

# HEALTH REIMBURSEMENT ARRANGEMENTS

## The New QSEHRA

**Note:** *We at Servant Solutions care about the challenges that churches and pastors face in the ever-changing landscape of healthcare and its tax implications for pastors and their families. This article is the first of many, so stay tuned. As more detailed information becomes available, we will be sure to pass it along. In the meantime, please do not hesitate to call us at 800-844-8983 to discuss your unique situation as a church and/or pastor.*

### Good News for Pastors and Church Staffs: The Return of Tax-Free Healthcare Reimbursements

The ever-changing landscape of options for church staff healthcare insurance and premium reimbursement is changing again...this time for the better. Finally! Small employers (for purposes of this article, churches under 50 employees) have never been required to provide health insurance coverage to their employees. Nonetheless, many churches wish to provide pre-tax funds that employees may use to pay premiums on their own individual health insurance or pay for uncovered expenses. When this option was taken away several years ago under the Affordable Care Act, it caused many church employees to have an increased tax burden without any additional benefits. This was unfair to all churches and their employees.

Until recently, churches faced a \$100 penalty per day per employee if they provided reimbursements of this type. No more. Now churches have a new weapon, the qualified small employer HRA (QSEHRA).

On Dec. 13, 2016, President Obama signed the 21st Century Cures Act, which exempts small employer health reimbursement arrangements (HRAs) from the group health plan requirements. Under the new law, churches can offer a QSEHRA to its employees. In order to be a qualified church HRA, the following requirements must be satisfied:

1. Church must not be an applicable large employer (i.e., employ fewer than 50 FTEs).
2. Church must not offer a group health plan to *any* of its employees.
3. The HRA is provided on the same terms to all eligible employees.
4. The HRA must be funded solely by the church, and no salary reduction contributions may be made.
5. The HRA provides, after the employee provides proof of coverage – for the payment, or reimbursement – of an eligible employee for expenses for medical care incurred by the eligible employee or the eligible employee's family members.
6. The amount of payments and reimbursements for any year must not exceed \$4,950 for an employee (\$10,000 if the HRA provides for payments for family members of the employee). These amounts will be adjusted annually for inflation.

The HRA must be offered to all eligible employees. This includes all employees except those employees that:

- Have not completed 90 days of service.
- Have not attained age 25.
- Are part-time or seasonal employees.
- Are covered by a collective bargaining agreement.
- Are certain nonresident aliens.

The new law is effective for tax years beginning after Dec. 31, 2016.

## REPORTING REQUIREMENTS FOR QUALIFIED SMALL EMPLOYER HRAS

If an employer participates in a qualified small employer HRA, then the employer must provide written notice to each eligible employee no later than 90 days before the beginning of the plan year. The notice must include:

- The employee's reimbursement amount for the year.
- A statement that the eligible employee should provide the information regarding the amount of permitted benefit to any health insurance exchange to which the employee applies for an advance payment of the premium assistance credit.
- A statement that if the employee is not covered under minimum essential coverage for any month, the employee may be subject to tax under section 5000A for such month and reimbursements under HRA may be includable in gross income.

The penalty for failing to provide the proper written notice is \$50 per employee, per incident, with a maximum penalty of \$2,500 per calendar year. Transitional relief is available if notice is provided within 90 days after the date of this law's enactment.

At Servant Solutions, we are not tax experts, but thought this information would be helpful and encouraging. It is worth the effort for your church to set up a QSEHRA, as it could save a typical church employee \$100's, if not \$1,000's of dollars in tax savings. See your tax advisor for advice on setting up an QSEHRA through your church...and start saving taxes on your medical expenses again.

## LET'S GET PRACTICAL

For more practical application of the new QSEHRA, please refer to this [link](#) that describes more detail in the areas of benefits, how it works, winding down a group plan to start a QSEHRA, and hiring a Third-Party Administrator (TPA) to administer your program versus the church doing it themselves.

### *Disclaimer*

The information contained in this Toolbox series is of a general nature. It is not offered as specific legal or tax "advice." Each person and local church board should evaluate their own unique situation in consultation with their local legal and tax advisors.

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