

Help Retain Employees With Tax-Free Fringe Benefits



One way your business can find and keep valuable employees is to offer an attractive compensation package. Fringe benefits are an important incentive — especially those that are tax-free. Here's a rundown of some common perks and their tax implications.

- **Medical coverage.** If you maintain a health care plan for employees, coverage under the plan isn't taxable to them. Employee contributions are excluded from income if pretax coverage is elected under a cafeteria plan. Otherwise, such amounts are included in their wages, but are deductible on a limited basis as itemized deductions. Employers must meet a number of requirements when providing coverage. For instance, benefits must be provided through a group health plan (fully insured or self-insured).
- **Disability insurance.** Your premium payments aren't included in employees' income, nor are your contributions to a trust providing disability benefits. Employees' premium payments (or other contributions to the plan) generally aren't deductible by them or excludable from their income. However, they can make pretax contributions to a cafeteria plan for disability benefits, which are excludable from their income.
- **Long-term care insurance.** Your premium payments aren't taxable to employees. However, long-term care insurance can't be provided through a cafeteria plan.
- **Life insurance.** Your employees generally can exclude from gross income premiums you pay on up to \$50,000 of qualified group term life insurance coverage. Premiums you pay for qualified coverage exceeding \$50,000 are taxable to the extent they exceed the employee's coverage contributions.
- **Dependent care.** You can provide employees with tax-free dependent care assistance up to certain limits during the year.
- **Educational assistance.** You can help employees on a tax-free basis through educational assistance plans (up to \$5,250 per year), job-related educational assistance, and qualified scholarships.

Other tax-free benefits include adoption assistance (up to a certain amount), on-premises athletic facilities and meals provided occasionally to employees who work overtime.

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.