

Section 125 Plan Instructions for Clergy Pre-Tax Group Health Benefits (GHB) Payroll Deductions

Section 125 is the part of the IRS Code which allows employees to convert taxable cash salary into non-taxable benefits. Section 125 plans established by local churches most often are “premium-only” plans that allow participating clergy to pay their medical, dental, and vision plan contributions/premiums before any taxes are deducted from the clergy’s paycheck, thereby reducing the clergy’s taxable income.

You must answer “**Yes**” to the following two questions in order to utilize the Section 125 Plan pre-tax benefit:

1. *Does your church actually deduct your clergy TAC GHB contributions/premiums for your medical, dental and/or vision plans from your paycheck?* Yes _____ No _____

(Not all churches make payroll deductions for the clergy’s TAC GHB medical, dental, and/or vision plan contributions/premiums. Instead the church pays both the clergy’s and church’s amounts for the clergy’s GHB coverage. *If your church does not deduct your clergy TAC GHB contributions/premiums from your paycheck, you do not need a Section 125 Plan Clergy Salary Reduction Agreement*).

2. *Does your church have a Section 125 Plan Adoption Agreement that has been approved by the Church Administrative Council prior to the start of the GHB plan year (January 1) and is on file in the church financial records?* Yes _____ No _____

(If your church does not have a Section 125 Plan Adoption Agreement on file, please contact Ella Welch at Alera Group, TAC Benefits Consultants, at 469-635-8411 or ella.welch@aleragroup.com for assistance).

If the answer to the above two questions is yes, the clergy must complete a **Section 125 Plan Clergy Salary Reduction Agreement** authorizing the church to deduct their clergy contributions/premiums for their Group Health Benefit plans on a pre-tax basis under the church’s Section 125 Plan. The church should keep the Section 125 Plan Clergy Salary Reduction Agreement on file with the clergy’s payroll records.

At the following link there is a sample [Section 125 Plan Clergy Salary Reduction Agreement](#) for a “premium-only” Section 125 Plan which could be used for this purpose.

Your church should contact its attorney with any questions regarding the appropriate Section 125 Plan Clergy Salary Reduction Agreement form. Clergy should contact their own attorney and/or accountant with any questions regarding the legal and/or tax consequences of signing a Section 125 Plan Clergy Salary Reduction Agreement.