



Monthly Newsletter

by Benefit Partners Group, LLC

June 2021

IRS Issues Guidance on Taxability of DCAP Benefits for 2021 and 2022

On May 10, 2021, the Internal Revenue Service (IRS) released [guidance](#) on the taxability of dependent care assistance programs (DCAPs) for 2021 and 2022, clarifying that amounts attributable to previously issued [carryover and extended grace period relief](#) generally are **not taxable**.

Specifically, if these dependent care benefits would have been excluded from income if used during taxable year 2020 (or 2021, if applicable), these benefits will **remain excludible** from gross income and are not considered wages of the employee for 2021 and 2022. They will also generally **not be taken into account** for purposes of applying the exclusion limits of Internal Revenue Code Section 129.



Example

IRS Notice 2021-26 clarifies the interaction of this standard with the one-year increase in the exclusion for employer-provided dependent care benefits from \$5,000 to \$10,500 for the 2021 taxable year under the American Rescue Plan Act:

FACTS: Employee elects to contribute \$5,000 for DCAP benefits for the 2020 plan year but incurs no dependent care expenses during that plan year. The employer amends its plan to allow the employee to carry over the unused \$5,000 of DCAP benefits to the 2021 plan year. The employee elects to contribute

\$10,500 for DCAP benefits for the 2021 plan year, incurs \$15,500 in dependent care expenses for that plan year, and is reimbursed \$15,500 by the DCAP.

CONCLUSION: The \$15,500 is excluded from the employee's gross income and wages because \$10,500 is excluded as 2021 benefits and the remaining \$5,000 is attributable to a carryover permitted by the previously issued coronavirus-related relief.

IRS FAQs on COBRA Subsidies

The Internal Revenue Service (IRS) has published [frequently asked questions](#) (FAQs) on the application of the American Rescue Plan Act (ARP) subsidies for continuation health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The FAQs cover a wide range of topics.



Background

The ARP subsidy covers 100% of COBRA and State mini-COBRA premiums from April 1–Sept. 30, 2021, for certain Assistance Eligible Individuals whose work hours were reduced or whose employment was involuntarily terminated. The subsidy is funded via a tax credit provided to employers, insurers or group health plans, according to the terms of the statute.

FAQ Topics

Among the topics covered are how to calculate and claim the tax credit, including when a third-party payer is involved. According to the guidance, employers must document individuals' eligibility for COBRA premium assistance in order to claim the credit. The FAQs further clarify that:

- The subsidy is available for extended periods of COBRA coverage between April 1 and Sept. 30, 2021, due to a disability, second qualifying event or extension under State mini-COBRA.
- Involuntary termination includes constructive discharge and termination for cause, but not gross misconduct.
- Health reimbursement arrangements, dental-only plans and vision-only plans are covered by the subsidy.

Action Steps

Employers should review the IRS FAQs in their entirety to ensure compliance with the ARP, especially with respect to notice and documentation obligations.

Protecting HR Teams from Burnout

Burnout is a commonly discussed issue amid the COVID-19 pandemic. Oftentimes, it's HR's responsibility to help employees cope with burnout and its contributing factors. In many cases, that leaves HR teams without lifelines of their own. However, HR professionals can take steps to stay afloat when feeling overburdened.



Burnout, in simple terms, is the feeling of mental exhaustion stemming from workplace duties. According to the World Health Organization, burnout may be shown through the following symptoms:

- Fatigue or energy depletion
- Decreased engagement at work, or feelings of negativism or cynicism related to one's job
- Reduced productivity or efficacy

As these examples show, burnout doesn't always look the same for everyone. Yet, the impacts of burnout are typically uniform—lower-quality work and detrimental health effects.

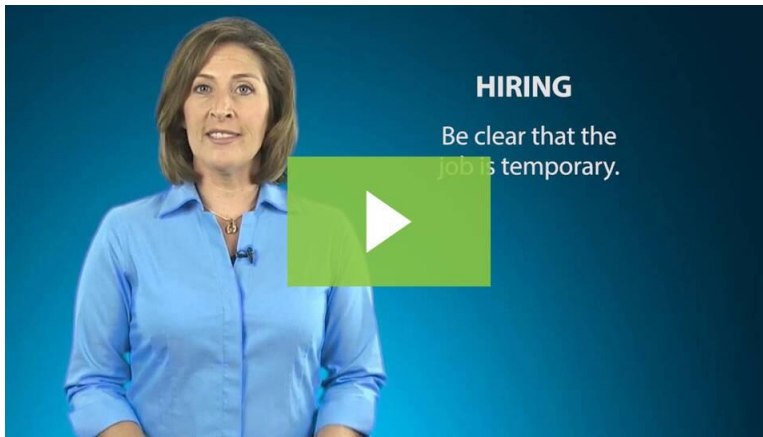
Steps for Employers

Below are action steps for HR professionals to consider when dealing with burnout:

- Meet regularly with team members and peers to gauge their emotional states and discuss individual work duties as needed.
- Recognize and celebrate individual and team achievements.
- Train other managers on how to keep employees engaged and motivated at work, and how to spot signs of burnout.
- Clearly communicate that employees should reach out if they are experiencing burnout, and that there will be no punishment for seeking help.

Consider what actions can help address the unique needs of your work environment.

Hiring and Managing Seasonal Employees



With the summer hiring season underway, employers should begin thinking about how best to hire and manage seasonal employees. Employers who do not dedicate time to these critical steps risk having to face disgruntled employees, unhappy customers, and even

legal violations. To learn some best practices for hiring and managing seasonal employees, please watch the video below.

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