PayDay

Health savings accounts (HSAs) are increasingly being used by employers as a tool to offset the rapidly increasing cost of group health insurance. Funding employee "HSAs" can be accomplished by employer contributions, employee contributions, or in many cases a combination of both. **Here are the tax rules pertaining to HSA funding:**

- Employer contributions to employee HSA accounts are not taxable for income or payroll taxes, and are tax-deductible fringe benefits to the employer (Note - this income exclusion does not apply to "S" corporation shareholders or partners);
- Employee payroll deductions for HSA contributions are generally "after-tax", and therefore subject to income and payroll taxes by your payroll system. The employees can deduct their HSA contributions as income tax deductions on their personal returns; and
- If employees contribute to HSA accounts pursuant to a written Section 125 "cafeteria" plan, their HSA contributions are paid "pre-tax" for income, social security and Medicare taxes. Also, the employer saves the "match" of social security and Medicare taxes if the HSAs are an "includable benefit" in the employer's written Section 125 plan.

BOTTOM LINE - An employer saves the cost of "matching" payroll taxes on employee funding of HSA accounts IF the employer includes HSAs as a benefit in their WRITTEN Section 125 cafeteria plan.

Call one of AccuPay's "CPP/CPA client services teams" if you would like to know more about HSAs or Section 125 Plans.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.

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