

FLEXIBLE BENEFITS PROGRAM

This great tax savings benefit began when the United States Congress passed legislation that permitted taxpayers to pay for certain medical and childcare costs on pre-tax basis. It quickly became known as a Flexible Benefits Program. The IRS listed it in their tax code in Section 125, a name that is also used to describe the plan.

This tax benefit is also called a Cafeteria Plan because it allows each employee to select which benefits will be deducted from his or her pay, on a pre-tax basis. The law allowed employees to deduct the cost of childcare or certain health related costs. This includes health insurance premiums and out-of-pocket costs for doctors, dentists, hospitals, laboratory tests, prescription drugs, and vision care.

A flexible benefits program gives employees the opportunity to assemble a package of benefits, which fit specific needs. By setting aside a predetermined amount of money from each paycheck, the employee avoids paying tax on the money for these expenses. When the actual expenses are due, the invoices are turned in to the company, and the employer pays the bill from the money the employee elected to set aside. This benefit makes budgeting easy and can substantially increase the amount of an employee's spendable income.

The tax savings for most employees can be quite substantial. Employers find that the program offers added benefits for the company: a reduced tax liability and a positive impact on the company's bottom line. The exhibits on the following page provide examples of the savings employees and their employers can realize.

DEPENDENT CARE

- A cafeteria plan may also cover reimbursement of certain dependent care expenses for eligible children and/or other dependents. These expenses must be incurred to allow an employee and spouse to work unless the spouse is a full-time student or incapable of self-care.
- Dependent care expenses are covered if the dependent is age 12 or under or physically or mentally incapable of self-care. An incapacitated dependent that is age 13 or older must regularly spend at least eight hours a day in the employee's household to qualify.
- Eligible childcare can be provided inside or outside the home. However, a person who is claimed, by the employee, as a dependent, cannot provide the services. If the services are provided by a day care facility with more than six children, it must comply with applicable state and/or local requirements and laws.
- The amount of reimbursement for dependent care expenses cannot be more than: \$5,000 per calendar year; the employee's annual income; or the employee's spouse's annual income, whichever is lower. For a spouse who is disabled or a full-time student, the government assigns a maximum of \$4,800 (for two or more children) or \$2,400 (for one child) as the annual income base. Also reimbursed dependent care expenses cannot be applied toward the federal income tax credit for dependent care.
- Employees are at risk because of the "use it or lose it" rule and should consider the amount of the elections carefully.

UN-REIMBURSED MEDICAL EXPENSES

This section of the tax code allows employees to set aside pre-tax funds to be used to cover certain medical expenses not reimbursed from any other source (e.g., insurance programs) or claimed as deductions on their income tax. The following is a sample of the types of medical expenses that may be covered by a Medical Reimbursement Account:

Ambulance hire	Insurance co-payment and deductibles
Artificial limbs and breasts (only if reconstructive)	Medically prescribed therapy treatments
Braille books and magazines	Needles, syringes, and other diabetic related supplies
Contact lens solution	Nursing care
Crutches	Oxygen equipment
Drugs (legal, prescription, insulin or some OTC)	Rental of medical or healing equipment
Elastic hose, medically prescribed	Seeing-eye-dog and hearing-assisting cat
Eyeglasses/contact lenses	Support or corrective devices
Hearing devices	Telephone for deaf

Fees for:

*Acupuncture	*Osteopath
*Chiropractor	*Physiotherapist
*Examination	*Psychoanalyst
*Laboratory	*Psychologist
*Ophthalmologist	*Psychiatrist
*Obstetrician	*Chiropodist
*Physician	*Dentist
*Gynecologist	*Oral Surgery
*Sanitarium	*Orthodontics
*Therapy	*Hospital
*Anesthetist	*Pediatrician
*Clinic	*Podiatrist
*X-Ray	*Surgeon
*Nurse	*Surgery
*Optometrist	

USE IT OR LOSE IT

The amount of money you save in taxes depends in part on your dependent care and un-reimbursed medical elections. Care must be taken when making estimates. After expenses are estimated and elections are made, money will be held on account to pay these costs. Under the "Use it or lose it" rule, any funds that are set aside pre-tax must be used to pay for qualified, elected benefits, or they will be forfeited to the employer.