice requirement and employees’ permitted benefits must be reported on Form W-2.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.