

# Health Insurance

*This Important Medical Benefit Also Alleviates Tax Pain*

*A Complimentary Resource from*  
**Breedlove & Associates**

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## *The Tax Benefits of Health Insurance*

When a household employer contributes to an employee's health insurance, it is considered a non-taxable form of compensation – meaning neither the employer nor the employee have to pay taxes on this portion of the compensation. As a result, it is an excellent way to save you and your nanny significant tax dollars.

Below are detailed examples of the tax benefits for employees and employers:

### **EMPLOYEE TAX BENEFITS**

Example: The Smith family pays their nanny \$25,000. If they pay her in straight (taxable) wages and then she buys her own health insurance policy at \$250 per month (\$3,000 annually), her after-tax "disposable" income is \$17,350 per year. If the family pays her health insurance premiums, the nanny's after-tax "disposable" income increases to \$18,200. Here are the numbers:

Employer-Paid Health Insurance	Employee Pay <u>WITHOUT</u> Health Benefit	Employee Pay <u>WITH</u> Health Benefit
Taxable Income	\$25,000	\$22,000
Estimated Employee Taxes	\$4,650	\$3,800
After-Tax Income Before Benefits	\$20,350	\$18,200
Health Insurance Cost	\$3,000	\$0
After-Tax Disposable Income	\$17,350	\$18,200

*Notes: The Smiths can pay the premiums directly to the health insurance company or choose to give their nanny \$250/month and let her manage payment of the premiums. If they pay the nanny, they will need to keep a copy of her health insurance card on file.*

### **EMPLOYER TAX BENEFITS**

In this example, the Smith family saves \$400 by paying for their nanny's health insurance. Here are the numbers:

Employer-Paid Health Insurance	Employer Costs <u>WITHOUT</u> Health Benefit	Employer Costs <u>WITH</u> Health Benefit
Taxable Income	\$25,000	\$22,000
Estimated Employer Taxes	\$2,200	\$1,800
Health Insurance Cost	\$0	\$3,000
Tax Breaks — Dependent Care Account	<\$2,300>	<\$2,300>
Total Cost of Employment	\$24,900	\$24,500

Health insurance policies are managed at the state level. If you are interested in helping your employee find coverage, we recommend contacting a carrier in your area. If you have any questions — or would like us to help you capitalize on these savings by managing it through our payroll service — just let us know.

