

Employers Who Pay For Recovery Act's COBRA Subsidy Can Be Repaid In Payroll Tax Credit

MARCH 2, 2009

BE IN A POSITION OF STRENGTH

The health benefit provisions of the Consolidated Omnibus Budget Reconciliation Act of '85 (COBRA) provide certain former employees, retirees, spouses, former spouses and dependent children the right to temporary continuation of health coverage at group rates. COBRA generally covers health plans maintained by private-sector employers with 20 or more full and part-time employees. It also covers employee organizations or federal, state or local governments. It does not apply to churches and certain religious organizations.

The 2009 Recovery Act provides a 65% premium subsidy for 9 months to employees involuntarily terminated between Sept. 1, 2008 through Dec. 31, 2009. If an eligible employee pays 35% of the premium, the group health plan must treat that individual as having paid the full premium required for COBRA continuation coverage. The Recovery Act also provides a mechanism for reimbursing the person to which premiums are payable-e.g., an employer-for the difference between the full premium and the amount paid by the employee. While employers must treat the 35% payment by eligible former employees as full payment, they are entitled to a credit for the other 65% of the COBRA cost on their quarterly employment tax return. Employers use the updated Form 941, Employer's Quarterly Federal Tax Return, to report their COBRA premium assistance payments.

Certain individual high income taxpayers will face recapture of the assistance when they file their income tax return.

If you have any questions, please contact the WS+B tax department.

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**BE AWARE OF THE
PROCESS FOR EMPLOYERS
TO CLAIM CREDIT FOR
COBRA PREMIUM
ASSISTANCE PAYMENTS.**

Questions or comments?

E-mail us at taxbriefs@withum.com



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