



152 Madison Avenue, Suite 1405  
New York, NY 10016  
p 212.931.8000  
f 212.931.8001  
www.GoAccountants.com

## NEWSLETTER

### Providing Tax-free Fringe Benefits to Employees

One way you can find and keep valuable employees is to offer the best compensation package possible. An important part of any compensation package is fringe benefits, especially tax-free ones. From an employee's perspective, one of the most important fringe benefits you can provide is medical coverage. Disability, life, and long-term care insurance benefits are also significant to many employees. Fortunately, these types of benefits can generally be provided on a tax-free basis to your employees. Let's look at these and other common fringe benefits.

**Medical Coverage.** If you maintain a health care plan for your employees, coverage under that plan isn't taxable to them. Employee contributions are excluded from income if pre-tax 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.

**Disability Insurance.** Your disability insurance premium payments aren't included in your employee's income, nor are your contributions to a trust providing disability benefits. Their premium payments (or any other contribution to the plan) generally aren't deductible by them or excludable from their income. However, they can make pre-tax contributions to a cafeteria plan for their disability benefits; such contributions are excludable from their income.

**Long-term Care (LTC) Insurance.** Plans providing coverage under qualified LTC insurance contracts are treated as health plans. Accordingly, your premium payments under such plans aren't taxable to your employees. However, LTC insurance can't be provided through a cafeteria plan.

**Life Insurance.** Your employees generally can exclude from gross income up to \$50,000 of qualified group-term life insurance coverage you provide. Qualified coverage exceeding \$50,000 is taxable to the extent it exceeds the employee's contributions toward coverage.

**Retirement Plans.** Qualified retirement plans that comply with a host of requirements receive favorable income tax treatment, including (1) current deduction by you, the employer, for contributions to the plan; (2) deferral of the employee's tax until benefits are paid; (3) deferral of taxes on plan earnings; and

(4) in the case of 401(k) plans, 403(b) plans, and SIMPLE plans, the employee's ability to make pre-tax contributions.

**Dependent Care Assistance.** You can provide your employees with up to \$5,000 (\$2,500 for married employees filing separately) of tax-free dependent care assistance during the year. The dependent care services must be necessary for the employee's gainful employment.

**Adoption Assistance.** Generally, employees can exclude from income qualified adoption expenses of up to \$10,000 paid or reimbursed by you.

**Educational Assistance.** You can help your employees with their educational pursuits on a tax-free basis through educational assistance plans (up to \$5,250 per year), job-related educational assistance, qualified tuition reductions, and qualified scholarships.

If you would like to discuss any or all of these, please call GO! at 212.931.8000.