Tracy Cook

From: "Renee McGrath" <reneemcgrath@northvalleylibrary.org>
To: "Tracy Cook" <tcook@mtlib.org>
Cc: "Cooper, Bob" <bocooper@mt.gov>
Sent: Tuesday, November 20, 2007 11:27 AM
Subject: Re: Health Savings Account Information

Tracy and Bob,

I spoke with three accountants about this last week, one of whom posted the question to an accounting listserv as well. Here is the summary of her opinion:

Hi Renee,

These are my thoughts this morning (and probably the end of the time I can spend on this or ask other people to spend on this):

1) The health stipends as they are currently being done is probably okay. I actually got conflicting opinions (sometimes strong ones and from a variety of bookkeepers and CPAs) on whether they should be taxable or nontaxable income. My distilled opinion to keep this as squeaky clean as possible would be for the employees to submit the insurance premium bills plus a copy of their cancelled check for each and every month.

2) IMPORTANT: This arrangement needs to be in writing, either as a separate board policy, or at least in the board minutes. And it needs to have written parameters as to who is eligible (average number of hours regularly worked, etc.) The goal is to clearly make it non-discriminatory.

3) I would run these stipends through payroll. As reimbursements, they will be added to the net pay, i.e. they will still be non-taxable. There would be no additional payroll processing charges for this.

4) The extra $50: Are you talking about setting up an HSA for her, or is this something she is doing on her own? If the former, consult an insurance agent. I have been presuming the latter. Therefore, as a contribution to an HSA, it is not a reimbursement, so it is definitely taxable income. I would add it to the paycheck as taxable income. She will have to pay Social Security/Medicare on it, plus Federal and State withholding. As I understand HSAs, the latter in essence will be "refunded" when it is deducted from gross pay on her income tax return.

A Health Reimbursement Agreement is still a possibility, but 1) I do not know if as a government agency you can do one, and 2) I do not know how that would interact with an HSA. It seems to be a very complicated issue. I still believe that the most important thing (other than #2 above ☺) is to weigh the cost/benefit of your time and the Library's expense for pursuing this further.