WageWorks POP Insights Spring 2018
Your Source for Information on IRS Section 125 Premium Only Plans

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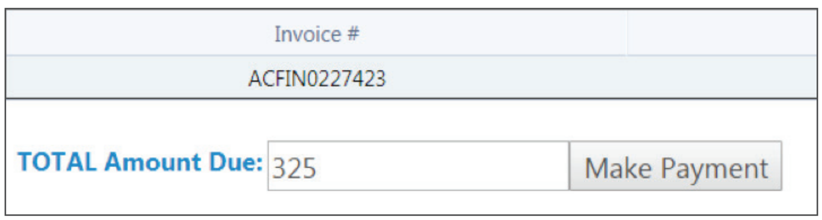

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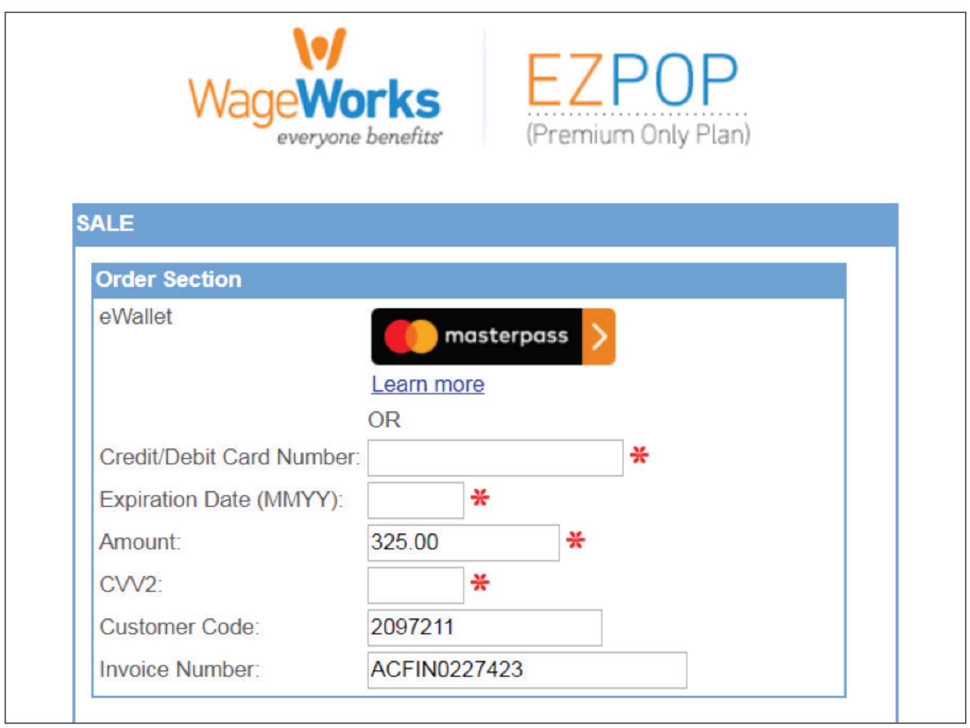

Tax Cuts and Jobs Act

On Wednesday, December 20, 2017, the Tax Cuts and Jobs Act (H.R.1) (the Bill), which overhauls America's tax code to deliver historic tax relief for workers, families, and job creators, was passed by both the House and Senate. The Bill was signed into law by President Donald Trump the morning of December 22, 2017. This legislation provides the most sweeping changes to the U.S. Tax Code since 1986.

Although the Bill contains numerous changes, this alert will delve into just the changes that affect consumer directed benefit accounts.

1. Transit and parking (commuter) programs: Only the employer's deductibility of costs for these plans has changed. Industry-standard, pre-tax benefits for transit and parking programs for employees are still both available and tax-free. The only change is that employers can no longer deduct costs for subsidized or paid commuter benefits. The impact to the employer is the cost multiplied by the new lower corporate tax rate minus FICA savings.
   Here's the impact:
   In 2017, I get paid $5,000 and salary reduced $500 (between transit and parking). Employers get a wage deduction for $4,500 plus a deduction for qualified transportation of $500. They additionally save FICA taxes on the salary reduction amount. The amounts are tax free to the employee.
   As of January 1, 2018, I get paid $5,000 and salary reduced $500 (between transit and parking). Employers get a wage deduction for $4,500 but they lose the deduction for qualified transportation of $500. The impact to employers, however, is likely de minimis as they are now paying the new lower corporate tax rate. They still save FICA taxes on the salary reduction amount. The amounts are tax free to the employee.
2. The qualified bicycle reimbursement program was a tax-free reimbursement of bicycle expenses which was suspended by the Bill through 2025. Therefore, employers continuing to offer bicycle reimbursement programs must begin on January 1, 2018 and until further notice to reimburse employees for bicycle expenses on a taxable basis. That means employees will now have employer reimbursement of bicycle benefits added to their taxable income. The employer will be liable for the matching FICA on these reimbursements and can write off the wage expenses as with any other taxable compensation. Regardless if bike expenses were incurred during 2017, and the employer had a bike reimbursement program during 2017, expenses submitted on or after 1/1/2018 must be paid with taxed dollars.
3. Health Savings Accounts (HSAs): The Bill makes no changes to the tax treatment of Health Savings Accounts.
4. Healthcare flexible spending accounts (FSAs): The Bill makes no changes to the tax treatment of Healthcare FSAs. They continue to be tax-free.
5. Dependent care and adoption assistance programs: The Bill makes no changes to the tax treatment of Dependent Care FSAs or Adoption Assistance Accounts or programs. It also keeps in place the adoption tax credit.
6. Educational assistance programs: The Bill makes no changes to the tax treatment of employer-provided educational assistance programs.
7. Employer provided healthcare: The Bill makes no changes to the tax treatment of employer-provided healthcare benefits. They continue to be tax-free.
8. Corporate tax rate: Lowers the corporate tax rate to 21% beginning January 1, 2018.
9. Chain CPI: The Bill changes the Consumer Price Index (CPI) used for many benefit and tax inflationary adjustments, such as transit and parking monthly limits, Health FSA and Health Savings Account amounts, among others. The new index is referred to as Chain CPI (C-CPI-U) and like the CPI-U, is a measure of the average change over time in prices paid by urban consumers. It is developed and published by the Department of Labor, but differs from the CPI-U in accounting for the ability of individuals to alter their consumption patterns in response to relative price changes. The C-CPI-U accomplishes this by allowing for consumer substitution between item categories in the market basket of consumer goods and services that make up the index, while the CPI-U only allows for modest substitution within item categories.

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