

GAINESVILLE ISD "OPTION 125" CAFETERIA PLAN

WHAT IS IT?

- I. An "OPTION 125" Cafeteria Plan is authorized under Section 125 of the IRC.
 - A. It allows employees to reduce from their taxable income certain expenses.
 1. There are Three Major Expense Categories:
 - ◆ Payroll Deducted Premiums (health & term)
 - ◆ Child / Dependent Care
 - ◆ Out-of-Pocket Medical/Dental-Related
 2. The Non-Payroll deducted expenses must be accounted for by vouchers or withdrawal request forms and copies of verifying receipts.
 - ◆ This is the same requirement the IRS has for any tax deductible expense.
 - ◆ Receipts must be by category: 1) Child Care Receipts only for child care and 2) Medical/Dental-Related Bills only for out-of-pocket, etc.
 - ◆ Vouchers or Withdrawal Request Forms along with attached receipts can be submitted at anytime during the Plan Year.

WHO CAN BE IN IT?

- II. The benefits are available to all full-time employees
 - ◆ It is a voluntary plan, but
 - ◆ Anyone who has expenses in the three categories should consider participating.
 - ◆ Since, by law, it must be offered to all eligible employees, all employees must sign an affidavit form indicating their decision to participate or not participate.

WHAT IS THE BENEFIT?

- III. It is the best employee benefit plan available and can only be offered to those employees that work for an employer that establishes a plan for their employees.
 - ◆ The participating employee does not have to pay federal taxes on the eligible expenses he/she includes in the plan.
 - ◆ This can result in significant monthly savings to the participant. (Their monthly paycheck will be larger)
 - ◆ Example: (see attached example)