

The HRA Newsletter

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IRS AUDIT ALERT

Over the past year, we have noticed an increase in IRS audits of HRAs, Special Pay Plans, and combination HRA/Special Pay Plans. The primary focus of the audits is two-fold:

- Constructive Receipt - The IRS is verifying that participants do not have individual choice between the HRA, Special Pay and/or cash. This should serve as a reminder that allowing choice can potentially subject all payments to taxation. It is very important to document how classifications are selected and ensure that all within a class are treated uniformly. In an effort to assist and regularly remind our clients of this, our data request forms are designed to reinforce that the rules are followed.
- Union and other Contracts - The IRS is verifying that contract language as well as supporting documents such as employee handbooks are consistent with the actual, usually Board approved, practice of depositing contributions into the HRA and/or Special Pay plan. It is very important that there is not even the appearance that there could be a cash option when funds are intended to be deposited into the plan.
- Nondiscriminatory Plan Design – Nondiscrimination rules apply to HRA plans. National Insurance Services (NIS) and MidAmerica strive to help you design a plan that meets the applicable nondiscrimination rules. If you have any concerns regarding the application of the nondiscrimination rules, please give NIS or MidAmerica a call to discuss.

Steps You Should Take If Contacted by the IRS

During the initial stages of any IRS inquiry, you will be sent a questionnaire regarding the plans you offer. The responses provided on this questionnaire are used to determine whether or not you are a candidate for an audit. Should you receive a questionnaire, please reach out to your representative with National Insurance Services or Trent Teesdale with MidAmerica (1-800-430-7999 ext. 120; trent.teesdale@midamerica.biz).

If you have been notified of a plan audit by the IRS, please allow NIS and MidAmerica to assist you with the audit. Again, either contact your NIS rep or Trent Teesdale with MidAmerica.

NEED TO SUBMIT CONTRIBUTION DATA? USE OUR SECURE UPLOAD SITE!

Just type <https://www.midamerica.biz/content/employers/uploadform.aspx> into your web browser, populate the required fields, attach your data file and click submit!

MidAmerica plans to periodically send newsletters to our clients. If you would like to add to or change email recipients, please contact deborah.godbe@midamerica.biz.



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