

HR Snapshot

A real-time look at trending HR topics

Question:

We plan on offering group health insurance sometime soon, but in the meantime, we'd like to give employees medical reimbursements in their paychecks in lieu of offering insurance. Is this allowed?

Answer from Jenny, SPHR, SHRM-SCP:



The IRS prohibits employers from offering stipends or reimbursing employees for individual health plans, regardless of the tax treatment of the stipend or reimbursement. On the other hand, the IRS understands that employers have the right to set salaries however they like. So they will not stop an employer from setting a higher salary to offset an employee's cost of individual health insurance. However, it is important to note that the employer should not require proof that an individual health insurance policy was purchased with the extra income. Similarly, the salary increase should not be contingent upon the purchase of individual health insurance.

Violating this prohibition comes with a stiff penalty—an excise tax of up to \$100 a day per employee—for either pre-tax or post-tax reimbursements of individual health plans. Therefore, if an employer increases taxable wages to offset the cost of individual health insurance plans, the employer should not use a separate line item on employee paychecks to indicate this increase.

Over her 15 years of experience, Jenny has specialized in helping small to mid-sized businesses across a variety of industries reduce their risks and manage employee relationship issues. Jenny holds a Bachelors of Business Administration (BBA) degree in Human Resources Management from the University of Georgia and a Masters of Business Administration (MBA) degree with a concentration in Human Resources Management from Georgia State University.

Questions?

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