Tax Decision 2004: Wise Choices Today About Your Employer Benefits Plan Can Pay Big Savings At Tax Time

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KANSAS CITY, Mo.--(BUSINESS WIRE)--Nov. 9, 2004--With the benefits election and enrollment period underway at many U.S. companies, tax professionals at H&R Block (NYSE: HRB) are reminding employees that wise benefit decisions today can mean lower taxes next year -- and more cash in your pocket now and in the future.

"Taking advantage of your employer's benefit elections can reduce your taxable income and may qualify you for bigger credits and deductions," says Kathy Burlison, director of tax implementation with H&R Block. "Time and again, we've seen taxpayers reap significant benefits by making informed decisions during this important period."

Open enrollment, which typically takes place at most companies for several weeks in October, November or December, provides employees with the opportunity to adjust their employment-sponsored health, tax-exempt savings and retirement plans.

Healthy Choices

In the healthcare area, employees should remember that many companies offer multiple health plans with varying levels of premium costs and deductibles. Determining which plan makes the most sense depends on the employee's age, health and income level.

For those who choose a high-deductible, lower-premium plan, the new Health Savings Accounts (HSA) offer a tax-free option of accumulating cash to use against the deductible. Any amounts that are not used can accumulate in the account to use in future years. Furthermore, the contributions are deductible and can be made up to April 15 of the next year.

"Think of a Health Savings Account as an Individual Retirement Account (IRA) for medical expenses," says Burlison. "Creating an HSA can provide a ready source of cash in the event of future medical emergencies. And because you can carry those contributions forward, you don't necessarily need to use the money in the year during which you contributed it."

Saving for a Sunny Day

On the retirement front, a key way for employees to boost savings with every paycheck is to think about how much they can afford to save toward their retirement. For example, if you can afford $100 per month and you're in the 20 percent tax bracket, it will only cost $80 to put $100 in your employer's 401(k) plan. Bottom line: You can actually afford to sock away $120 per month at a cost of less than $100.

It's also important to try to maximize savings so that you're benefiting from the full amount of your employer's matching contribution. Employees should familiarize themselves with their company's savings criteria in order to reach the maximum employer-matching amount as quickly as possible.

Checking Out the Cafeteria Menus

Careful and appropriate use of Flexible Spending Accounts or Cafeteria/125 Plans for eligible healthcare-related and out-of-pocket costs or childcare expenses can benefit you by allowing you to set aside a certain amount of dollars before your wages are taxed. This means the money you put in that account is not subject to income, Social Security, or Medicare taxes. You do forfeit any amount left in the account at the end of the year.

Eligible medical expenses include medical, dental and vision plan deductibles, co-payments and co-insurance that you pay. IRS regulations issued last year also define as eligible expenses certain over-the-counter (OTC) drugs and medications, including aspirin, cough medicine and common cold remedies. Even the miles you drive to get to the doctor or dentist are eligible at 14 cents per mile.

Working parents know how quickly childcare expenses can add up and you may want to take advantage of the pre-tax Flexible Spending Account for childcare offered by your employer.

This type of account allows you to designate a specific amount for childcare expenses, up to $5,000 per year, that's deducted from your paycheck. Childcare expenses are usually predictable so you can come pretty close in estimating the amount to put aside. If you underestimate, you can claim the childcare credit for those expenses.

Typically, a pre-tax payment plan is going to be more advantageous than a credit, but you may want to contact your tax professional or use H&R Block's Daycare Expenses calculator at hrblock.com. The H&R Block Web site is loaded with easy-to-use information to help you make wise decisions about your financial future.

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