

Welcome to the Jones & Associates LLC, CPAs February 2014 newsletter! This month we are highlighting the current topics of **Health Insurance Premium Reimbursements** and **Advertising Expenses**.

Health Insurance Premium Reimbursements

2014 marks a milestone on changes in how organizations are treating health insurance premiums. To keep things simple, many smaller nonprofit organizations are planning to pay a fixed amount to each employee to reimburse them for insurance premium cost, rather than set up and maintain an insurance plan for the entire organization. In order for this reimbursement to be nontaxable to the employee, the IRS has some very specific rules that must be followed:



1. The amount paid must be to a valid and current employee during the period while performing services for the organization
2. Documentation must be retained to substantiate the amount was only for the premium (*any excesses will be taxable as compensation to the employee*)
3. The exclusion is only for medical insurance premiums, and not other medical costs (*unless your organization has established a qualifying plan for these*)

For more information about what is taxable or nontaxable to employees, see [IRS Publication 15-B](#).

Words of caution: if you choose to reimburse employees in this manner rather than establishing an insurance plan, the organization will not be eligible for the Federal Credit for Small Employer Health Insurance Premiums. Also, if you have more than 50 full-time equivalent employees, there are other penalties and rules that may apply. For more information about those, visit: <http://kff.org/infographic/employer-responsibility-under-the-affordable-care-act/> and definitely talk to your benefits broker.

An AICPA article that summarizes the new IRS guidance about employer reimbursements, HRAs, Health FSAs and EAPs is here:

<http://www.aicpa.org/Publications/TaxAdviser/2014/January/Pages/clinic-story-04.aspx>.

Advertising Expenses

Accounting guidance is always changing. Because we strive to make sure you are well informed of accounting guidance that might impact your financial reporting, below is a summary of recent clarification on advertising expense:

1. Donated advertising treated as a good, not a service.

As a donated good, generally all donated advertising amounts (unless immaterial) must be recorded. In the past, many organizations often did not record donated advertising by using the exception for donated services. Donated services do not have to be recorded if the service would not have been purchased if not provided by donation. Because advertising is considered a good, instead of a service, the donated services exception no longer applies.

2. Advertising within the statement of functional expenses.

Let's first define advertising. Per the accounting guidance, advertising is the promotion of an industry, an entity, a brand, a product name, or specific products or services so as to create

or stimulate a positive entity image or to create or stimulate a desire to buy the entity's products or services. These activities are also commonly referred to as promotion, marketing or outreach.

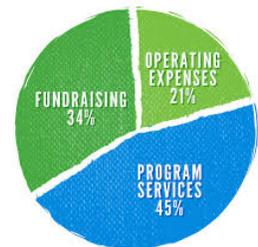
Additionally, let's define program, management and general, and fundraising expenses:

Program services are the activities that result in the distribution of goods and services to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. **Those services are the major purpose for and the major output of the nonprofit organization.**

Management and general activities include the following (not an all-inclusive list): oversight, business management, general recordkeeping, budgeting, financing, soliciting funds other than contributions and membership dues, for example, the costs associated with **promoting the sale of goods or services to customers, including advertising costs**, and all other management and administration except for direct conduct of program services, fundraising activities, or membership development activities.

Fundraising activities are activities undertaken to **induce potential donors to contribute** money, securities, services, materials, facilities, other assets, or time.

If the purpose of your advertising is to solicit funds in an exchange transaction (i.e. to encourage someone to buy a ticket or register for classes at market value), then the presumption is that the advertising expense is a management and general expense. However, if the advertising is done to reach an audience to use free or low cost services, then the advertising may be considered a program expense. Advertising to encourage donations is generally considered a fundraising expense.



Please take a moment to consider the treatment of your advertising expense.

To better stay connected on the social media front, "follow" us on LinkedIn and "like" us on Facebook to get regular updates on important topics and events in the area. Also, let us know if you have a job posting, program or other event you would like us to add to our website.

"Follow" us on LinkedIn: 
"Like" us on Facebook: 

Should you have any questions about the content of anything in this newsletter, please contact us.

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