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***Confused about  
all the changes...  
give us a call and  
let us help you.***

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## New Guidance on Employee Benefits

Earlier this year, President Obama signed into law the Patient Protection Act. This article will explain a few miscellaneous provisions from that Act regarding new W-2 reporting, HSAs, MSAs, FSA, HRAs, and Simple Cafeteria Plans.

It is every employer's responsibility to know and understand the changes that were enacted this year, as they can effect your daily business decisions. In these tough economic times, offering your employees a richer benefits package can be a low-cost method of rewarding them. Health benefits are considered as a positive component of an employee's overall job benefits, so having a few additional options might be something that they will value.

## New Requirements for Form W-2 Reporting

The Patient Protection Act enacted on March 23, 2010 included a provision that requires employers to disclose on each employee's annual Form W-2 the value of the employee's health insurance coverage sponsored by the employer. Employers are not required to provide a breakdown of costs for health, dental and vision coverage. The requirement is effective for W-2s issued for 2011, which are generally due to employees in January 2012. There is a common misconception that because this information will be shown on a W-2 that it will be taxable to the employee. This is not (at least at the present time) true.

## Changes Related to HSAs, MSAs, FSAs and HRAs

Another provision of the Patient Protection Act effects how funds contributed to a health savings account (HSA), Archer medical savings account (MSA), flexible spending account (FSA), and health reimbursement arrangement (HRA) can be used. These accounts are generally tax-advantaged financial accounts that can be set up through an employer. The funds must be used to pay for qualified medical expenses of the employee and their dependents. The parameters of what is covered can be customized by the employer.

- Under the new health reform package, amounts paid for over-the-counter medications will no longer be reimbursable from any of these plans, except for insulin and medications prescribed by a health care professional. The new law modifies the definition of qualified medical expenses for HSAs, MSAs, FSAs, and HRAs to conform them to the definition used for medical expense itemized deductions on your personal income tax return.

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## HSAs, MSAs, FSAs and HRAs – continued



- Currently, there is no limit on the amount an employee can contribute to an FSA. For taxable years after 2012, in order for a health FSA to be a qualified benefit under a cafeteria plan, the maximum amount allowed to be contributed is capped at \$2,500 per year.
- Starting in 2011, the penalty tax on distributions from HSAs and MSAs that are not used for medical expenses is increased as follows:
  - HSAs: from 10 percent to 20 percent
  - MSAs: from 15 percent to 20 percent

## Simple Cafeteria Plans

Currently, cafeteria plans (also known as Section 125 plans) allow participants to pay for health insurance coverage on a pre-tax basis. Cafeteria plans can also allow employees to pay for deductibles, co-pays, prescription drugs, and other medical costs on a pre-tax basis.

Many small business owners do not offer cafeteria plan benefits to their employees due to strict non-discrimination requirements. Starting in 2011, small employers will be permitted to adopt the new Simple Cafeteria Plan. By satisfying the minimum participation and contribution requirements, the employer will not be required to meet the non-discrimination rules that otherwise apply to traditional cafeteria plans.

The following requirements must be satisfied to qualify for the Simple Cafeteria Plan:

- The employer must have employed an average of 100 or fewer employees during either of the two preceding years
- All benefits must be made available to all employees
- Minimum employer contribution:
  - A uniform percentage of at least 2 percent of the employee's compensation (before salary reductions) for the plan year, or
  - An amount not less than:
    - 6 percent of the employee's compensation for the plan year, or
    - Twice the amount of the salary reduction contributions of each qualified employee
- All employees who had at least 1,000 hours of service for the preceding plan year must be eligible to participate
  - An employer can exclude employees who are under age 21 or who worked less than one year of service

Small businesses should seriously consider the new provision that allows for a Simple Cafeteria Plan. Not only can this provide tax benefits to the owner personally, it can also give greater satisfaction to your employees who are facing tough economic challenges.

If you have any questions regarding the provisions outlined in this article, please contact our office at (775) 882-3201. This and other related articles can be found on our website at <http://fwcpas.com/client-information>.

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