

ECL CONSULTING, LLC

HRA INFO SHEET

What is an HRA?

A Health Reimbursement Plan is an accident/health plan that can also reimburse you for out-of-pocket expenses.

Who can benefit from an HRA?

Sole Proprietors:

- Reimburse your employed spouse for health costs for your entire family – tax free!
- Deduct the cost of out of pocket medical care for your family as a business expense.
- Save \$2500 or more per year in Self Employment and Federal income taxes.*

S-Corporation Officers (more than 2% shareholder):

- Reimburse yourself for premiums and out of pocket medical costs free of FICA tax.
- Claim the Self Employed Health Insurance deduction for reimbursed premiums on your personal tax return.*
- Reduce your company's net profit (taxable income) without raising your salary.
- Save \$2000 or more per year in FICA and Federal income taxes.*

Employers:

- Pay lower premiums with a high deductible plan and still offer your employees great benefits through tax deductible HRA reimbursement.
- Encourage employee participation and retention through accountability and reward.
- Set your business apart from the competition by offering the best benefit package at an affordable price.

Employees:

- Receive reimbursement for out of pocket medical expenses, mileage to and from the doctor and eligible alternative care costs not covered by your insurance.
- Reimbursements are NOT taxable income to you!
- Offset high deductible insurance plans with out of pocket reimbursement.

Is there a DEADLINE to sign up?

If you want to take advantage of the tax savings on premiums paid for 2007 you need to sign up before the end of the year. Out-of-pocket reimbursement is only allowed as of the date you implement the plan, so the sooner you sign up, the sooner you can start saving!

*Based on the Tax Savings Example on page 2.

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Tax Savings Example:

<i>S-CORPORATION OFFICER</i>		<i>SOLE PROPRIETOR WITH EMPLOYED SPOUSE</i>	
Health Insurance Premiums (annual):	\$6000	Health Insurance Premiums (annual):	\$6000
Out of Pocket medical expense:	\$3000	Out of Pocket medical expense:	\$3000
Total HRA Reimbursed:	\$9000	Total HRA Reimbursed:	\$9000
FICA tax savings:	\$1377	Self Employment Tax Savings:	\$1377
Above the line AGI reduction on 1040**:	\$6000	Above the line AGI reduction on 1040:	\$0
Federal Tax Savings on Premiums	\$900	Federal Tax Savings on Employer paid HRA	\$1350
Total Tax Savings:	\$2277	Total Tax Savings:	\$2727

**Medical expenses reimbursed to a more than 2% shareholder of an S-Corp without an HRA or group health plan in place are considered compensation to the shareholder and are taxed as wages. The above the line deduction for self-employed health insurance premiums paid by the shareholder is not allowed unless an HRA or similar qualified plan is established.

Administration:

In order to legally and correctly utilize the HRA in your company there are certain administrative requirements that must be fulfilled on a regular basis.

These include:

- Employee claim verification: confidential review and analysis of employee reimbursement claims to ensure they meet the guidelines for legitimate reimbursable medical expenses under the plan.***
- Eligibility determination: reviewing the status of each employee to determine if and when they are eligible to participate in the plan.
- Discrimination testing: ongoing review of participants and non-participants in the plan to ensure all eligible employees are being afforded the opportunity to utilize the plan.
- Plan documentation: employer/employee agreements, notices to employees about plan parameters, eligibility and qualified expense categories, reimbursement forms and other documentation.

ECL Consulting, LLC provides several options for plan administration. Please see our HRA Plan Options sheet for more information.

***HIPAA requires employee confidentiality when verifying claims for medical reimbursement as employers are not allowed to discriminate based on an employee's previously unknown medical condition.