

The Legal Review

Sharing Case Law that Affects the Household Employment Industry

A Complimentary Resource from
Breedlove & Associates

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In an effort to help you strengthen your business practices and steer clear of legal trouble, The Legal Review will share findings from relevant legal cases. We've found that the easiest way to gain a practical understanding of complex tax and labor law is by reviewing real-life situations. These stories will illuminate potential legal landmines for your agency and/or your clients, and more importantly, show you how to avoid them.

Tax Breaks for Health Insurance:

How Your Families and Nannies Can Benefit—Along with Your Agency

Health insurance is an important benefit that every household employee would like to have as a part of their compensation package. Thanks to tax breaks for both the employer and the employee, it's much more affordable than most people think.

Guiding clients and candidates to a win-win health insurance situation can be accomplished rather easily with a little understanding and planning. This edition of *The Legal Review* will show you how easy and beneficial it can be for all parties – including your agency.

Background

How Health Insurance Works

While most Americans have health insurance coverage under a *group* policy, household employees are covered under an *individual* policy. Like all employers, the government encourages household employers to contribute to their employee's health insurance premiums. They do this by making that portion of the compensation tax-free to the employer. Similarly, the employee is not taxed on that portion of the compensation. (Editor's note: *In order to ensure accountability, the government tax breaks are now only available on employer contributions; if an employee wants to fund her own policy, she must use after-tax dollars, which eliminates the tax advantages*).

Compliance Requirements

There are two ways to legally handle health insurance premiums:

- Option 1: The household employer can choose to be the billing party for the policy – paying the premiums directly to the health insurance company on behalf of their employee. Note that the policy is still in the employee's name, and all claim information, verification, additional payments, etc. are managed by the employee.
- Option 2: The household employer can choose to provide dollars for premiums directly to their employee – making the employee responsible for paying the health insurance premiums using the tax-free dollars provided. With this method, the employer is required to keep a copy of the health insurance card on-file as proof that a current policy is in place.

Background (Cont.)

Maximizing Tax Breaks

Offering and administering health insurance correctly provides tax breaks to both the employer and the employee. The general rule of thumb is that the employee savings will be about **20%** of the amount of the health insurance contributions. For the family, the savings will be about **10%** of the amount of the health insurance contributions.

How the Tax Math Works

To illustrate the savings, here's a real-world example featuring two families with identical budgets:

The Moneywaster family knew that their nanny was interested in obtaining a health insurance policy when they hired her. However, they weren't sure how to best assist her with this request (since they are **employees** – not **employers** – at their place of work, they don't have experience dealing with these kinds of HR issues). With their busy schedules, they decided to just let their nanny obtain and pay for a policy on her own. The *Moneywaster* family offered their nanny \$2,500 per month in salary. The nanny purchased a health insurance policy with after-tax dollars at an expense of \$300 per month.

The Moneysaver family also knew that their nanny was interested in obtaining a health insurance policy when they hired her. After getting a tax tip from their placement agency, they called a broker to setup a health insurance policy for their nanny. Just like the *Moneywaster* family, they offered their nanny a total compensation package of \$2,500 per month. However, the monthly package included \$2,200 in taxable compensation and \$300 for health insurance premiums.

The Moneysaver family's employer taxes are about \$360 less per year than the other family. Additionally, their nanny's take-home pay (after taxes and health insurance premiums) is about \$720 more per year than the nanny who works for the Moneywasters.

As you can see, the tax breaks associated with health insurance create a powerful financial tool which can enable your candidates to get critical coverage without wrecking your clients' budgets. Additionally, offering this little-known tax tip is a simple way for your agency to add value to the placement process – since almost every nanny wants to be insured and almost every family wants to be a Moneysaver.

For more information about household employment tax and labor law, please visit us at www.breedlove-online.com or call us at 888-BREEDLOVE (273-3356). We're here to help our agency partners provide their candidates and clients with information, tools and resources that improve the employment relationship, eliminate legal risks for all parties, and generally increase the professionalism of the industry.



Tax & Payroll Services for Household Employers