Strategic Cost-Sharing for Tax Planning

The first point of creating a tax strategy is to understand how a benefit plan is funded using a cost-sharing arrangement. Employers and employees contribute to funding an employee benefits plan. An effective cost-sharing arrangement is one where a business's premium funding provides a tax deduction that won't negatively affect an employee's taxable income with payouts remaining tax free. This creates a tax-efficient benefits program.

When designing a plan for tax efficiency, we recommend allocating employer and employee funding based on benefit type not solely based on premiums.

Funding Risk Programs

Employees should always fund the risk portion of a group benefits program. This will keep the disability income they receive tax free. Secondly, use the employee funding for the remaining risk benefits such as Life, AD&D, Dependent Life and C.I. If an employer funds these benefit premiums, the funding provided for each employee is then considered taxable to the employee and should be included in their income at tax time.

Funding Wellness Programs

Employers should always fund the Wellness portion of a group benefits program. Employer funding of these benefits is tax deductible to the business as an expense. Employer funding will have no negative effect on the employees income or benefit payments received. Employers who fund this portion of their program provide an after tax cost savings for employees eligible medical related expenses.

Assessing Tax Efficiency

When planning group insurance programs, agents should always include the effect of employer contributions on the employees. It is a best practice to avoid tactics where employer contributions create unnecessary taxation for employees.

Advisor Guidance

Taxes are an important but overlooked element when designing a group benefits program. A practiced advisor will provide the knowledge related to how taxation applies to each portion of a group benefits program. This way businesses can maximize the tax advantage while predicting how a benefit claim will be affected by taxation for employees.

Benefit Taxation Principles

Taxation concerning a group benefits program is often cast as complex or difficult. The tax strategy to a group benefit is simple, allocate funding for the employee to receive benefits tax free.

Taxation for group benefits is often cast as complex or difficult. Taxation is simply allocating funding based on benefit types so employees receive benefits tax free, not merely splitting premiums.