



Mastering Health Insurance Benefits

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Today's Co- Presenter

- Lawrence Pon
 - Lawrence Pon is a Certified Public Accountant, Personal Financial Specialist, Certified Financial Planner, Enrolled Agent, United States Tax Court Practitioner, and Accredited Estate Planner in Redwood Shores, CA
 - Mr. Pon has been in practice since 1986 and speaks regularly to tax professionals on the latest tax planning and preparation topics nationally.
 - Mr. Pon teaches Income Tax at College of San Mateo
 - Mr. Pon received his BS in Business Administration from UC Berkeley and MS in Taxation from Golden Gate University in San Francisco

Today's Co- Presenter

- Michella Drummond



Michella Drummond
Sales Representative



**Mastering Health Benefits:
A Guide for Financial Advisors**

Mastering Health Insurance Benefits

- Self-Employed Health Insurance Deduction
 - New IRS Form 7206
- Health Reimbursement Arrangements
- 125 Cafeteria Plans
- Health Savings Accounts (HSAs)
- Wellness Benefits

Self-Employed Health Insurance

- IRC Sec. 162(l)
 - Self-employed individual or
 - A partner or
 - A more than 2% shareholder of an S-corporation
- Can deduct 100% of the amount paid during the tax year for medical insurance on
 - self,
 - spouse,
 - dependents,
 - And to any child of the taxpayer who has not attained age 27 as of the end of the year
- Includes Medicare premiums

Self-Employed Health Insurance DeductionAttach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form7206 for instructions and the latest information.

OMB No. 1545-0074

2024
Attachment
Sequence No. **206**

Name(s) shown on return

Your taxpayer identification number

Note: Use a separate Form 7206 for each trade or business under which an insurance plan is established.

- 1** Enter the total amount paid in 2024 for health insurance coverage established under your business (or the S corporation in which you were a more-than-2% shareholder) for 2024 for you, your spouse, and your dependents. But **don't** include the following. See instructions
- Amounts for any month you were eligible to participate in a health plan subsidized by your employer or your spouse's employer or the employer of either your dependent or your child who was under the age of 27 at the end of 2024.
 - Any amounts paid, not to exceed \$3,000, from retirement plan distributions that were **nontaxable** because you are a retired public safety officer. See instructions.
 - Any payments for qualified long-term care insurance (see line 2).
- 2** For coverage under a qualified long-term care insurance contract, enter for each person covered the **smaller** of (a) or (b).
- (a)** Total payments made for that person during the year.
- (b)** The amount shown below. Use the person's age at the end of the tax year.
- \$470— if that person is age 40 or younger
 - \$880— if age 41 to 50
 - \$1,760— if age 51 to 60
 - \$4,710— if age 61 to 70
 - \$5,880— if age 71 or older
- Note:** The amount of long-term care premiums that can be included as a medical expense is limited by the person's age. **Don't** include payments for any month you were eligible to participate in a long-term care insurance plan subsidized by your employer or your spouse's employer, or the employer of either your dependent or your child who was under the age of 27 at the end of 2024. If more than one person is covered, figure separately the amount to enter for each person. Then enter the total of those amounts
- 3** Add lines 1 and 2
- 4** Enter your net profit* and any other earned income** from the trade or business under which the insurance plan is established. Don't include Conservation Reserve Program payments exempt from self-employment tax. If the business is an S corporation, skip to line 11
- 5** Enter the total of all net profits* from Schedule C (Form 1040), line 31; Schedule F (Form 1040), line 34; or Schedule K-1 (Form 1065), box 14, code A, plus any other income allocable to the profitable businesses. Don't include Conservation Reserve Program payments exempt from self-employment tax. See the instructions for Schedule SE (Form 1040). **Don't** include any net losses shown on these schedules
- 6** Divide line 4 by line 5
- 7** Multiply Schedule 1 (Form 1040), line 15, deductible part of self-employment tax, by the percentage on line 6
- 8** Subtract line 7 from line 4
- 9** Enter the amount, if any, from Schedule 1 (Form 1040), line 16, self-employed SEP, SIMPLE, and qualified plans, attributable to the same trade or business in which the insurance plan is established
- 10** Subtract line 9 from line 8
- 11** Enter your Medicare wages (box 5 of Form W-2) from an S corporation in which you are a more-than-2% shareholder and in which the insurance plan is established
- 12** Enter any amount from Form 2555, line 45, attributable to the amount entered on line 4 or 11 above
- 13** Subtract line 12 from line 10 or 11, whichever applies
- 14** **Self-employed health insurance deduction.** Enter the **smaller** of line 3 or line 13 here and on Schedule 1 (Form 1040), line 17. **Don't** include this amount when figuring any medical expense deduction on Schedule A (Form 1040)

* If you used either optional method to figure your net earnings from self-employment from any business, don't enter your net profit from the business. Instead, enter the amount attributable to that business from Schedule SE (Form 1040), Part I, line 4b.

** **Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. However, it doesn't include capital gain income.

Self-Employed Health Insurance DeductionAttach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form7206 for instructions and the latest information.

OMB No. 1545-0074

2024Attachment
Sequence No. **206**

Name(s) shown on return

Your taxpayer identification number

Note: Use a separate Form 7206 for each trade or business under which an insurance plan is established.

- 1** Enter the total amount paid in 2024 for health insurance coverage established under your business (or the S corporation in which you were a more-than-2% shareholder) for 2024 for you, your spouse, and your dependents. But **don't** include the following. See instructions

- Amounts for any month you were eligible to participate in a health plan subsidized by your employer or your spouse's employer or the employer of either your dependent or your child who was under the age of 27 at the end of 2024.
- Any amounts paid, not to exceed \$3,000, from retirement plan distributions that were **nontaxable** because you are a retired public safety officer. See instructions.
- Any payments for qualified long-term care insurance (see line 2).

- 2** For coverage under a qualified long-term care insurance contract, enter for each person covered the **smaller** of (a) or (b).

(a) Total payments made for that person during the year.

(b) The amount shown below. Use the person's age at the end of the tax year.

\$470— if that person is age 40 or younger

\$880— if age 41 to 50

\$1,760— if age 51 to 60

\$4,710— if age 61 to 70

\$5,880— if age 71 or older

Note: The amount of long-term care premiums that can be included as a medical expense is limited by the person's age. **Don't** include payments for any month you were eligible to participate in a long-term care insurance plan subsidized by your employer or your spouse's employer, or the employer of either your dependent or your child who was under the age of 27 at the end of 2024. If more than one person is covered, figure separately the amount to enter for each person. Then enter the total of those amounts

- 3** Add lines 1 and 2

- 4** Enter your net profit* and any other earned income** from the trade or business under which the insurance plan is established. Don't include Conservation Reserve Program payments exempt from self-employment tax. If the business is an S corporation, skip to line 11

- 5** Enter the total of all net profits* from Schedule C (Form 1040), line 31; Schedule F (Form 1040), line 34; or Schedule K-1 (Form 1065), box 14, code A, plus any other income allocable to the profitable businesses. Don't include Conservation Reserve Program payments exempt from self-employment

	for each person. Then enter the total of those amounts	2	
3	Add lines 1 and 2	3	
4	Enter your net profit* and any other earned income** from the trade or business under which the insurance plan is established. Don't include Conservation Reserve Program payments exempt from self-employment tax. If the business is an S corporation, skip to line 11	4	
5	Enter the total of all net profits* from Schedule C (Form 1040), line 31; Schedule F (Form 1040), line 34; or Schedule K-1 (Form 1065), box 14, code A, plus any other income allocable to the profitable businesses. Don't include Conservation Reserve Program payments exempt from self-employment tax. See the Instructions for Schedule SE (Form 1040). Don't include any net losses shown on these schedules	5	
6	Divide line 4 by line 5	6	
7	Multiply Schedule 1 (Form 1040), line 15, deductible part of self-employment tax, by the percentage on line 6	7	
8	Subtract line 7 from line 4	8	
9	Enter the amount, if any, from Schedule 1 (Form 1040), line 16, self-employed SEP, SIMPLE, and qualified plans, attributable to the same trade or business in which the insurance plan is established	9	
10	Subtract line 9 from line 8	10	
11	Enter your Medicare wages (box 5 of Form W-2) from an S corporation in which you are a more-than-2% shareholder and in which the insurance plan is established	11	
12	Enter any amount from Form 2555, line 45, attributable to the amount entered on line 4 or 11 above	12	
13	Subtract line 12 from line 10 or 11, whichever applies	13	
14	Self-employed health insurance deduction. Enter the smaller of line 3 or line 13 here and on Schedule 1 (Form 1040), line 17. Don't include this amount when figuring any medical expense deduction on Schedule A (Form 1040)	14	

*If you used either optional method to figure your net earnings from self-employment from any business, don't enter your net profit from the business. Instead, enter the amount attributable to that business from Schedule SE (Form 1040), Part I, line 4b.

****Earned income** includes net earnings and gains from the sale, transfer, or licensing of property you created. However, it doesn't include capital gain income.

Self-Employed Health Insurance

- Deduction
 - Limited to the amount of the individual's earned income
 - IRC Sec. 401(c)
 - Net earnings from self-employment derived from the trade or business for which the plan providing the coverage is established
 - For > 2% shareholders of S corporations
 - Shareholder's wages from the S corporation are treated as earned income
 - §162(l)(5)(A)

Eligibility

- Self-employed – No deduction if
 - Eligible to participate in a subsidized health plan maintained by an employer of the
 - Taxpayer
 - Taxpayer's spouse
 - Any dependent,
 - Or any child of the taxpayer who has not attained age 27 as of the end of the tax year
 - Test for eligibility is made for each calendar month

Self-Employed Health Insurance

- The insurance plan must be established or considered to be established under business
 - Self-employed filing Schedule C or Schedule F
 - A policy can be either in the name of the business or
 - In the name of the individual
- Does not include out-of-pocket medical expenses

Self-Employed Health Insurance

- COBRA continuation coverage
 - IRS has not addressed the specific question of whether premiums paid for COBRA continuation coverage by terminated employees who are running their own business may qualify for the self-employed health insurance deduction
 - Requirement that health insurance plan be established under the taxpayer's trade or business
 - Appears COBRA does not qualify
 - COBRA Plan is in the name of the company that sponsors the health plan
 - Taxpayer's former employer
 - However, IRS has concluded Medicare premiums can qualify
 - Even though Medicare is not a plan established under the taxpayer's trade or business

Self-Employed Health Insurance

- No Treasury Regulations under IRC Sec. 162(l)(2)(A)
- No formal IRS guidance could define an employer-sponsored plan so broadly that a former employer's plan would also be included in the definition
- No guidance in IRS Publications or Form 7206 instructions
- No FAQs
- COBRA insurance qualifies?

Self-Employed

- Schedule C – sole proprietors
- Schedule F – farming
- Schedule E – page 2
 - Partnerships, LLCs, or S corporation
- Personal services of the self-employed must be a material income-producing factor in the underlying business

Eligibility

- More than 2% S-corporation shareholders
 - A policy can be either in the name of the S corporation or in the name of the shareholder
 - Premiums paid by shareholder or
 - S corporation can pay the premiums
 - Report the premium amounts on Form W-2 as wages to be included in gross income
 - If paid by shareholder
 - S corporation must reimburse shareholder and report the premium amounts in box 1 of Form W-2 as wages to be included in gross income
 - Otherwise, the insurance plan will not be considered to be established under the business

More than 2% S-corporation shareholders

- Health insurance premiums paid on behalf of >2% shareholders are reported as additional compensation to the shareholder-employee
 - Considered supplemental wages
 - Not reported in Box 12 of Form W-2 using Code DD
 - Premiums paid reported in Box 14
 - So shareholder can claim §162(l) deduction on personal return

More than 2% S-corporation shareholders

- Watch out for family attribution rules under §1372(b)
 - Spouse
 - Children
 - Grandchildren
 - Parents
 - Considered to own the shareholder's stock

Less Than 2% Shareholders

- Treated as employees
- Receive tax-free group health insurance coverage
 - Like any other employees
- The aggregate cost of employer sponsored health insurance coverage provided by the business will need to be reported on Box 12 of Form W-2 using Code DD

Eligibility

- C-Corporations
 - Health insurance deduction claimed on Form 1120, Line 24 – Employee Benefit Programs
 - No inclusion for Form W-2 for >2% shareholders
 - If paid by shareholder, corporation must reimburse to be considered established by the business

Eligibility

- Partners
 - A policy can be either in the name of the partnership or in the name of a partner
 - Premiums can be paid by the partner or
- Partnership
 - Report the premium amounts of Schedule K-1 (Form 1065) as guaranteed payments to be included in gross income.
 - If paid by partner
 - Partnership can reimburse partner and report as guaranteed payments to be included in gross income
 - Otherwise, the insurance plan will not be considered to be established under the business
 - See Rev Rul 91-26 for special reporting requirements when partnership pays the premiums

Medicare

- Medicare Part B coverage
 - Medicare medical insurance or Original Medicare
 - Mainly covers doctors and outpatient services
 - Pay monthly premiums for this benefit
 - Premiums depend upon income
 - 2 year look back
 - 2026 Part B Premiums will depend upon 2024 MAGI
 - $\text{MAGI} = \text{AGI} + \text{any tax-exempt interest income}$
- Payment
 - Withheld from Social Security Benefit payments
 - Reported on Form SSA-1099

Medicare

- Medicare Advantage (Medicare Part C) Premiums
 - Private insurance company contracts with Medicare to provide benefits
 - May also include prescription drug coverage
 - Dental and vision care coverage

Medicare

- Medicare Part D
 - Private prescription drug coverage
 - Surcharge based upon income

Tax-Advantaged Plans & Compliance Solutions

- **Consumer Driven Health Plans**

- Section 105 HRA
- QSE HRA
- Individual Coverage HRA
- Excepted Benefit HRA
- Integrated HRA
- Health Savings Account

- **125 Cafeteria Plan**

- Flexible Spending Account (FSA)
- Dependent Care Assistance Plan (DCAP)
- Limited Purpose FSA
- Premium Only Plan (POP)

- **Wellness**

- Lifestyle Spending Account (LSA)

- **Compliance**

- 5500 Solver
- ERISA Wrap
- Nondiscrimination Testing

- **HR**

- HR Online Library

HRA Facts

- **HRA** stands for **Health Reimbursement Arrangement** and is a nationally recognized tax savings program that allows for medical expenses to be reimbursed **TAX-FREE**.
- Health Reimbursement Arrangements are an employer sponsored benefit
- The employer “plan sponsor” designs the HRA and offers the benefit to their qualified employee(s)
- The employee incurs a qualified expense(s) according to the plan design
- The employee submits the expense to seek reimbursement
- The employee is reimbursed if the expense is qualified according to the employer’s plan design

Section 105 HRA

Section 105 HRA – 1 Employee Participant

- Allows small businesses to offer a benefit plan to their employees (which likely includes the owner or the owner's spouse) to reimburse medical expenses, including health insurance premium, tax-free
- \$.35-\$.50 on each health care dollar spent could be business tax deduction – savings could be put toward other expenses in the business
- Average annual savings is over \$6,200 each year



Health Reimbursement Arrangements

- Sole proprietor
 - Must be married
 - Must have a spouse who provides legitimate services to the business
 - Even part time
 - Must pay for all or some of the family medical expenses
- Partnerships
 - Same as above
 - May NOT be partners with their spouse

Health Reimbursement Arrangements

- C Corporations
 - Need NOT be married
 - May pay for all or some of the family medical expenses
- S Corporations
 - Same as above
 - Must be taking a W-2 salary from the business
 - Wages must be subject to social security tax

ICHRA

Individual Coverage HRA – Any Size Employer

- HRA plan option starting in 2020
- ALEs are able to satisfy the employer mandate
- Employers may offer traditional group health insurance and the ICHRA
 - *Just not to the same class of employees*
- 11 permissible classes of employees. Most common:
 - Salary -Full-Time
 - Hourly -Part-Time
- Employees must be enrolled in an individual ACA health insurance plan or Medicare
- Employee may choose to opt in or out of the ICHRA



EBHRA

Excepted Benefit HRA – Any Size Employer

- HRA plan option starting in 2020
- Employer offers traditional group health insurance plan to employees
- Employee does not have to be enrolled in the traditional group health insurance plan to participate, but must be offered
- Benefit maximum of up-to \$2,150 annually
- Reimbursable expenses include COBRA, Short Term Limited Duration Insurance, and Excepted Benefit Insurance and/or IRC Section 213(d) medical expenses



QSEHRA

Qualified Small Employer HRA – 1-49 EEs

- HRA plan starting in 2017
- Employer determines benefit amount and only pays when an expense is substantiated – no prefunding is required
- Employer cannot offer a group health plan to any employees
- Tax-free reimbursements for health insurance premiums & eligible out-of-pocket medical costs as determined by plan design
- Employer allows each employee to secure own insurance and can reimburse up-to \$6,350 single coverage or \$12,800 family coverage
- Employees must secure medical insurance that meets Minimum Essential Coverage



Flexible Spending Account

2025 Medical FSA maximum annual election: **\$3,300**

- Contribute and spend funds tax-free
- Pay for eligible out-of-pocket healthcare expenses

Use-or-lose

Don't forget to spend your FSA dollars. You will forfeit any money left in your account at the end of the plan year.



Dependent Care Assistance Plan

DCAP maximum annual election:

\$5,000 per household

\$2,500 per person (if married or filing separately)

Premium Only Plan

- Pre-Tax Variety of Employer-Sponsored Benefits (*ie. Dental, Vision, Supplemental*)
- For employer that sponsors a group underwritten plan and employees pay a portion of the premium
- Premium Only Plan SPD specifically identifies all employer sponsored insurance contracts that are able to be paid pretax from the employee's payroll

HSA

Health Savings Account

- Contribute, use and grow tax-free
- Investment opportunities once the minimum cash balance threshold has been met with more than 5,000 mutual funds and investment options
- 3 ways to contribute: pre-tax payroll contributions, post-tax contributions, employer contributions
- Funds rollover from year to year
- Can increase or decrease contributions quarterly. No qualifying life event needed



What Does It Cover?

There are thousands of eligible items, including:

- Copays, coinsurance, insurance premiums
- Doctor visits and surgeries
- Over-the-counter medications (*first-aid, allergy, asthma, cold/flu, heartburn, etc.*)
- Prescription drugs
- Birthing and Lamaze classes
- Dental and orthodontia
- Vision expenses, such as frames, contacts, prescription sunglasses, etc.



HSA Eligibility

In order to enroll in an HSA participants must be enrolled in a high-deductible health plan (HDHP)

Not eligible for an HSA if:

- Participant or spouse are contributing to a Medical FSA
- Participant is covered by another plan that conflicts with the HDHP, such as Medicare, a Medical FSA, or select HRAs
- Participant is claimed as a dependent on someone else's taxes



Benefits of HSA



Perks for Employees

- Funds are contributed tax-free
- Funds grow (with interest or through investment) tax-free
- Funds can be withdrawn tax-free when used on eligible expenses
- Funds carry over from year to year



Perks for Employers

- Contributions to employees' HSAs are tax deductible
- Employees' contributions reduce payroll taxes
- Save on healthcare costs, since HDHP coverage is more affordable

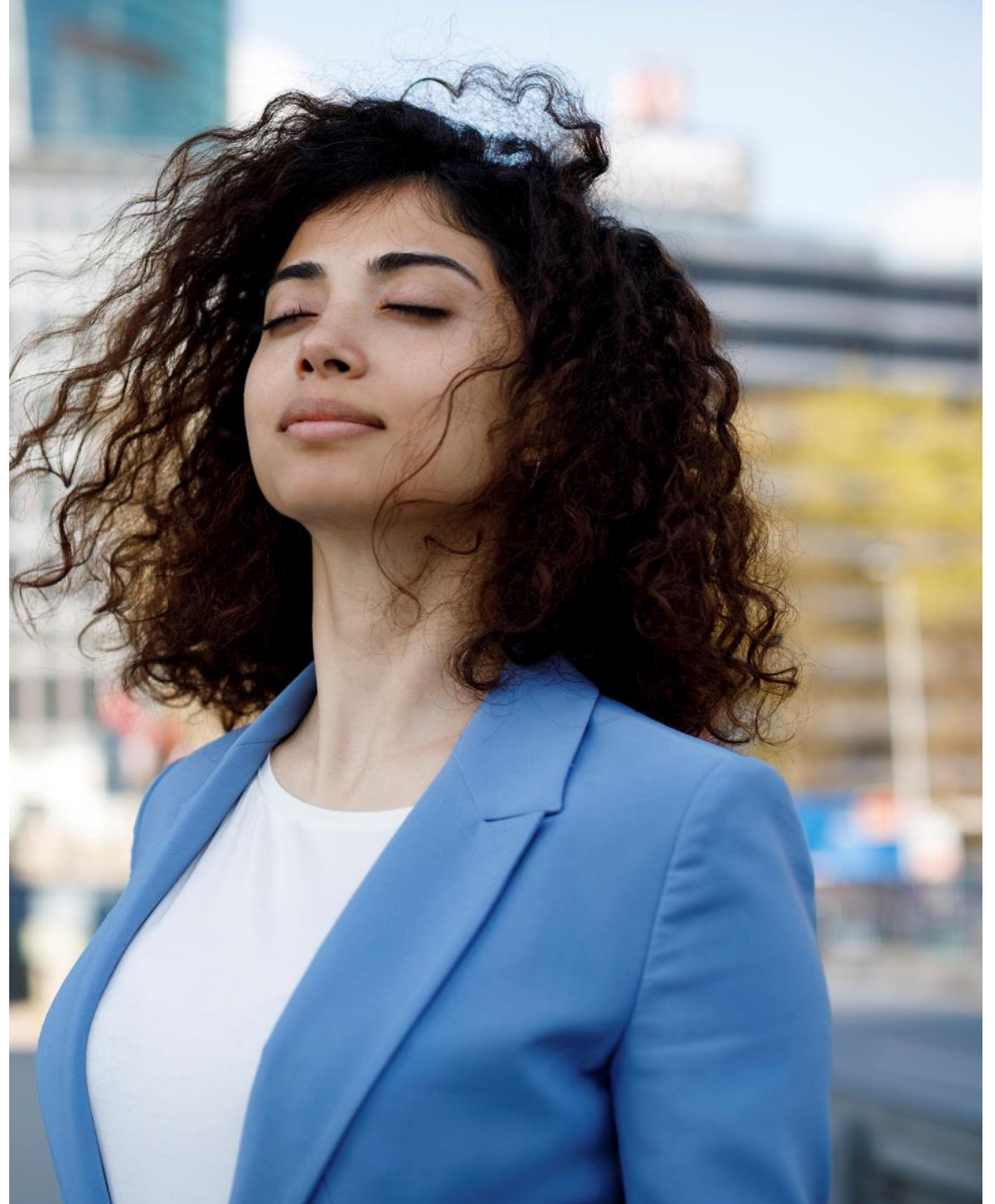
Advantage of Administrator vs Local Bank

Since HSA accounts can be opened at any bank just like any other account, some may feel it is better to use a local bank. However, there are significant advantages with using an administrator:

- **Protection from using funds on non-qualified expenses**
 - If employees use HSA funds for any reason other than to pay for a qualified medical expense, those funds will be taxed as ordinary income, and the IRS will impose a 20% penalty.
- **Some administrators offer debit cards operate with the IIAS (Inventory Information Approval System (IIAS) & MCC (Merchant Category Code)**
 - IIAS requires merchant's inventory and point-of-sale systems to have the ability to verify that the merchandise being purchased with a card is an eligible medical expense, as defined by the IRS.
- **Investments are available once a threshold balance is achieved**
 - Some administrators offer an opportunity to manage funds and invest for increased returns and growing balances

Lifestyle Spending Account

- **Wellness Benefit** gaining momentum
- Post-tax spending account utilized to promote physical, financial, and emotional well-being for employees.
- FSA & HSA have government imposed restrictions on spending. LSA allows employers to spend freely on physical, financial, and emotional wellness.
- Flexibility and simplicity to provide a health and wellness benefit on customized terms.
- Endless options for reimbursement and how much each employee gets per year.
- LSA's go above & beyond traditional benefits.





Benefits for Employers

- Employer only uses the cost of spent funds. Any \$ employees don't spend, they will hang onto.
- Allows them to offer an innovative benefit that helps more effectively attract and retain talent.
- Complete control & flexibility, as well as customizable.
- Incentivizes healthy behaviors that increase employee productivity and reduces insurance costs.



Benefits for Employees

- Gives them the freedom to choose and find expenses that meet their lifestyle and interests.
- Promotes a healthy lifestyle (emotionally, physically, and financially).

Three Categories of Expenses

An LSA for everyone

Some common eligible expenses are:



>> Physical wellness

- Athletic equipment/ accessories
- Exercise equipment
- Gym, health club, and spa memberships
- Fitness classes



>> Financial wellness

- Student loan reimbursement
- Home purchase expense reimbursement
- Financial adviser/ planning services



>> Emotional wellness

- Meditation classes
- Counseling services
- Leadership retreats

Importance of Administrator

- Plan Administration & Documentation
- Comprehensive Administrative & Compliance Expertise
- Increased Savings & Maximized Plan Participation
- Expense Adjudication & Claims Processing
- Service & Support



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Q&A

Thank You!



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