

Questions and Answers from the State Department of Revenue on Act 2008-559

Questions / Answers

- **If the business does not currently provide healthcare for part time employees, would they now be required to offer it to get the discount?** No.
- **Does the 25 employee headcount include part time employees?** No. The count should be for full time employees.
- **Are the spouse and children of a sole proprietor counted in the number of employees for qualification purposes for the employer?** No.
- **Does the number of employees allowed to qualify the employer (less than 25) include both qualifying and non-qualifying employees?** Yes, the requirement for "less than 25 employees" covers all full time employees (other than a spouse and children of a sole proprietor).
- **Does the tax deduction apply for employers and their employees who choose to participate in the Individual Blue plans or only for group health plan participants?** The law allows the deduction for amounts paid by qualifying employers and by qualifying employees when health insurance premiums are paid as part of an employer provided health insurance plan. If the Individual Blue plans meet these qualifications, then the deduction is allowable.
- **Does this premium deduction include dental and vision plans, along with healthcare?** The new law mentions healthcare premiums, but does not mention any other type of plans. If the vision and dental plans are part of (included in) the premiums, this should qualify.
- **Does the deduction require a specific deductible for the employer/employee?** No.
- **If you have Health Savings Account (HSA's), would the premiums still be deductible?** Yes. Alabama does not allow a deduction for HSA's.
- **At what point is the 25 employee limit taken?** The determining date should be the last day of the tax year. The employer must have **less than 25** employees to qualify under the law. **Is it the beginning of the year, end of the year or are they disqualified if they go over 25 employees at any time during the year?** End of the year (last day of tax year), regardless of the number of employees during the year.
- **Will the deduction be claimed by the qualifying employee as a medical expense on the Schedule A, subject to exceeding 4% of adjusted gross income?** No. The additional 50% deduction will be claimed as a deduction under Part II, of the Alabama Form 40, "Adjustments to Income."
- **Can the qualifying employee claim the 50% deduction as an adjustment to income even if the employee claims the Standard Deduction on the employee's tax return?** Yes, on the Form 40.
- **How will the employee know that they are employed by a "qualifying employer?"** The employer will have to inform the employee of the qualification.

- **What are the support or documentation requirements for substantiating the AGI limits for a single and married employee?** The employer will have wage information about the wage requirement for the employee (can earn no more than \$50,000 in wages), but the employee will have to inform the employer that the employee meets the AGI limits (reports no more than \$75,000 (\$150,000 if married filing jointly) for the applicable year). There are no documents of verification required of the employee to submit to the employer. The employer must rely on the employee's word for verification. **Will the employer be subject to a penalty if provided incorrect information from the employee?** No. If the employer has accepted the word of the employee as given truthfully and in good faith, the employer will not be penalized.
- **Will premiums paid include premiums being paid with pre-tax dollars?** Yes. While the first 100% of premiums paid by an employee under a cafeteria plan would not be deductible as a medical expense on the Schedule A for itemized deductions, the additional 50% deduction will be allowed as an adjustment to income on the Form 40.