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Employer-Offered Benefits That Can Save You Money and Taxes

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Tax law includes several tax- and financially favored benefits that employers can offer or provide to their employees. This article is intended to make you aware of these perks, with the caveat that all employers, especially small businesses, may not provide all, or perhaps any, of these covered perks. But whichever of these benefits your employer offers, you should seriously consider taking advantage of them, if you haven’t already.

Health Insurance – For a company that has 50 or more employees, the Affordable Care Act requires the business to offer at least 95% of its full-time employees and their dependents (but not spouse) with affordable minimum essential health care coverage or be subject to a penalty. If you work for one of these larger employers and the company picks up the entire health insurance premium cost, consider yourself lucky, as the costs of health insurance coverage have risen dramatically over the last few years. More likely, you may have to pay part of the premium costs, and the plan may have a high deductible and/or co-pays. Even so, the tax-free benefit of what the employer covers is valuable. While not required to, businesses with fewer than 50 employees may offer health care coverage, often for competitive purposes in retaining employees. The health insurance premiums paid on your behalf by your employer are tax-free to you. If you aren’t aware of the value of this nontaxable employee benefit, you can look at your Form W-2, box 12a, code DD, which shows your share of the cost of employer-sponsored health coverage. You can claim the part of the coverage that you pay for with post-tax dollars as a medical expense, if you itemize your deductions.

Retirement Plans – Although some larger employers may provide a company-funded retirement plan that will pay you a monthly benefit when you retire, most generally offer 401(k) plans with which an employee can save for retirement by making pre-tax contributions up to $22,500 for 2023, and if the employee is age 50 or over, they can qualify to make a catch-up contribution of up to $7,500, bringing the total to $30,000. Some employers also match their employees’ contributions up to a certain amount, which means an employee should endeavor to contribute at least the amount that the employer will match.

Special Rule for Military Spouses – Starting in 2023, small employers (no more than 100 employees earning more than $5,000 per year) that have defined contribution plans may be eligible for new a tax creditthat can be up to $500 per eligible employee. The credit applies for their employees who are military spouses where the plan enables the military spouse to become eligible to participate in the plan within 2 months of being hired and meet other conditions. If you are a military spouse who hasn’t been able to contribute to an employer’s plan or receive matching contributions from the employer, you may be able to be covered by the employer’s plan much sooner than in the past.

Qualified Transportation Fringe Benefits – Certain transportation-related fringe benefits that an employer may provide to employees are tax free to the employee. Prior to the passage of the tax reform in late 2017, employers were able to provide employees with tax-free reimbursement for parking, transit passes, commuter transportation, and bicycle commuting, subject to certain limits, and the employer could deduct the cost. The tax reform had a significant impact on these benefits. It eliminated the $20-per-month bicycle benefit and no longer allows the employer to deduct reimbursements made to employees for other transportation benefits, making some employers less likely to offer any transportation fringe benefits. However, they remain tax-free to the employee; for 2023, the limit on tax-free employer reimbursements is $300 per month each for qualified parking, transit passes, and commuter transportation.

Flexible Spending Account (FSA) – This is a special account established by an employer that allows employees to contributeto the account throughsalary-reduction contributions. The benefit is that the contributions are pre-tax, meaning the employee doesn’t pay taxes on the money contributed to the account. This allows employees to payfor certain out-of-pocket health care costs with pre-tax dollars. The health careexpenses can be used forhealth plan deductibles, co-payments, and even some over-the-counter-medications. The annual limit on contributions is inflation adjusted and is $3,050 for 2023.However, if you don’t use the money in your FSA, you’ll lose it.

Group Term Life Insurance – The cost for the first $50,000 of group term life insurance (GTLI) coverage provided by an employer is excluded from the employee’s taxable income. However, the employer-paid cost of group term coverage in excess of $50,000 is taxable income to the employee, even if he or she never receives it (i.e., it is “phantom income”). So, while the tax-free coverage of the first $50,000 is a good perk, an employee shouldn’t automatically sign up for more than $50,000 of GTLI coverage without considering whether they truly need the coverage and what the extra cost will be. In some cases, an employee who wants more than $50,000 in coverage may be able to privately acquire a policy that will cost less than the tax on the imputed income for the extra coverage through the employer’s plan.

Qualified Employee Discounts – A certain amount of an employee discount on purchases from an employer or on services provided by an employer is excludable from the employee’s income. The exclusion is limited to the employer's gross profit percentage for property, or 20% of the price at which the employer sells services to non-employee customers, for services.

Employer-Provided Education Assistance – An employee doesn’t have to include, in his or her income, amounts paid by the employer for educational assistance under a qualified education-assistance program. The maximum amount of educational assistance that an employee can exclude is $5,250 for any calendar year. Excludable assistance under a qualified plan includes, among others, tuition, fees, books, supplies, and equipment. The education is any training that improves an individual’s capabilities, whether it is job-related or part of a degree program. Employer payments of an employee’s student loan debt made through 2025 are also included as excludable education assistance. However, when these payments include interest owed by the employee on the student loan, the employee then cannot also take a tax deduction for the interest that the employer paid.

Adoption Expenses – An employee may exclude amounts paid or expenses incurred by the employer for qualified adoption expenses connected to the employee’s adoption of a child, if the amounts are furnished under an adoption-assistance program in existence before the expenses are incurred. If the adopted child is a special needs child, the exclusion applies regardless of whether the employee actually has adoption expenses. The maximum exclusion amount is inflation adjusted annually and is $15,950 for 2023 per child, for both non-special needs and special needs adoptions. The exclusion is phased out when the employee’s modified adjusted gross income is between $239,230 and $279,230 for 2023. Taxpayers can claim a tax credit for qualified adoption expenses, subject to the same phaseout range as for the exclusion, but any excludable employer-paid expenses can’t be used for the credit.

Child and Dependent Care Benefits – Qualified payments made or reimbursed by an employer on behalf of an employee for child and dependent care assistance are excluded from the employee's gross income. The amount of the exclusion is limited to the lesser of $5,000 ($2,500 for married individuals filing separately), the employee's earned income, or the income of the employee's spouse. A child and dependent care tax credit is available to taxpayers, but no credit is allowed to an employee for any amount excluded from income under his or her employer's dependent care assistance program.

Health Savings Accounts – Employees who have a high-deductible health plan through their employer can open a health savings account (HSA) and make annually inflation-adjusted pre-tax contributions, which, for 2023, can be up to $7,750 for families and $3,850 for a single individual. When distributions are made for medical expenses, the money comes out tax-free. However, distributions not used to pay qualified medical expenses are taxable, and if the plan's owner is under the age of 65, nonqualified distributions are subject to a 20% penalty. Some individuals let the account grow and treat it as a supplemental retirement plan, waiting until after age 65 to begin taking taxable but penalty-free distributions.

If you have questions on how job-related benefits might apply to you or if you are an employer interested in providing any of these benefits to your employees, please give this office a call.

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