

LEGACY WEALTH SERVICES · 2026 EMPLOYER GUIDE

The FICA Reduction Employer's Playbook

How small businesses legally reduce payroll taxes while giving employees better take-home pay — without cutting salaries

7.65%

EMPLOYER FICA RATE

\$3,000+

ANNUAL SAVINGS PER EMPLOYEE

IRS §125

LEGAL FRAMEWORK

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THE HIDDEN TAX MOST EMPLOYERS NEVER QUESTION

You're Paying Taxes on Every Dollar of Payroll — Legally, You Don't Have To

"Most small business owners don't realize they're overpaying FICA taxes by thousands of dollars every year — completely legally avoidable."

Every time you run payroll, you pay 7.65% in FICA taxes on every dollar of employee wages. That's Social Security (6.2%) and Medicare (1.45%) — paid by you, the employer, on top of every employee's gross pay. Your employees pay the same rate on their side.

For a business with 10 employees averaging \$50,000 in salary, that's over **\$38,000 per year** going to FICA taxes — before you pay anything else. With a properly structured Section 125 Cafeteria Plan, a significant portion of that tax burden disappears entirely.

15.3%

Combined FICA on each dollar of wages (employer + employee)

\$3,825

Employer FICA on a \$50K salary — per employee, per year

30-40%

Typical reduction in FICA taxes with proper Section 125 structure

THE MECHANISM

How a Section 125 Cafeteria Plan Eliminates FICA

IRS Section 125 allows employees to redirect a portion of their gross wages toward qualified benefits — before FICA taxes are calculated. That redirect is called a "salary reduction agreement." The result: both employer and employee pay FICA on a smaller wage base.

1

Establish a Section 125 Plan Document

The IRS requires a written plan document. This is the legal foundation that makes all benefits tax-qualified. It defines benefit options, eligibility, and enrollment rules.

2

Employees Elect Qualified Benefits

Employees choose benefit amounts — health insurance premiums, accident insurance, critical illness coverage, or other qualified products. They sign salary reduction agreements.

3

Payroll Runs on Reduced Taxable Wages

Your payroll provider calculates FICA on the reduced wage base. The benefit amount is excluded from FICA calculation entirely — for both you and your employee.

4

Savings Flow to You and Your Employees

You keep the employer FICA savings as bottom-line profit or reinvest it. Employees take home more each paycheck without a raise — increasing job satisfaction and retention.

REAL NUMBERS

What the Savings Actually Look Like

Here's a concrete example with a small business of 15 employees, average salary \$48,000. Benefits elected average \$200/month per employee through the Section 125 plan.

WITHOUT SECTION 125		WITH SECTION 125	
Taxable wages/employee	\$48,000	Reduced wages/employee	\$45,600
Employer FICA rate	7.65%	Employer FICA rate	7.65%
FICA per employee	\$3,672	FICA per employee	\$3,488
Total (15 employees)	\$55,080/yr	Total (15 employees)	\$52,319/yr

Annual employer savings (15 employees)

\$2,761 per year

Each employee also saves

\$183/yr each

WHAT QUALIFIES

IRS-Qualified Benefits Under Section 125

Not all benefits qualify. The IRS specifies which products can be offered through a Section 125 Cafeteria Plan. Here's what employers and employees can elect:



Health Insurance Premiums

Employee contributions toward employer-sponsored group health plans. The most common and highest-value election.



Dental & Vision Premiums

Standalone dental and vision plans offered through the employer. Both premiums and FSA contributions qualify.



Accident & Critical Illness

Supplemental policies covering accidents, cancer, heart attack, and other critical conditions. Highly popular as cost-effective FICA reducers.



Flexible Spending Accounts

Healthcare FSAs (up to \$3,300/yr in 2026) and Dependent Care FSAs (up to \$5,000). Pre-tax dollars for medical and childcare expenses.



Hospital Indemnity Plans

Pay cash benefits directly to employees for hospital stays. Low cost, high perceived value, and FICA-reducing for both parties.



Remote Care / Telemedicine

Employer-provided telemedicine access as a qualified benefit. Reduces absenteeism while providing employees 24/7 physician access.

Important: The IRS requires these benefits to be "employer-sponsored" — meaning the employer contributes to or sponsors the plan. Employers cannot simply redirect 100% of a salary to benefits. A proper plan document is essential.

PARTNER PROGRAM

How Ignite Health Delivers This For You

Legacy Wealth Services partners with Ignite Health to deliver turnkey Section 125 FICA reduction programs for small businesses. Ignite Health handles the compliance, the plan document, the carrier relationships, and the ongoing administration — you get the savings without the complexity.



IRS-Compliant Plan Document

Created, maintained, and updated to keep your plan in compliance with IRS regulations.



Employee Enrollment Support

Enrollment materials, salary reduction agreements, and communication templates provided.



Payroll Integration

Works with your existing payroll provider — ADP, Paychex, Gusto, QuickBooks Payroll, and others.



Annual Savings Report

Annual documentation of FICA savings for your records and tax filings.



Fast Implementation

Most businesses are up and running within 2-3 weeks of deciding to proceed.



No Risk to Employees

Employees receive equal or better benefits. No reduction in take-home pay — in fact, they save too.

Visit www.ignitehealth.com to learn more about the program

Or call Rodney Cummings directly: (503) 832-8555

ELIGIBILITY

Is Your Business a Good Candidate?

✔ Strong Candidates

- 5–500 employees (sweet spot)
- W-2 employees (not 1099 contractors)
- No current Section 125 plan in place
- Currently paying group health premiums
- Stable workforce (low turnover)
- Employer pays all or most payroll taxes
- C-corps, S-corps, LLCs, Partnerships

✘ May Not Qualify

- Sole proprietors (self-employed)
- S-corp 2%+ shareholders
- Partners in a partnership
- Businesses with only 1-2 employees
- Nonprofits with specific constraints
- Government entities (certain exclusions)
- Seasonal workers only

FREQUENTLY ASKED QUESTIONS

Does this require changing our payroll provider?

No. Ignite Health integrates with your existing payroll system. Most major providers support Section 125 deductions natively.

Do employees lose anything?

No. Employees receive benefits equal to or greater than the salary reduction amount — plus they also save on their own FICA taxes.

What does it cost to set up?

The cost of setup and administration is typically a fraction of the annual FICA savings — making the program ROI-positive from day one for most businesses.



Find Out How Much Your Business Can Save

A complimentary FICA analysis takes about 20 minutes. We'll calculate your exact savings potential and walk you through the implementation process step by step.

CALL OR TEXT

(503) 832-8555

SCHEDULE ONLINE

www.legacywealthservices.com

This guide is for informational purposes only and does not constitute legal or tax advice. Consult your tax advisor regarding your specific situation. IRS Section 125 requirements apply.

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