

TAX TIPS

MEDICAL INSURANCE REBATES

There's a wrinkle in the Affordable Care Act that's offering unexpected benefits: you may have gotten a rebate check on your medical insurance premiums. The law requires the insurance companies to pay out a certain portion of premiums for medical claims and limits how much goes to administration and profits.

The rebates may be paid in cash or applied to current premiums. There are tax ramifications.

If you had an individual policy and claimed the standard deduction on your 2011 return, the rebate is not taxable. If you itemized your deductions or, if self-employed, deducted the premiums from gross income, then the rebate is taxable to the extent that the deduction benefitted you. Ditto if you paid into a company plan with after-tax dollars. But if you used pre-tax dollars (through a salary reduction plan, say), the rebate is additional compensation and subject to payroll taxes for 2012.

Sound complicated? Let us help you through the regulations. Call on the experts at
