

How to Reduce the Taxes You Pay

There's a well kept secret that could help you reduce the taxes you pay and bring home more money. Very few employees take advantage of the Tax Savings Flexible Spending Plan (FSA), an outstanding benefit provided by the KCATA.

So what is the Tax Savings Flexible Spending Account (FSA) and what can it do for you? The FSA enables current eligible employees to pay for certain out-of-pocket expenses with pre-tax dollars. Section 125 of the internal Revenue Code permits participating employees to reduce their salary by payroll deductions made in the following categories:

1. Reimbursable child/dependent care costs up to \$5,000 annually;
2. Medical and/or life insurance premiums paid by the employee up to \$5,500 annually; and
3. Unreimbursed medical expenses.

This means the money you spend paying for day care, health insurance, life insurance, and/or any out-of-pocket medical expenses could be subtracted from your pay before you pay taxes on it. The end result: you take home a larger pay check. What a deal!

It's time to start thinking about reducing the taxes you'll pay next year. The October Open Enrollment is approaching fast. Plan now to save your self some money with the FSA. It's a great way to take home more in your paycheck.

SECTION 125 PLAN

What is a Section 125 Plan?

Section 125 allows employees to select certain benefits, paid on an after-tax basis and through payroll deductions, the ability to obtain these benefits, without having to pay the income and payroll taxes first. Thus obtaining these benefits on a pre-tax basis. Both employee and the employer, **Save Taxes!** Section 125 Plans, are also known as "Cafeteria Plans" or "Flexible Spending Accounts," can be structured to include a variety of benefits. The most common include:

- **Premium Conversion Plans** - Family health insurance benefits enable employees to pay their share of health insurance premium with pre-tax dollars.
- **Medical Flexible Spending Accounts** – Employees can use salary reduction to reimburse certain medical expenses on a pre-tax basis through individual accounts.
- **Dependent Care Flexible Spending Accounts** – Employees can use salary reduction to reimburse dependent day care expenses on a pre-tax basis through individual accounts.
- **Term Life (up to \$50,000) and Disability Insurance Premiums** – Policies covering the employee only may also be offered as pre-tax benefits. An employer cannot be the beneficiary of a term life insurance policy offered as a cafeteria plan benefit.

What Expenses Qualify For Reimbursement:

The most common types of expenses that qualify for tax-free reimbursement are healthcare, dependent care, and transportation and parking.
Plan restrictions may apply. Check with your plan administrator.

Click [here](#) for healthcare expenses.

Click [here](#) for dependent care expenses.

Click [here](#) for Health Reimbursement Arrangement (HRA) expenses.

Click [here](#) for transportation and parking expenses.

Healthcare expenses that **do** qualify for reimbursement.

Only expenses not reimbursed by insurance can be claimed.

- Acupuncture (excluding remedies and treatments prescribed by acupuncturist)
- Alcoholism treatment
- Ambulance
- Artificial limbs/teeth
- Chiropractors
- Christian Science practitioner's fees
- Contact lenses and solutions
- Co-payments
- Costs for physical or mental illness confinement
- Crutches
- Deductibles
- Dental fees
- Dentures
- Diagnostic fees
- Dietary supplements with doctor's letter of medical necessity
- Drug and medical supplies (i.e. syringes, needles, etc.)
- Eyeglasses prescribed by your doctor
- Eye examination fees

- Eye surgery (cataracts, LASIK, etc.)
- Hearing devices and batteries
- Hospital bills
- Insulin
- Laboratory fees
- Laser eye surgery
- Obstetrical expenses
- Oral surgery
- Orthodontic fees
- Orthopedic devices
- Over-the-counter drugs that are medically necessary like allergy medications, aspirin, or antacids. [Click here for a more complete list.](#)
- Oxygen
- Physician fees
- Prescribed medicines
- Psychiatric care
- Psychologist's fees
- Routine physicals and other non-diagnostic services or treatments
- Smoking-cessation programs
- Smoking-cessation over-the-counter drugs
- Surgical fees
- Vitamins with doctor's letter of medical necessity
- Weight-loss programs with doctor's letter of medical necessity
- Weight-loss over-the-counter drugs with doctor's letter of medical necessity
- Wheelchair
- X-rays

Healthcare reimbursement limitation

The amount of Healthcare reimbursement may not exceed the maximum allowed under the plan. Please review your Summary Plan Description or see your Plan Administrator for more information.

Healthcare expenses that do not qualify for reimbursement.

- Cosmetic surgery and procedures
- Dental bleaching
- Marriage and family counseling
- Over-the-counter items, drugs, or medications that are not medically necessary or are not prescribed by your physician. [Click here for a more complete list.](#)
- Weight loss programs for general health or appearance
- Premiums you or your spouse pay for insurance coverage (Payroll-deducted premiums sponsored by your employer are eligible under the Premium Only Plan)

Dependent Care expenses that **do** qualify for reimbursement.

Expenses necessary for you and your spouse (if married) to be gainfully employed. For more information click [here](#) to see [IRS Publication #503](#).

- Nanny expenses, for services provided inside your home, are eligible to the extent they are attributable to dependent care expenses and expenses of incidental household services.
- Dependent care expenses incurred for services outside your home, providing they are incurred for the care of a qualifying dependent that regularly spends at least 8 hours per day in your home.
- Registration fees to a daycare facility are eligible as long as the fees are allocable to actual care and not described as materials or other fees.
- Nursery school expenses are eligible, even if the school also furnishes lunch and educational services.
- Food and incidental expenses (diapers, activities, etc.) may be eligible if part of dependent care charge.

- Expenses paid to a relative (e.g. child, parent, or grandparent of participant) are eligible. However, the relative cannot be under age 19 or a tax dependent of the participant.
- FICA and FUTA payroll taxes of the daycare provider are eligible.
- Dependent care expenses incurred to enable the employee to find work are eligible.
- The reimbursement may not exceed the smaller of the following limits:
 - The maximum allowed under the plan.
 - \$5,000 (if you are filing a joint tax return) and \$2,500 if separate returns are filed.
 - Your taxable compensation (after all compensation reduction elections).
 - If you are married, your spouse's actual or deemed earned income.

Dependent Care reimbursement limitations

Dependent Care reimbursement may not exceed the smaller of the following limits:

- The maximum allowed under the plan.
- \$5,000 (if you are married and filing a joint tax return or are filing as single, head of household) and \$2,500 if you are married and separate returns are filed.
- Your taxable compensation (after all compensation reduction elections).
- If you are married, your spouse's actual or deemed earned income.

Dependent Care expenses that **do not** qualify for reimbursement.

(For additional information click [here](#) to view *IRS Publication 503*.)

- Kindergarten fees are almost always an education expense and should never be reimbursed under a dependent care plan.
- Elementary school expenses for a child in first grade or higher are not eligible.
- Food, transportation, and incidental expenses (diapers, activities, etc.) are not eligible if charged separately from dependent care expenses.
- Expenses paid to a housekeeper, maid, cook, etc. are not eligible, except where incidental to child or dependent adult care.
- Mass transit and parking.

Adoption Assistance Program expenses that **do** qualify for reimbursement.

(For additional information click [here](#) to view *IRS Publication 968*.)

- Credit available for expenses up to \$10,390 for each eligible child.
- Credit available for expenses associated with a legal foreign adoption is limited to \$10,390 for each eligible child even if the child is "child with special needs."
- Reasonable and necessary legal adoption fees.
- Court costs.
- Attorney fees.
- Other expenses which are directly related to, and the principal purpose of which is for the legal adoption of an eligible child.
- **Qualifying Child:**
 - Individual who has not attained the age of 18 as of the time of the adoption.
 - Physically or mentally incapable of caring for himself.
- **A Child With Special Needs:**
 - Any child who cannot or should not be returned to the home of his or her parents and a specific factor or condition makes it reasonable to conclude that the child cannot be placed with adoptive parents unless assistance is provided as determined by a state.
 - The child must be a citizen or resident of the United States.
- **Income Limitations:**
 - The credit is phased out ratably for participants with a household modified adjusted gross income over \$155,860 and no credit is allowed to participants with a household modified adjusted gross income of \$195,860 or more.

Adoption expenses that **do not** qualify for reimbursement.

(For additional information click [here](#) to view *IRS Publication 968*.)

- Adoption of a child belonging to the participant's spouse.
- Illegal adoption fees.
- Surrogate parenting arrangements.
- Legal adoption expenses for which another deduction or credit is allowed.

Health Flexible Spending Account (FSA) and Dependent Care Flexible Spending Account (FSA)

Health Flexible Spending Accounts and Dependent Care Assistance Pla FSAs allow employees to use pre-tax dollars to pay [dependent care expenses](#) and medical bills not covered by their insurance. Each FSA is covered by a separate Plan Document. Either of these plans can be offered in conjunction with a POP. The FSA is a budgeting tool that can help take care of out-of-pocket expenses such as day care, dental and optical care deductibles, co-pays, and prescription drugs. Like a POP, an FSA helps pay for itself by increasing employee take-home pay while decreasing employer payroll taxes.

Here's how it works:

An employee decides how much of their salary should be set aside before taxes are calculated.

This amount is automatically deducted from their paycheck every pay period, just like any other payroll deduction, and is deposited into their FSA account.

The employees would pay their out-of-pocket expenses up-front, then submit a claim and documentation and a reimbursement is made from their own Health FSA or Dependent Care Assistance Plan account.

Health FSA Out-of-pocket expenses include:

Eyeglasses and contact lenses
Medical insurance deductibles
Prescriptions
Co-payments
Orthodontia
Chiropractic services
Dental treatments
X-ray and laboratory services

Dependent Care Assistance Plan expenses include:

Care for a child under the age of 13
Care for a disabled spouse or dependent incapable of caring for him/herself
Household-related services (i.e., visiting nurse)