

May 18, 2009

The Honorable R. Edward Houck
Chairman
Joint Commission on Health Care
900 E. Main Street, 1st Floor
Richmond, VA 23218

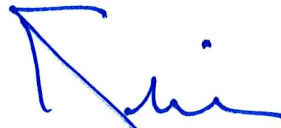
Dear Senator Houck:

I am writing to thank you for your March 23 letter requesting that the Virginia Chamber inform its membership of Section 125 Plans and its associated benefits through our newsletter and our web.

Please find enclosed a piece that ran in our May e-newsletter and is now posted on our web.

Thank you for the opportunity to share this important information.

Sincerely,



Keith D. Cheatham
Vice President – Government Affairs

cc: Kim Snead
Stephen W. Bowman

Section 125 Plans Increase Company's Bottom Line

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Title 26, Section 125 of the Federal Tax Code is sometimes referred to as a “Cafeteria” or “Section 125” Plan. It is a tax plan that helps employers increase their bottom line while also increasing employees take home pay. It often results in a win-win situation for both employers and employees.

Very simply, this plan allows a company to deduct qualified expenses such as health insurance premiums, medical expenses, and health related supplies from employee paychecks on a pre-tax basis. It can even be used to provide favorable tax treatment for 401k contributions and dependant daycare.

The advantage to the employee is that benefits are deducted from their pay before state, federal, social security and Medicare taxes are levied. Their take home pay increases because they have reduced their taxable income. They have paid for their benefits with pre-tax dollars which saves the employee approximately 25 percent from the cost of the benefit (depending on their tax bracket). This tax advantaged plan also benefits the employer as the employee's taxable income is reduced.

Below is a brief example of how these plans can benefit both the employer and employee.

Annual Employer Savings:

After-tax		Pre-Tax	
\$500,000	Annual payroll	\$500,000	Annual payroll
<u>-0</u>	Employee Contribution (pre-tax)	<u>- 30,000</u>	Employee Contribution (pre tax)
\$500,000	Taxable Payroll	\$470,000	Taxable Payroll
<u>x 7.65</u>	FICA	<u>x 7.65</u>	FICA
\$38,250	Employer Tax	\$35,955	Employer Tax

\$2,295 Annual Employer Tax Savings With A Plan!!

Monthly Employee Savings:

After-tax		Pre-Tax	
\$3,000.00	gross monthly income	\$3,000.00	gross monthly income
<u>-\$750.00</u>	taxes (25%)	<u>-\$250.00</u>	insurance costs (deducted pre-tax)
\$2,250.00	adjusted gross monthly income	\$2,750.00	adjusted gross monthly income
<u>-\$250.00</u>	insurance costs (deducted after tax)	<u>-\$687.50</u>	taxes (25%)
\$2,000.00	monthly take-home pay	\$2,062.50	monthly take-home pay

\$750 Annual Employee Savings With A Plan!!!!

Using this simple example, both the employer and employee save money. In many cases, the cost to administer the plan is less than the annual employer tax savings, making this a win for everyone.

With the cost of health care on the rise, and the cost of health insurance for a small business increasing significantly, implementing a cafeteria plan should be an integral part of any company's business plan – regardless of its size.

Create an opportunity for your employees to increase their take home pay. Feel free to give me a call or discuss this with your tax advisor.

(Editor's note: With fewer than 15 full time employees, the Virginia Chamber saves money by offering a Section 125 Plan to its employees.)

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