



FORM 720 INSTRUCTIONS

As part of the Affordable Care Act, medical reimbursement plans are treated as self-insured health plans and are subject to a small excise tax. The tax is reported on Form 720 and must be mailed during the month of July every year. For the year 2020 the tax is \$2.45 per covered person for the plans ending prior to October 1, 2019 or \$2.54 for plans ending on or after October 1, 2019 and before October 1, 2020. This fee is deductible under code 596 as it is a type of a payroll tax.

The worksheet should be completed and returned to Corporate Farmer. Sometime after July 1, 2020, you will receive a Form 720 in the mail along with instructions on where to file the return. This return cannot be e-filed and you will need to enclose a payment.

A medical reimbursement plan is a plan where a business, whether a C corporation, an S corporation or partnership, either reimburses the employee for their medical expenses or pays them directly. A shareholder of a corporation or a partner in an LLC or partnership is considered to be an employee.

The shareholder or partner and their spouse who can also be a shareholder or partner should go on the line number ONE. Line number TWO is for shareholder's children or other dependents covered under your businesses' medical reimbursement plan. These would only be the number of children or other dependents for whom you have paid medical expenses.

Line number THREE is for non-shareholders covered. This means any employees of the corporation, LLC or partnership for which the corporation pays wages and also covers their medical expenses. These could be adult children or unrelated parties who work for you.

The last line covers spouses or the dependent children of any non-shareholder employees which are covered by your company's medical reimbursement plan. This would include any non-employee who is covered under an employee's family plan.

There is a MINIMUM fine of \$135 for non-compliance with the reporting of Form 720 taxes on medical reimbursement plans so we recommend you file and pay the applicable fee.

Please keep in mind that you can no longer provide a medical reimbursement plan if you have more than one employee. Therefore, if your total number of persons covered is greater than one and they are not all part of the same family, you should discontinue the plan immediately or face being assessed the penalty of \$100 per employee per day. This is the case whether or not the plan is available to all employees or not.

The worksheet for preparation of Form 720 is on the next page. Please remove it and return it to our offices and we will complete the return and return it to you for filing.



FORM 720 WORKSHEET

Employer's Name _____

Tax ID # _____ - _____ - _____

Address _____

_____, _____

Do You have a Medical Reimbursement Plan?

Yes _____ NO _____

Plan ending date?

Prior to October 1, 2019?

On or After October 1, 2019?

If you do not know it is likely your tax year end for the previous tax year. For individuals that would be December 31, 2019 and the fiscal year for corporations.

Total Number of Covered Employees _____