EMPLOYER SAVINGS INTELLIGENCE

Can Employers Reduce Payroll Taxes Without Cutting Employee Benefits?

A practical guide to how employer payroll tax savings strategies work, what employees can receive, and what to verify before moving forward.

Yes. Certain qualified pre-tax benefit arrangements can reduce wages subject to employer payroll taxes while adding employee value. The details determine whether the economics are meaningful.

Focus on net savings.

A gross tax reduction is not the same as what the employer actually retains after costs.

Evaluate both sides.

Employer savings are stronger when employees also receive meaningful paycheck and healthcare value.

Structure matters.

“Section 125” is a framework, not proof that every arrangement is built or taxed the same way.

01 / THE CONCEPT

Where employer payroll tax savings can come from

Employers generally pay 6.2% Social Security tax and 1.45% Medicare tax on wages subject to those taxes. A Section 125 cafeteria plan can allow employees to choose qualifying benefits on a pre-tax basis. When a qualifying salary reduction lowers wages subject to employment taxes, the employer share of those taxes can also decline.

The exact result depends on the benefit, the plan structure and the employee's payroll circumstances. In 2026, Social Security tax is subject to a $184,500 wage base, while Medicare has no wage base limit.

What can that look like in practice?

One employer model evaluated through Coordination Group Advisory uses a $1,200 monthly qualifying pre-tax amount per participating employee.

Monthly qualifying pre-tax amount	**$1,200.00**
Employer Social Security + Medicare rate	**× 7.65%**
Gross monthly payroll tax reduction	**$91.80**
Monthly administration cost	**- $44.00**
Net monthly employer savings	**$47.80**

100 participants	500 participants	1,000 participants
$57,360 / year	**$286,800 / year**	**$573,600 / year**

$47.80 per month equals $573.60 per year per participating employee. This is the employer model described in this guide, not a universal result for every Section 125 arrangement.

Sources for the federal framework and tax rates: IRS Publication 15-A (2026) and IRS cafeteria plan guidance. These sources explain federal tax rules; they do not endorse any particular program.

Gross savings are not net savings

A proposal can be mathematically correct and still be economically weak if it leads with a gross tax reduction and buries the cost of producing it.

Before comparing proposals, separate the headline number from the amount the employer actually keeps.

1. What is the gross payroll tax reduction?

This is the tax reduction before administration or other program costs.

2. What costs are deducted?

Administration, fees or other recurring costs should be visible in the same calculation.

3. What is the net employer result?

This is the number that belongs in an operating budget or ROI discussion.

4. Who is included in the estimate?

Eligible, enrolled and participating employees are not always the same population.

5. What payroll assumptions are being used?

Tax rates, wage-base limits and actual payroll circumstances can affect the result.

6. Can the math be reproduced?

A finance team should be able to follow the calculation without reverse engineering a sales claim.

How the model in this guide answers the question: $91.80 is the gross monthly payroll tax reduction. After the $44 administration cost, $47.80 remains as net monthly employer savings, or $573.60 annually.

Coordination Group Advisory uses the **net employer result** as the headline savings measure. That makes the economics easier for a CFO, CEO, owner or Advisor to evaluate and compare.

Employer savings are only half the decision

A strong employer savings strategy should also explain what participating employees receive. In the opportunity evaluated through Coordination Group Advisory, employees may see higher take-home pay without an increase in gross wages and receive added healthcare benefits.

CURRENT BIWEEKLY PAYCHECK	
Gross pay	**$1,846.15**
Net pay	**$1,410.85**

→

ILLUSTRATIVE PAYCHECK	
Gross pay	**$1,846.15**
Net pay	**$1,461.41**

+$50.56 illustrative increase in take-home pay per biweekly pay period

Illustrative employee example. Actual results vary with pay, tax circumstances, deductions and other individual factors.

Primary and urgent care

Primary and urgent care office visits, plus 24/7 virtual direct primary care.

Mental health support

Virtual mental health support and therapy resources.

Prescription benefits

Select prescriptions on the applicable formulary are available at $0.

Preventive and proactive resources

Preventive care, benefits guidance and additional health resources.

Existing major medical does not have to be replaced. Existing major medical coverage is not required for this opportunity, and employees who are not enrolled in the company's health plan can still participate.

If employees use included care instead of major medical for some services, claims pressure may be lower and renewal results may improve. That is a possible secondary outcome, not part of the payroll savings calculation and not a guaranteed renewal result.

Six questions to ask before evaluating any payroll tax savings proposal

These questions help separate a clear employer value proposition from a headline savings claim. A strong proposal should answer each one directly.

1. What is the net employer savings after all costs?

You should be able to see the gross tax reduction, every recurring cost and the final amount the employer retains.

2. What amount receives pre-tax treatment, and why?

The proposal should identify the amount being treated pre-tax and the benefit structure supporting that treatment.

3. What fees or administration costs apply?

Costs should be explicit and incorporated into the net savings calculation, not introduced later.

4. How are pre-tax and post-tax components kept separate?

If an arrangement uses both, the payroll treatment and supporting plan structure should distinguish them clearly.

5. What do employees actually receive?

Evaluate the paycheck effect, healthcare benefits, participation requirements and practical employee value.

6. What can be reviewed before implementation?

Employers should be able to understand the documents, payroll requirements and ongoing responsibilities before committing.

The label alone is not enough.

Section 125 is the federal cafeteria plan framework. It does not tell you, by itself, whether two payroll tax savings arrangements are structured, funded or taxed the same way.

Coordination Group Advisory's review process is built around showing the gross-to-net economics, employee value, implementation requirements and available supporting documentation before an employer decides whether to proceed.

What does “double dipping” mean, and why do the details matter?

“Double dipping” is an informal term, not a defined tax-code label. In this market, it is often used when there is concern that pre-tax salary reductions are paired with payments that are also treated as tax-free without an independent basis for that treatment.

That concern matters because the tax result depends on what the payment is, how the arrangement is funded and what tax rule supports the exclusion.

Why the 2023 IRS memorandum gets attention

IRS Chief Counsel Memorandum 202323006 analyzed a fixed-indemnity wellness arrangement funded through Section 125 salary reductions. Under the facts described, the IRS concluded that wellness payments made when an employee had no unreimbursed medical expense were taxable income and wages.

The memorandum also states that it **may not be used or cited as precedent**. Its value for employers is not that every wellness arrangement is automatically treated the same way. The value is that it shows why the actual structure and tax basis matter.

> **Practical takeaway:** Completing a wellness activity does not, by itself, make a cash-style payment tax-free. A proposal should be able to explain how each component is funded, what tax rule supports the treatment and how the governing documents align with payroll.

If an employer wants a deeper professional review, supporting plan and compliance materials should be available. Coordination Group Advisory can provide the relevant materials for that review without requiring an employer to add another professional just to complete the initial evaluation.

Source: IRS Chief Counsel Memorandum 202323006, released June 9, 2023. The memorandum is nonprecedential and applies to the facts it analyzes.

A good savings strategy should also be straightforward to implement

An attractive financial model loses appeal if the administrative burden is unclear. Employers should know what happens before they commit.

01 **Preliminary estimate**
Use approximate W-2 headcount to see the potential employer savings. No payroll files are needed for the initial estimate.

02 **Company-specific review**
Review the employer economics, employee value and workforce fit before moving into detailed setup.

03 **Payroll detail**
A recent payroll census, register or similar gross-to-net report supports the company-specific analysis.

04 **Payroll setup and enrollment**
The required recurring payroll entries and employee enrollment process are coordinated with the employer's team.

05 **Ongoing administration**
Administration, employee support and employer coordination continue after implementation.

How Coordination Group Advisory approaches the process

We coordinate the employer review, payroll setup, enrollment and ongoing relationship so HR and Payroll understand what they own and what is handled administratively.

You do not need to involve a CPA, tax professional or benefits Advisor just to complete the initial evaluation. If you want an independent review, the relevant materials can be provided.

07 / NEXT STEP

See what this could mean for your company

If the economics and employee value are worth exploring, the next step is a preliminary employer estimate. You only need approximate U.S. W-2 headcount to begin.

- ✓ You can see the net employer savings after recurring costs.
- ✓ You understand what participating employees may receive in pay and healthcare value.
- ✓ You know what Payroll and HR would need to support before implementation.
- ✓ Supporting documents are available if you choose a deeper professional review.

One employer model available for review

The model evaluated through Coordination Group Advisory produces $47.80 in net monthly employer savings, or $573.60 annually, per participating employee before company-specific payroll review.

Start the Employer Savings Assessment

Enter approximate U.S. W-2 headcount to see a preliminary annual employer savings opportunity. No payroll files or employee-level information are needed for the initial estimate.

Open the Assessment

coordinationgroupadvisory.com/assessment/

Already have an estimate?

Review how it was built at **coordinationgroupadvisory.com/estimate-review/**

Questions?

Email **info@coordinationgroupadvisory.com**

Primary federal sources: IRS Publication 15-A (2026); IRS cafeteria plan guidance; IRS Chief Counsel Memorandum 202323006. Program-specific economics and benefits are based on the current plan design evaluated through Coordination Group Advisory. Governing plan documents control.

For general educational purposes only. This guide is not legal, tax or financial advice. Employers should evaluate their own facts and may involve their own professional Advisors if they choose.