

# HRA Case Study



## J.S., Kansas

"The website is fast and easy. We have contacted 105 Concepts many times, and each time they have been very responsive and helpful."

## J.P., Iowa

"105 Concepts has created a unique system that should be used by every agent in the group health market."



## Tax Savings Explained—"Bob and Carol" Case Study

*"Sole Proprietor Business Owner uses Plan"*

### The following case study illustrates:

- How a "typical" prospect can benefit from a Section 105 Plan.
- Participation requirements which allow this business owner to realize these savings.

### Situation:

Bob owns a small business. Bob's wife Carol provides a valuable service to the business as a bookkeeper.

### Current Legislation allows:

- Bob and Carol a 100% deduction of their health insurance premiums.
- Itemization on their schedule A.

### After applying the 7.5% of Adjusted Gross Income (AGI) rule:

- The rest of their expenses were non-deductible, as not enough remained to add to other itemized. Expenses to exceed the standard deduction.

### Section 105 Plan allows:

- Bob and Carol received a 100% deduction of their health insurance premiums on Schedule C.
- 100% Deduction of non-insured medical benefits on Schedule C.

### Classifying Carol as an employee:

- Since Carol has done the bookwork for the business for many years, this is relatively simple.
- Bob formalizes the working relationship by providing a written employment agreement. This agreement outlines both her responsibilities and wages.
- Bob, as Carol's employer, keeps track of Carol's hours worked.
- Keeps track of the duties Carol performed.
- Keeps other necessary employment information.

The Plan also allows Bob to incorporate an employee benefit plan into Carol's total compensation package. The framework, documentation, compliance and administration provided, make offering an employee benefit plan to Carol simple to do and easy to implement.

### Carol's total benefit package includes:

- A cash wage
- Reimbursement of family medical insurance premiums.
- Reimbursement of qualified long-term care premiums.
- Reimbursement of out-of-pocket medical expenses.
- Reimbursement of premiums for \$50,000 term life insurance.\*

By offering these benefits to Carol as a business expense, Bob transfers the cost of these benefits to their Schedule C as Employee Benefits.

When establishing a compensation package for Carol, Bob took into consideration her experience, and the vital role she played in the business. Bob agrees to compensate Carol \$12,000 per year. He will pay compensation in the following way.

1. Health Insurance Premium \$6,000 (Fully deductible to the business and non-taxable to Carol.)
2. Medical Expenses Reimbursement \$3,000 ( Fully deductible to the business and non-taxable to Carol)
3. W-2 Wages \$3,000

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Bob Jennings



"I recommend this product to all tax and accounting professionals in the United States."



## The Result:

\$9,000 of Carol's compensation has made what was a normally non-deductible expense now fully deductible.

**The Bottom Line: \$3150 in real tax saving benefits!**

## During the enrollment process:

- Bob and Carol elected the parameters of their Plan.
- Their tax advisor assisted them in obtaining a Federal Tax ID number and their new payroll tax forms.

## Each year, Bob and Carol will:

- Send their deductible expenses for review-assuring the expenses they are claiming are legitimate, deductible expenses.
- Upon re-enrollment, they have the opportunity for annual re-election of benefits.
- If a change is made, a new Summary Plan Description is provided detailing new Plan elections.
- -Prepare and file all annual and quarterly payroll tax reports for the compensation paid through W-2 wages.

## In Summary:

- By enrolling in the Plan, Bob and Carol have just created over \$3,000.00 of spendable income.
- Very few changes were made to their current business practices.
- The Plan is very easy for Bob and Carol to understand and use.

\*Premiums on up to \$50,000 coverage for spouse only.

*Note: This is an illustration only. This illustration is based upon a 15% Federal Tax, a 15.3% Self-employment tax, and assumes a State Tax of 5%. Actual tax savings may vary depending on specific facts and circumstances.*

## SERVICES AVAILABLE

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