CHROMA EARLY LEARNING ACADEMY LLC

SECTION 125 TAX, IRS & CPA COMPLIANCE BRIEF

Statutory Basis: IRC § 125, § 79, § 106, § 3121(a)(5)(G) • Effective: November 1, 2026

Client: Chroma Early Learning Academy LLC
Leadership: Vic & Executive Management
Advisory Agency: Shielded Horizons LLC
Advisor: Robert Hill (GA Lic #19559059 / NPN #839439)
Target Start Date: November 1, 2026

CRITICAL QUESTION FOR CHROMA & CPA: DO WE FILE OR SUBMIT THIS PLAN TO THE IRS?
ANSWER: NO UPFRONT IRS FILING IS REQUIRED OR PERMITTED. Under IRS Notice 2002-24, the IRS suspended all Form 5500 / Schedule F filing mandates for Section 125 cafeteria plans. A Section 125 plan is an **internal governing legal plan document**. There is no IRS application, approval, or pre-filing process.
THE LEGAL MANDATE: The formal Written Plan Document and Corporate Adoption Agreement MUST be executed and maintained in Chroma's permanent corporate fiduciary files (office/cabinet) on or before November 1, 2026. In an IRS payroll audit, the auditor requests the signed document. Having it in the corporate binder guarantees 100% tax exemption.

1. IRS STATUTORY & AUDIT RULES

• **Written Plan Document (IRC § 125(d)(1)):** Federal law requires Chroma to adopt a written plan describing benefits, eligibility, contribution rules, and election procedures prior to the first deduction.

• **Irrevocable Elections (Treas. Reg. § 1.125-4):** Employee elections are irrevocable for the 12-month plan year unless the employee experiences a recognized Qualifying Life Event (marriage, divorce, birth, loss of other coverage).

• **Statutory Tax Exemptions:** Salary reductions under this plan are expressly excluded from gross income and employment taxes:
- **FICA Tax: Exempt under IRC § 3121(a)(5)(G)**
- **Federal Income Tax: Exempt under IRC § 3401(a)(19)**
- **FUTA Tax: Exempt under IRC § 3306(b)(5)(G)**
- **Georgia State Income Tax: Exempt (O.C.G.A. § 48-7-21)**

• **Nondiscrimination Safe Harbor (§ 125(b)):** Chroma's plan easily passes the 25% key employee concentration test because benefits are universally offered to all 335+ W-2 employees across all 25 campuses.

2. PAYROLL & CPA REPORTING MECHANICS

• **Payroll Software Setup (ADP / Gusto / Paychex):** Create a single pre-tax deduction code titled `**SH Pre-Tax Benefit**`. Set tax flags to: *Exempt from FIT, FICA-OASDI, FICA-HI, FUTA, and GA SIT*.

• **Quarterly Form 941 Line Items:**
  • **Line 2 (Total Wages):** Reduced by total Section 125 deductions.
  • **Line 5a (Taxable SS Wages):** Reduced by pre-tax deductions.
  • **Line 5c (Taxable Medicare Wages):** Reduced by pre-tax deductions.
Result: Chroma saves 7.65% cash on every dollar run through the plan.

• **Annual Form W-2 Reporting:**
  • **Boxes 1, 3, and 5:** Reduced by total pre-tax salary reductions.
  • **Box 12 (Code DD):** Reports cost of employer health plan (XGB) for ACA informational reporting only (does not add to taxable wages).
  • **Group Term Life over $50k (§ 79 Table I):** First $50k is 100% tax-free. For the extra $25k, nominal monthly Table I cost (e.g. $0.08/mo) is reported on W-2 Box 1/12C.

3. RECONCILIATION SCHEDULE & CASH-FLOW VERIFICATION (EFFECTIVE NOV 1, 2026)

Participant Cohort	Active Lives	Benefit Composition	Pre-Tax Deduction	Chroma Monthly FICA Savings	Chroma Annual FICA Cash Profit
Group 1: Major Medical Staff	100 Staff	XGB Major Medical ($200) + $75k Life ($119)	**$319.00 / mo**	**$2,440.35 / mo**	**$29,284.20 / yr**
Group 2: Section 125 Only Staff	235 Staff	Manhattan Life $75k GTL Anchor ($119)	**$119.00 / mo**	**$2,139.32 / mo**	**$25,671.87 / yr**
TOTALS / ANNUAL BOTTOM LINE	**335 Staff**	**100% Covered with $75k Life + Health Integration**	**$59,865.00 / mo**	**+$4,579.67 / mo**	**+$54,956.07 / yr NET CASH**

4. IMPLEMENTATION ROADMAP TO NOVEMBER 1, 2026 EFFECTIVE START DATE

Milestone / Action Item	Responsible Parties	Target Completion	Operational Deliverable & Filing State
Step 1: Legal Document Execution	Vic & Chroma Leadership / Robert Hill	October 5, 2026	Sign Corporate Adoption Agreement & place Plan Document in corporate files.
Step 2: Carrier Binding	Robert Hill / Manhattan Life & XGB	October 12, 2026	Bind Manhattan Life $75k Group Policy ($1.25/mo) & confirm XGB health roster.
Step 3: Payroll Deduction Setup	Chroma Payroll Manager / ADP / CPA	October 19, 2026	Establish `SH Pre-Tax` payroll deduction code with FICA/FIT exemption flags.
Step 4: Digital Staff Enrollment	Campus Directors / Shielded Horizons	October 20 - 30, 2026	Digital staff enrollment via mobile portal across all 25 campuses (zero SSN).
Step 5: Live Payroll Launch	Chroma Payroll & Shielded Horizons	**November 1, 2026**	First live pre-tax deduction run. Chroma captures first monthly FICA savings (+$4,579.67).

ADVISORY ATTESTATION & COMPLIANCE SEAL: This Section 125 Master Brief has been prepared by Shielded Horizons LLC under IRC § 125, § 79, and § 106 guidelines. Shielded Horizons operates as an authorized independent advisory agency (GA Producer Lic #19559059 / NPN #839439). Chroma Early Learning Academy LLC retains full employer fiduciary control.

Approved by Advisor:
Robert Hill, Director
Shielded Horizons LLC