

## Providing health insurance benefits to your employees

How does a self-insured plan differ from an insured plan?

Most employers want to provide some type of fringe benefit to their employees. It's a convenient way to attract and retain good workers. One of the more commonly provided fringe benefits is health insurance. There are three primary methods in which to provide this benefit.

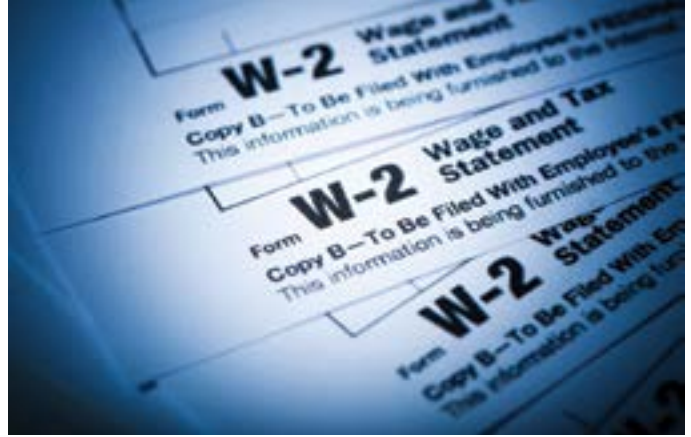
As an employer, you can sign up for a group medical plan through an insurance company. The plan is simply an arrangement that provides payment to employees for illness or injury. The employer or the employee can pick up the entire cost of the policy, or the cost can be shared

between them. In either event, the benefit is not taxable to the employee. If the employees are paying a portion of the premiums, the cost can be deducted from their paycheck before withholding is determined. Premiums that are paid entirely by the employer are not added to wages and the employer gets a deduction for the cost.

If you provide your employees health benefits under an insured plan, you are permitted to offer the benefit to some or all of your employees. By only offering the benefit to a certain class of employees, such as management, you can reduce your costs.

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Another option is to provide benefits under a self-insured plan. Under this option, you do not carry a group medical plan but instead reimburse employees as they incur expenses on their own. Under this method, you are afforded a certain amount of flexibility in what you provide. You can pay your employees a flat amount or you can reimburse actual expenses. The downside to this type of arrangement is that you must offer the benefit to all your employees. You are not allowed to pick and choose which employees receive the benefit. Provided you do not discriminate, the benefit remains nontaxable to your employees.

The third option is a combination of an insured plan and a reimbursement plan. The same rules as previously mentioned apply to each component of this arrangement. If you offer both an insured plan and a reimbursement option, you can structure it so your employees have a choice between which options they want.

## Starting a new business?

### Keep track of your expenses

There are many costs associated with the start-up of a business that can be deducted once your business opens. To qualify as a start-up cost, the expense must be one that you could deduct if you were already in business. Examples include travel to suppliers, training for your new employees, advertising, utilities and other pre-opening expenses. If start-up costs are less than \$50,000, you are allowed to deduct up to the first \$5,000 of expenses you incur in the current year. Any additional start-up expenses are deducted over a remaining period of not less than 180 months.

## Employee business expenses

### Accountable plans can benefit employees

The recently passed Tax Cuts and Jobs Act eliminated many deductions for employees. If your employees have been incurring out-of-pocket expenses for such things as uniforms, tools and equipment or professional dues and licenses that you require, consider reimbursing them for these expenses.

To reimburse employees for required expenses, you can establish an accountable plan where the employees are required to submit documentation establishing the time, place and business purpose for the expenses to

you. Your reimbursement to the employee is deductible on your business return and not taxable income to the employee.

If you choose not to reimburse your employees, but instead give your employees an expense allowance that can be used without substantiation, you must include the amount on their W-2. You still get a deduction for the amount paid as a wage expense, but your employee is required to pay tax on the money. Having an accountable plan in place will save you the payroll taxes on the amounts required to be included on the employee's W-2.

## Section 179 vs. bonus depreciation

### Which option is better?

The Tax Cuts and Jobs Act made some significant changes to how business owners deduct the cost of certain property. In the past, the cost of business assets was recovered through bonus depreciation, by regular depreciation or by expensing it under §179, depending on the type of property.

Prior to the change in the law, taxpayers were allowed to deduct 50% of the cost of most new tangible property (other than buildings and some building improvements) and most new computer software in the year placed in service. This was referred to as 50% bonus depreciation. Currently, for property placed in service and acquired after Sept. 27, 2017, the 50% bonus rate increases to 100%, appropriately called 100% bonus depreciation. Additionally, property eligible for bonus depreciation can be new or used.

Beginning in 2018, taxpayers can immediately deduct the entire cost of qualifying §179 property up to an annual limit of \$1 million. Qualifying property for §179 expensing has been expanded to include certain depreciable tangible property used in connection with lodging, such as appliances and furniture in a residential rental activity and improvements to

non-residential real property such as roofs, heating, ventilation, air conditioning, and fire and alarm protection systems.

While on the surface it may not look like there is much of a difference between 100% bonus depreciation or §179 expensing, which method you choose depends on several factors such as your income, the type of property you purchase and when it is placed in service.

## Exchanging business property

### New rules limit options

There's a rule in the tax code that allows you to exchange property you hold for business use or investment for other like-kind property and defer any tax on the gain. This was a popular strategy for business owners who wished to acquire new property without incurring a large tax liability from selling similar property.

For tax years beginning after 2017 and before 2026, the rules for exchanging property have tightened. While you are still permitted to defer tax on the gain by acquiring like property, exchanges are limited to real property only. While you can still exchange unimproved real property for improved property and vice versa, you cannot exchange machinery, equipment or vehicles for like property.

## Employer options for health costs

### HRAs offer tax-favored benefits

If you're looking for a way to reduce employee benefit costs, you may wish to consider using a health reimbursement arrangement (HRA). An HRA is an employer-funded health benefit account for individual employees that may be used to pay their medical expenses and health insurance premiums. This type of plan is generally more economical and more flexible. Plus, it has more features than a traditional health benefit plan and, at the same time, provides favorable treatment for federal income tax purposes.

Under an HRA, the contributions you make and the amounts received by your employees are generally excluded from the employee's income. In addition, any excess amounts at the end of the year can be carried over to future years without being lost.

In order to receive favorable tax treatment, an HRA must meet the following requirements:

- The plan is paid for only by you and is not provided by an employee salary reduction election or under an employee benefit cafeteria plan;
- The plan reimburses the covered person for medical care expenses of the person, the person's spouse and the person's dependents; and
- The plan reimburses a covered person up to a maximum dollar amount for any period of coverage, and any unused portion of the maximum dollar amount at the end of that period is carried forward to increase the maximum reimbursement amount in subsequent coverage periods.

## Health insurance for your business

### A simple error may deny your deduction

As a business owner, you most likely provide health benefits for you and your employees. Even if you do not have employees, having a health insurance policy in your business may save you money.

As a self-employed taxpayer, you are allowed to deduct from your adjusted gross income, 100% of the cost of the health insurance policy. While this may not save in self-employment tax, the deduction will reduce your overall tax liability. You can title the policy in your name or in the name of your business.

If your business is a C corporation, the policy must be established by the business and in the business name. C corporations are allowed to deduct the cost of health insurance provided to the shareholders while remaining tax-free to the shareholder.

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If your business is an S corporation, the policy must be established by the business, but not necessarily in the business name. A plan providing medical care coverage for the 2% shareholder in an S corporation is established by the S corporation if: (1) the S corporation makes the premium payments for the policy covering the shareholder (including a spouse or dependents, if applicable); or (2) the 2% shareholder makes the premium payments and furnishes proof of payment to the S corporation, and then the S corporation reimburses the shareholder for the premium payments in the current taxable year. If the insurance premiums are not paid or reimbursed by the S corporation and included in the shareholder's income, a plan providing medical care coverage for the shareholder is not established by the S corporation and the shareholder is not allowed the deduction. Provided these two conditions are met, and the payment for the premiums is included as wages to the shareholder, the shareholder is allowed a deduction on Form 1040, line 29, against income.

## To incorporate, or not

### Factors to consider

Now that the corporate tax rate has been reduced to 21% permanently, is it a good time to incorporate your business? There is no one-size-fits-all answer to this question but there are some general guidelines to consider.

The primary nontax advantage of incorporating a small business is personal asset protection. Both corporations and LLCs allow owners to separate and protect their personal assets. In a properly structured and managed corporation or LLC, owners should have limited liability for business debts and obligations. Another nontax reason business owners incorporate is perpetual existence. Corporations and LLCs can continue to exist even if ownership or management changes. Sole proprietorships simply end if an owner dies or leaves the business.

If you file a Schedule C, E or F and your only concern is a loss of deductions because of the new tax changes, there is likely little benefit to incorporating your business. None of the deductions for expenses have been eliminated or suspended if you are a business owner, landlord or farmer. In fact, certain noncorporate businesses are considered pass-through entities and may qualify for a 20% qualified business income (QBI) deduction.

Other considerations to incorporating include the type of business you operate, your gross income, the type of assets you use in your business, and whether you have employees and wish to provide benefits. One final point: Regular C corporations are subject to double taxation. This means the income is taxed once at the corporate level and again at the shareholder level when income is distributed in the form of dividends. Pass-through entities pass the income through to the owners, and it is taxed only once on their return.

Be sure to consult with me first before making any decisions on how you should structure your business.

