



**November 2024**

## 2024 Last-Minute Year-End Medical Plan Strategies

All small-business owners with one to 49 employees should have a medical plan for their business.

As you likely know, when you have 49 or fewer employees, the tax law does not require you to have a medical plan for employees, but you should.

Most of the tax rules that apply to medical plans are straightforward when you have fewer than 50 employees.

And then, when you have your spouse as your only employee in a proprietorship, there's that great rule that enables the 105-HRA family medical plan that's exempt from the Affordable Care Act.

Take a few minutes to review the six medical plan strategies in this article. You could find some big money sitting on the table waiting for you.

### ***Big Picture***

Here are the six opportunities we will explain in this article:

1. Amend your 2021 tax return to claim for yourself and your employees up to \$32,220 in federal tax credits per person for the emergency sick leave payments and emergency family leave payments you made back in 2021.
2. Reimburse your 2024 Section 105 health reimbursement arrangement (HRA) medical expenses now.
3. Reimburse your qualified small employer health reimbursement arrangement (QSEHRA).
4. Reimburse your individual coverage health reimbursement arrangement (ICHRA).
5. Ensure that you take your S corporation health insurance deduction correctly.
6. Claim the tax credit for the health insurance you give your employees.

## 1. Claim the Coronavirus Sick and Family Leave Tax Credits

Tax credits are the best. They give you a dollar-for-dollar tax benefit.

You likely have some tax credit money on the table waiting for you to recognize and take it. It comes from the sick and family leave tax credits.

And we are talking about some real money here. For example, if you are self-employed with no employees, your tax credits (money in your pocket) can add up to \$32,220 in sick and family leave refundable tax credits for 2021. If you operate as a corporation, your corporation also qualifies for the sick and family leave credits, and the numbers could be big.

True, you already filed your 2021 tax return. No problem. If you have the credits, amend that return. You have time, but it's getting shorter. For example, depending on your business entity, March 15, 2025, could be the last day to amend your 2021 return.

For insights into the credits, see [Claim Up to \\$32,220 in Missed 2021 Self-Employed COVID-19 Sick and Family Leave Credits Today](#).

**Key point.** The rules in the linked article above apply to you if you are self-employed or operate as an employee of your corporation. In addition, those rules apply to your employees.

## 2. Reimburse Section 105 Expenses Now

If you are the sole-owner operator of your business, you need to consider the Section 105 medical reimbursement plan that we describe in [Updated Blueprint for Employee-Spouse 105-HRA \(Health Reimbursement Arrangement\)](#).

The Section 105 plan described in the article linked above works for

- the Schedule C taxpayer with no employees other than his or her spouse, and
- the C corporation where the taxpayer is (or the taxpayer and his or her spouse are) the only employee(s).

If you have a Section 105 medical reimbursement plan, make sure the reimbursements take place before midnight on December 31 so they qualify as business deductions this year.

### **3. Reimburse QSEHRAs before December 31**

As you know from being a subscriber (member), if the Section 105 plan described above will not work for you and you have fewer than 50 employees, the QSEHRA is a good option.<sup>1</sup>

The 2024 inflation-adjusted QSEHRA limits on reimbursements for individually purchased health insurance and out-of-pocket medical expenses are \$6,150 for self-only coverage and \$12,450 for family coverage.<sup>2</sup>

If you don't have your 2024 plan in place and you want a January 1 start date, the IRS can assess a penalty of \$50 per employee for your failure to give written notice to employees at least 90 days prior to the start of the QSEHRA.<sup>3</sup>

(If you want to give your employees the QSEHRA benefit on January 1 and you face the \$50-per-employee penalty, bite the bullet and do it. First, \$50 is not much. Second, the IRS has to audit, find the problem, and then assess the penalty—your odds of non-detection are good.)

The QSEHRA is a winning fringe-benefit compensation strategy for the small-business owner:

- You deduct the medical reimbursements to the employees as a business expense and don't owe payroll taxes on the reimbursements.
- Your employees pay neither income taxes nor payroll taxes on the reimbursements.

Review [Get Your QSEHRA Health Plan in Place Now](#) for more information on how the QSEHRA works.

### **4. Reimburse ICHRAs before December 31**

As you likely remember, a presidential executive order created a new health plan effective for 2020 and later that's available for employers of all sizes: the ICHRA.

An ICHRA allows you to reimburse employees for both individually purchased health insurance premiums and other medical expenses, and it requires employees to be covered by individual health plans (from the Marketplace or elsewhere) rather than through group coverage.

To brush up on the ICHRA rules, see [ICHRA: Game Changer for Small Business Health Benefits](#).

### **5. Comply with S Corporation Rules for Health Insurance Deductions**

If you are the owner of an S corporation, make sure you comply with these two requirements before December 31:<sup>4</sup>

1. The S corporation has either paid for your health insurance or reimbursed you for the cost of the insurance.
2. The S corporation includes the cost of your health insurance on your W2.

You still have time to get your S corporation health insurance on both the corporate books and your W-2, but don't put this off—time is running out.

If you, the owner-employee of your S corporation, don't run your health insurance premiums through your S corporation, you get no above-the-line deduction on your Form 1040. Instead, you deduct the insurance as an itemized deduction subject to the 7.5-percent-of-adjusted-gross-income floor, which can mean either a limited or no deduction for your health insurance.

For more on the W-2 treatment and additional issues, see [2023 Health Insurance for S Corporation Owners: An Update](#). The rules in this 2023 article apply without change in 2024.

## **6. Claim the Health Insurance Tax Credit**

Do you now provide health insurance as a fringe benefit to your employees? If so, you may be eligible for the tax credits we first described in [How You, the Small-Business Owner, Can Cash In with Tax Credits for Health Insurance on Employees](#).

For updates to the original article, go to the IRS web page [Small Business Health Care Tax Credit: Questions and Answers](#).

If you are an Affordable Care Act–defined small employer and you are about to cover your employees with group health insurance, you can claim a tax credit of 50 percent in tax years 2024 and 2025 (limited to two consecutive tax years).

To qualify for the credit with your group health insurance plan, you must cover at least 50 percent of the cost of single (employee-only) health care coverage for each of your employees.<sup>5</sup>

You earn full credit when you have 10 or fewer full-time-equivalent employees and those employees have average annual full-time-equivalent wages of less than \$25,000. If you have more employees and/or the earnings are higher, then the tax law phases out part or all of the credit.

You may not claim the credit on health coverage you give to yourself, your spouse, or other specified relatives.<sup>6</sup>

This is only the big picture, of course, but here are some planning thoughts:

- If you earned the credit in 2021, 2022, or 2023 but failed to claim it, file an amended return now.
- If you plan on providing health insurance for your employees and you have not yet done so, you need to hurry so you can earn that 50 percent credit this year. On the other hand, you might want to start in 2025 so you have a full year of payments eligible for the credit.
- The 50 percent tax credit is huge—that's a great incentive. But group health insurance is expensive, and you get the subsidies for two years only. After that, you're on your own, and your cost of group health insurance likely will continue to increase.

## ***Takeaways***

Here are six insights from this article:

1. Make sure to file amended returns for your 2021 sick and family leave payments to claim up to \$32,220 in federal tax credits for yourself. You can also claim an equal amount for your employees. It's likely that you made payments that qualify for at least some of the credits.
2. If you have a Section 105 plan in place and you have not been reimbursing expenses monthly, do a reimbursement now to get your 2024 deductions, and then put yourself on a monthly reimbursement schedule in 2025.
3. If you want to implement a QSEHRA for 2025 but have not yet done so, make sure to get that done properly now. You are late, so you could suffer that \$50-per-employee penalty should your lateness be found out.
4. But if you are thinking of the QSEHRA and want to help your employees with more money and flexibility, be sure to consider the ICHRA. It's got more advantages.
5. If you operate your business as an S corporation and you want an above-the-line tax deduction for the cost of your health insurance, you need the S corporation to (a) pay for or reimburse you for the health insurance, and (b) put the cost of the health insurance on your W-2. Make sure that the reimbursement happens before December 31 and that you have the reimbursement set up to show on the W-2.
6. Claim the tax credit for the group health insurance you give your employees. If you provide your employees with group health insurance, see whether your pay structure and number of employees put you in a position to claim a 50 percent tax credit for some or all of the monies you paid for

group health insurance in 2024 and possibly in prior years.

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- 1 [IRC Section 9831\(d\).](#)
- 2 [Rev. Proc. 2023-34.](#)
- 3 [IRC Section 9831\(d\)\(4\).](#)
- 4 [Notice 2008-1.](#)
- 5 [Instructions for Form 8941, Credit for Small Employer Health Insurance Premiums \(2023\), dated Nov. 8, 2023, p. 3.](#)
- 6 [Ibid., p. 6.](#)

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