

New ACA / IRS Notice May Require Changes to Payroll Process

By Rollie Dimos



In January's [newsletter](#), we discussed the Affordable Care Act (ACA) and its implications for the local church. As we all know, the implementation of the Affordable Care Act has had a difficult rollout and the legislation has had a few amendments since it was first passed in 2010. Since it was signed into law, delays in certain provisions, court challenges and legal clarifications have continued to shape the legislation.

One clarification issued by the IRS last September changed a long-standing, non-taxable fringe benefit that many churches took advantage of. This change directly impacts how these churches compensate their staff members for health insurance—and requires changes to their payroll process right now.

Many churches do not have enough staff to offer group health insurance. Others may not have the resources to offer health benefits for their staff members. In these cases, if staff members want insurance, they have to find an individual health plan tailored for their individual and family needs.

Some churches have offered to help offset the costs of these individual plans by reimbursing the employee for these costs or paying the employee's premium directly to the insurance company.

Consider these two examples:

- **Example 1:** Church A doesn't qualify for group health insurance, so its staff members must purchase individual health plans. The church offers to pay the premiums for the employees, so the employees submit the invoices for the monthly premiums to the church treasurer who pays the invoices by writing a church check directly to the respective insurance company.
- **Example 2:** Church B doesn't offer group health insurance for its staff. The church doesn't have a lot of resources but offers to reimburse 50% of the staff's health insurance premiums. Each month, after the employee has paid the health insurance premium, he provides a copy of the paid invoice to the church treasurer who then reimburses the employee for 50% of the health insurance premium.

In 2013 and prior, these costs were considered a non-taxable fringe benefit and were excluded from the employee's taxable income, according to Revenue Ruling 61-146 and Section 106 of the Internal Revenue Code.

Even though the ACA legislation was complex, many experts thought that employers who couldn't

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qualify for group insurance would still be able to fund the purchase of new individual health plans for their employees on a tax-favored basis, in accordance with Revenue Ruling 61-146 and Section 106 of the tax code.

New Guidance

However, in September 2013, the IRS provided guidance on the ACA legislation that made it clear this wouldn't be possible. Further, this guidance clarified that the examples presented earlier would be prohibited.

IRS Notice 2013-54 (which can be found [here](#)), deals specifically with "employer payment plans." An employer payment plan is any arrangement under which an employer reimburses an employee for all or part of the premium for an individual health policy. Employer payment plans include direct employer payments to the insurance carrier and reimbursement of substantiated employee premium payments.

According to the Notice, employer payment plans cannot be used to pay or reimburse individual insurance policies on a pre-tax basis. This means any reimbursement or payment of individual insurance policies must be on an after-tax basis.

Conclusion

Therefore, like the two examples mentioned earlier, churches may still pay for all or part of their employees' individual insurance policies, but these payments will need to be accumulated and added to the employees' taxable wages by year end.

IRS Notice 2013-54 took effect on January 1, 2014. Unfortunately, this means many of our churches need to take action now to correctly capture and record any individual health insurance reimbursements as taxable income.

Additional Help

To complicate matters, IRS Notice 2013-54 contains an exemption if the church only has one employee. Due to the complexity of this legislation, if you need additional information about this notice and how it affects your specific situation, you should contact a local tax professional for more help.

If you have any questions about the implications of the new health care laws, or would like to discuss other options for health insurance, feel free to contact Jan Meese, our benefits specialist at the AG National Leadership and Resource Center, at jmeese@ag.org, or by phone at 417-862-2781.

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About the Author:

Rollie Dimos, CIA, CISA, CFE, is the Internal Audit director at the Assemblies of God National Leadership and Resource Center. As an auditor in the government and nonprofit sectors, Rollie has been helping leaders assess the strength of their organizational controls for over 20 years. If you have a question about this article, you can contact Rollie at 417-862-2781, or by email at rdimos@ag.org.