

Planning for reimbursement and tax handling

Reimbursements are reviewed and then approved or denied as they are received from members. Each month, Carrot will process reimbursements according to the following timelines. Based on specific criteria, each reimbursement has different tax implications that are important to identify and ideally automate.

MONTHLY TIMELINE

1	1st business day of the month	Carrot issues monthly billing statement	Aggregate total of all reimbursements approved in previous month
7	Within first 7 days of the month	Carrot pulls funds via ACH debit from your customer bank account	Requires bank authorization form completion by your team
10	By the 10th day of the month	Carrot issues reimbursement to each member/employee	Reimbursement issued via ACH to member provided bank account
15	By the 15th day of the month	Carrot issues monthly utilization report to customer	Detailed CSV report of reimbursements by employee ID and type for tax handling

WHAT IS A TAXABLE EXPENSE?

In the U.S., the IRS has issued guidance that medical expenses necessary “to overcome an inability to have children” can be excluded from taxable income. Based on this guidance and its limitations, Carrot recommends not taxing qualified medical expenses and taxing elective forms of fertility care (e.g., preservation).

For any taxable expenses, the amounts should be reported as imputed income and are thereby subject to local, state, and federal tax withholding. We recommend withholding these taxes on a monthly basis to spread out the taxable amount as much as possible over time. This amount will depend on how much employees are submitting to Carrot in each month.

Internationally, all expenses reimbursed through Carrot are almost always considered taxable. If your company has Carrot eligible employees outside the U.S., we can assist you in determining taxability for each entity.

U.S. TAX GUIDELINES

Medical fertility care

- Non-taxable if medical diagnosis of infertility or other medical necessity
- Taxable for all other services

Adoption

- Subject to Medicare, Social Security, and FUTA
- All amounts to be reported on W-2, Box 12 Code T
- Amounts up to IRS limit (\$14,890 in 2022) are excluded from gross income but are included in boxes 3 and 5
- Amounts exceeding the IRS limit are reported in box 1 and subject to normal taxes and withholding

Gestational carrier services (surrogacy)

- All gestational carrier services are considered taxable

INTERNATIONAL TAX GUIDELINES

All approved reimbursements issued by Carrot to members are usually considered taxable.

Mapping taxable flags for payroll automation

Member submitted expenses and approved reimbursements made by Carrot on behalf of their employer are subject to specific taxation or exempt. Carrot will provide your payroll team a .csv file by the 15th of each month with specific flag identifiers so your systems can be programmed to set flags and automate withholding and tax reporting. Following is an example of that data set.

Medical	Adoption	GC Services	U.S. Tax Status	International Tax Status
Y	N	N	Non-taxable	Taxable
N	Y	N	Taxable* (see details below)	Taxable
N	N	Y	Taxable	Taxable
N	N	N	Taxable	Taxable

OPTIONAL TAXABLE GROSS UP

Because the U.S. tax code disadvantages same-sex couples compared to heterosexual couples, and all expenses for international members are considered taxable, many customers choose to gross up reimbursements to allow members to realize the full monetary benefit.

Grossing up adds the taxes back in that were originally withheld, negating any tax effect on an employee's paycheck.

*U.S. ADOPTION TAX GUIDELINES

Adoption expenses are not subject to federal income tax but are subject to all other employment taxes (Medicare, Social Security, FUTA).