

A Healthy Menu of Fringe Benefits

For employers, attracting and retaining quality employees is one of the keys to a healthy, thriving business. The choice of fringe benefits a company offers can be an important factor in increasing and maintaining employee satisfaction. As an added incentive, business owners may want to consider the following benefits that offer tax advantages to both employers and employees.

The Main Course

Cafeteria plans allow employees to choose the level of coverage desired from a menu of options offered by their employer. Some plans offer a "cash out" provision should the employee choose not to enroll in the benefit plans. Cash out plans are not standard. Often, an employer will require proof of other insurance before electing a cash out plan. The employer's contributions to cafeteria plans may be deductible business expenses.

Accident and health plan benefits and costs are considered tax qualified. The value of the healthcare-related costs is excludable from the employee's gross income. The premiums the employer pays, as long as they are reasonable, qualify as deductible expenses.

Group term life policies are standard in most businesses, with the policy's death benefits—as long as they are payable to the employee's beneficiary and not to the employee himself—excludable from the employee's gross income. Disability insurance payments, on the other hand, are considered part of the employee's taxable income. The employer-paid premiums on both types of policies are deductible expenses.

Retirement plans that meet stringent Internal Revenue Code (IRC) and Employee Retirement Income Security Act of 1974, as amended, (ERISA) requirements also provide desirable tax benefits for employees and employers. One popular type is the 401(k) defined contribution plan, in which the employee's annual contribution can be excludable from gross income, up to a stipulated percentage of the annual wage or salary paid. 401(k) plans can also allow nondeductible contributions to Roth accounts. An additional tax advantage to the employee, who is responsible for directing the investment in his or her account, is deferring taxes on any earnings until distributed. Likewise, the employer's contribution to the individual's account is a deductible business expense.

Similarly, contributions to defined benefit plans are tax deductible to employers and excluded from tax for employees. The amount of the distribution or benefit, often referred to as a pension, will be specified in the plan documents drawn up by the employer.

Consider Side Dishes

Medical savings accounts (MSAs) and dependent care generally qualify as deductible to both employee and employer. Because they will likely appeal to only specific categories of employees and businesses, these fringe benefits are likely to be offered on a discretionary basis. MSAs can be somewhat complicated regarding who—either employer or employee, but not both—gets the tax benefit. The value of dependent care as provided by the employer is excludable from the employee's gross income, and the cost of providing dependent care assistance is a deductible business expense.

Education is another fringe benefit whose appeal will depend on the particular employee group. Different types of qualified programs exist that allow employees to have payments for education expenses excluded from their gross income and allow the employer to deduct the payment as a business expense.

Stock Options for Dessert?

Employee Stock Ownership Plans (ESOPs) are stock bonus plans that can be an effective incentive to employees. The rules governing such plans depend on how the ESOP is financed. Generally, employer contributions to an ESOP and purchases of employer stocks made by an ESOP trust on behalf of an employee are excludable from the employee's gross income. Some portion of the employer's contribution may also be a deductible business expense.

In certain industries, many of these tax-advantaged benefits may be considered "core," rather than "fringe" benefits. Business owners should periodically evaluate whether their benefits packages match or exceed those of their competitors, and whether the chosen benefits appeal to the types of employees essential to their success. Offering a desirable "menu" of benefits can help attract and retain the very employees that will help keep your company competitive and successful.