

Hidden stimulus traps—how federal COBRA subsidies can choke company cash flow

Our March 2009 member update, [The General Ledger](#) newsletter, explains what every bookkeeper needs to know about the new stimulus law—and the hidden traps your company/client faces that no one is talking about. Here's one trap.

The new law includes a 65% federally funded COBRA continuation subsidy that lasts up to 9 months for workers (and their families) involuntarily terminated from Sept. 1, 2008-Dec. 31, 2009. The subsidy terminates when the former employee is offered employer-sponsored health care coverage by a new employer; or becomes eligible for Medicare; or has COBRA coverage that has expired.

Notify within 60 days of Feb. 17 former employees involuntarily separated between Sept. 1, 2008-Feb. 17, 2009. Notify those who elected COBRA that they are entitled to a lower premium starting in the first coverage period after Feb. 17. Notify those who rejected COBRA that they have 60 days to elect COBRA and receive the subsidy. You can let former employees choose a less expensive plan. No subsidy is available to former employees whose income is over \$125,000 a year or a family income over \$250,000 a year, but employers are not required to monitor for the income phaseout.

The impact on small businesses: Because the new law allows employers to collect from qualified COBRA participants only 35% of the premium cost (instead of the current 102%), employers must recover the federally funded 65% by reducing their federal employment tax deposit. Result: Monthly and quarterly depositors must advance 65% of the premium cost for each COBRA enrollee for as long as it takes to offset in their tax deposits the amount due them. Problem: When the subsidies add up to more than your company's tax deposit, your company must request reimbursement from the U.S. Treasury. At this point, there is no way to know how long you will have to wait for reimbursement.

Administrative burdens: Subsidized health care premiums may be due as soon as Mar. 1, leaving you little time to compute the lower premiums and issue the required notices.

Contact your health insurer (and payroll service, if applicable) to assure the fastest possible COBRA subsidy refund. Any delay may cause you bigger cash flow problems.

The first period for reporting COBRA subsidy refund requests is 1st q. 2009, with your 941. For timely filing, make sure you are familiar with changes in Form 941 and related guidance.

Be ready for the IRS to require reports of annual COBRA participant subsidies. Because of the subsidy's income phaseout, the IRS may also ask you to file an annual 1099 or W-2, Box 12 data to report total premium subsidies for COBRA participants receiving the subsidies.