



# Premium Only Plan

## TAX SAVINGS FOR YOU AND YOUR EMPLOYEES

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The Section 125 Premium Only Plan (POP) saves you and your employees money by reducing payroll taxes. It works by making one simple adjustment in your payroll process - employees pay their portion of the insurance premiums on a pre-tax basis rather than on an after tax basis.

The Premium Only Plan reduces your taxable payroll by reducing your employees taxable income. So, both you and your employees pay less in taxes.



## One of the best ways to save taxes.

IRS-sanctioned Premium Only Plans were created by the Revenue Act of 1978 and are governed by Internal Revenue Code Section 125. With a Premium Only Plan:

- Employees don't pay FICA, federal, or where applicable, state or local taxes on money used to pay for their portion of employer-sponsored insurance premiums or contributions to their Health Savings Account (HSA).
- Employee's tax savings help defray the cost of insurance premiums.
- Employees can increase their take home pay.
- Your taxable payroll is reduced by the total amount of employee contributions for benefits. Lower taxable payroll means lower payroll taxes.
- You can allow employees to realize an increase in take-home pay and take credit for a terrific new benefit, while still saving money.
- You can increase your employees' share of insurance premiums without negatively affecting their take-home pay.

## Any employer can sponsor a Premium Only Plan.

Regular corporations, partnerships, S corporations, Limited liability companies(LLCs), sole proprietors, professional corporations, and not-for-profits can all save money on payroll taxes by establishing a Premium Only Plan.

## Who can participate?

While regulations prohibit a sole proprietor, partner, members of an LLC (in most cases), individuals owning more than 2% of an S corporation, or their spouse and dependents, from participating in the POP, they may still sponsor a plan and benefit from the savings on payroll taxes.

## Begin saving taxes immediately.

You can start your Premium Only Plan at any time. Plus, you can have a short plan year for the first year so that future plan years coincide with either your fiscal year or the calendar year.

## Employer Tax Savings Example

<b>Your Company - 20 Participants</b>	<b>Without POP</b>	<b>With POP</b>
Average Pre-Tax Contribution	\$0	\$3,000
Number of Employees	x 20	x 20
Total Annual Pre-Tax Contributions	\$0	\$60,000
FICA (Medicare & Social Security)	x 0.0765	x 0.0765
<b>Total Annual FICA Savings (Estimate)</b>	<b>\$0</b>	<b>\$4,590</b>

## Employee Tax Savings Example

Employees save \$20 to \$40 on every \$100 they contribute through payroll deduction in just federal income taxes.

Your Employee	Without POP	With POP
Annual Salary	\$32,000	\$32,000
Annual pre-tax contribution	\$0	\$3,000
Taxable Income	\$32,000	\$29,000
Estimated Taxes	-\$9,808	-\$8,888.50
Annual after-tax contribution	-\$3,000	\$0
Net take-home pay	\$19,192	\$20,111.50
<b>Increase in take-home pay</b>		<b>\$919.50</b>

## My Company has a Section 125 Plan

Take the following quiz to see if your plan is in compliance:

	Yes	No
1. Do you have a written plan document in your files?		
2. Have you properly amended your plan to reflect any changes that you made to the plan year, eligibility requirements, benefits, employee HSA contributions, or IRS regulations? (There have been changes in IRS Regulations each of the last 6 years.)		
3. Have your employees received a copy of the current Summary Plan Description?		
4. Is the total of all benefits for Key Employees in the plan no more than 25% off the total of all benefits of the plan?		
5. Do you have current signed election enrollment forms or electronic enrollment on file for all eligible employees?		
6. Do you require all election changes to be made only during the open enrollment period each year unless the employee has experienced a valid change in status as outlined in the Section 125 Regulation?		
7. As your new employees become eligible for participation in the plan, do you require that they complete election enrollment forms or online enrollment?		
8. Do you have documentation on file to support annual nondiscrimination testing requirements?		
9. Are the premiums for all policies that include a "cash value" or a "return of premium" benefit deducted on an after-tax basis outside of the Section 125 plan?		

If you answered "NO" to any of these questions, your plan may be out of compliance. The Internal Revenue Code provides for significant penalties for failure to comply with these requirements. The severity of penalties depends on the severity of the infractions. You may want to consult with your tax professional regarding your noncompliance risk.

\*Throughout this document, "Savings" refers only to tax savings. No part of this document constitutes tax, financial, or legal advice. Please consult your advisor regarding your personal situation and whether this is the right program for you.

