



Don't Get Bitten by COBRA

The Economic Stimulus legislation that was passed in February 2009 made some important changes to the Consolidated Omnibus Budget Reconciliation Act (COBRA). To figure out how these changes affect your business, it's essential to determine if your business is even subject to COBRA.

Qualifying Group Health Coverage Plans. COBRA applies to group health plans of businesses with 20 or more employees. This includes businesses where 20 or more employees are employed on more than half of business days during the prior calendar year. Both full-time and part-time employees are considered, with part-time employees counting as a fraction of an employee.

Qualifying Events. COBRA coverage is extended to employees who lose their health coverage from a qualifying group health plan due to resignation, lay-off (for reasons other than gross misconduct), reduction in employment hours below the plan's minimum hours requirement, etc. Traditionally, the employee has to foot the entire premium, albeit at the group rate.

Under COBRA, ex-employees who had health insurance benefits may continue their health insurance coverage for themselves and often family members for 18-36 months at group rates.

The Economic Stimulus Bill has now changed the way ex-employees pay for their premiums. Many ex-employees are now being given a subsidy for 65% of their health care premium. They are only required to pay for the remaining 35% to their Employers. The Employer will then be responsible for paying the entire health insurance premium, but will be able to recover 65% of the premium cost by claiming a credit on its quarterly payroll tax return (Form 941). COBRA coverage will continue for nine months following termination of employment.

Former employees are eligible for the 65% subsidy only if the following conditions are met:

- The employee is involuntarily terminated between September 1, 2008 and December 31, 2009. (Note: Even employees who initially declined COBRA coverage are eligible for the subsidy, and they must be given a second chance. The Employer is required to send them notice of the 65% subsidy no later than April 18, 2009. The US Dept. of Labor is expected to publish a model notice form in the near future.)
- The employee must elect COBRA coverage.
- If the employee's modified adjusted gross income is above \$145,000 when filing individually, or above \$290,000 when filing jointly, they cannot qualify for the 65% subsidy.
- If the employee's modified adjusted gross income is above \$125,000 when filing individually, or above \$250,000 when filing jointly, a phased-out subsidy will be available.

For more information from the US Dept. of Labor, please link to:

<http://www.dol.gov/ebsa/cobra.html>.

Large & Gilbert is committed to keeping you up to date on the latest tax changes, especially during these turbulent economic times. If you have any questions about whether COBRA provisions apply to you or how to claim the subsidy on your quarterly employment tax return, please contact us and we will be happy to help.

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