



Section 125-Premium Only Plan (POP)

Under Section 125 of the IRS Code, an employer may sponsor a plan for its employees which will allow them to pay for group health premiums on a pre-tax basis. **A Premium Only Plan (POP) saves the employer on their payroll taxes and affords the employee increased take-home pay.** Implementing a Premium Only Plan is fairly easy.

Under federal tax law, a Section 125 Plan is a *written plan* that may be established by any of the following:

- C Corporations
- Partnerships
- S Corporations
- Limited Liability Corporations
- Sole Proprietorships
- Professional Corporations
- Non- Profit Organizations

IRS regulations state that self-employed individuals are not employees. Therefore, self-employed individuals may establish but may not participate in a Section 125 Plan, although spouses or other family members who are employees may participate in some cases.

ConnectPay will provide personalized plan documents and all of the necessary materials to communicate the plan to employees. Our plan includes the required non-discrimination testing procedures to ensure compliance with federal regulations.

The Premium Only Plan offers a simple way to obtain favorable tax treatment for benefits already offered. The plan requires little maintenance for an employer once it is set up with **ConnectPay**. As a feature of your Premium Only Plan, **ConnectPay** provides timely updates and modifications to ensure your continued compliance with changing IRS regulations.

See next page for TAX SAVINGS EXAMPLES WITH POP



TAX SAVINGS EXAMPLES WITH POP

Example of Employer Savings

Sample Company has 10 Employees

	<u>Without POP</u>	<u>With POP</u>
Annual payroll.....	\$ 300,000	\$ 300,000
Annual pre-tax payroll deductions*	\$ -	\$ (24,000)
Taxable payroll	\$ 300,000	\$ 276,000
Annual Social Security tax**	\$ 22,950	\$ 21,114
Total Annual <u>Employer</u> Social Security Tax Savings		\$ 1,836

* Based on insurance premiums averaging \$200 per month per employee.

**Based on a FICA tax rate of 7.65%.

Example of Employee Savings

Jane Doe: Single, No Exemptions

	<u>Without POP</u>	<u>With POP</u>
Annual Salary	\$ 30,000	\$ 30,000
Annual pre-tax contributions*	\$ -	\$ (2,400)
Taxable income	\$ 30,000	\$ 27,600
Estimated taxes (31.65%)**	\$ (9,495)	\$ (8,735)
Annual after-tax contributions.....	\$ (2,400)	\$ -
Net take-home pay	\$ 18,105	\$ 18,865
Increase in take home pay		\$ 760
Total Annual Savings for 10 employees		\$ 7600

* Based on a monthly premium of \$200

**Based on an average 20% Federal, 7.65% FICA and 4% State.

Note: Social Security benefits could be affected.

Total Employer & Employee Annual Savings **\$ 9,436**

(Based on a Business with 10 Employees as Illustrated Above)

CALCULATE YOUR SAVINGS

Employer Estimated Tax Savings

YOUR total annual payroll deductions for all employees \$ _____

Social Security tax (based on tax rate of 7.65%) X .0765

YOUR total annual employer savings \$ _____

Employee Estimate Tax Savings

YOUR total annual employee premium contributions \$ _____

Estimated taxes (based on 20% Federal, 7.65% FICA & 4% State*) X .3165

YOUR total annual employee premium contributions \$ _____

*Varies By State