

COBRA Premium Subsidy Guide for QuickBooks

Beginning January 1, 2014, the IRS implemented a new process for claiming credits for COBRA premium assistance supported under the provisions of the American Recovery and Reinvestment Act of 2009.

(If you are a new employer and not sure if you have employees eligible for COBRA premium assistance, see the [United States Department of Labor web site](#).)

What changed?

Credits for COBRA premium assistance payments made after January 1, 2014, must now be reported and claimed on Form 941-X, Form 943-X, or Form 944-X instead of Form 941, Form 943, or Form 944. Employers must first file Form 941, 943, or 944, wait a minimum of two weeks, and then file Form 941-X, 943-X, or 944-X to claim the credit. (Filing Form 941-X, 943-X, or 944-X too soon will result in processing errors and delay.)

What do I need to do?

The federal government still provides two ways to take this credit:

1. **(Recommended)** Make your tax liability deposits in full and wait to claim the COBRA credit on Form 941-X, 943-X, or 944-X. The IRS will then generate a refund for the credit.
2. Reduce your tax liability deposits in anticipation of the COBRA credit.

Caution: Using this option will result in a **balance-due notice** from the IRS, which will be corrected (and associated penalties and interest abated) after you file the Form 941-X, 943-X, or 944-X.

Here are the steps to follow:

Option	What to do
1 (Recommended)	<ul style="list-style-type: none"> Continue to track COBRA premium subsidy payments, either in QuickBooks (Steps 1 to 3 in this guide) or manually, as you have done. (If you are a new employer entitled to claim these credits, use Steps 1 to 3 to set up QuickBooks tracking. Alternatively, you can track these payments manually.) Do not reduce your regular payroll tax deposits in anticipation of the credit. File Form 941, 943, or 944 as usual (with zero balance due if all deposits are made in full). Wait at least two weeks and then file Form 941-X, 943-X, or 944-X to claim the COBRA credit. When you receive the IRS refund for COBRA credits, record it in QuickBooks.
2	<ul style="list-style-type: none"> Continue to track COBRA premium subsidy payments, either in QuickBooks (Steps 1 to 3 in this guide) or manually, as you have done. (If you are a new employer entitled to claim these credits, use Steps 1 to 3 to set up QuickBooks tracking. Alternatively, you can track these payments manually.) Create employee COBRA liability adjustments and reduce payroll tax deposits in anticipation of the credit. File Form 941, 943, or 944 with a balance due. Wait at least two weeks and then file Form 941-X, 943-X, or 944-X to claim the COBRA credit. <p>(The IRS will correct the balance due associated with the COBRA credits and abate any applicable penalty and interest originally identified in the notice.)</p>

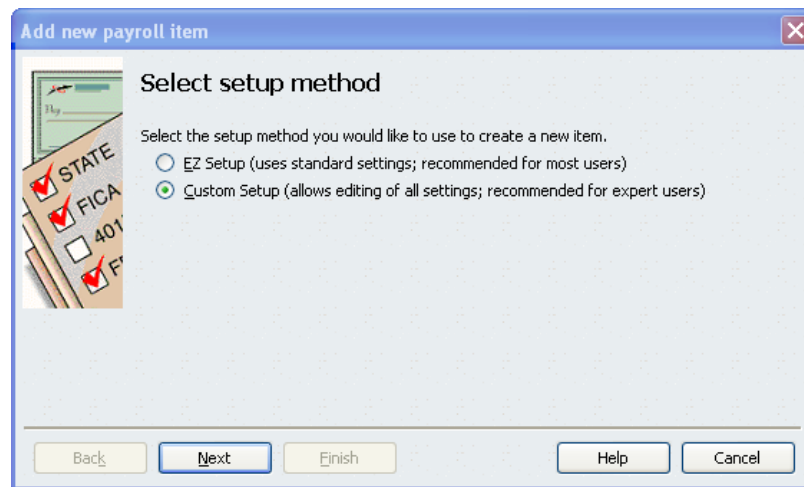
Last Updated: 12/17/15 ([Revision History](#))

Step 1: Set up the US - COBRA Subsidy Credit payroll item

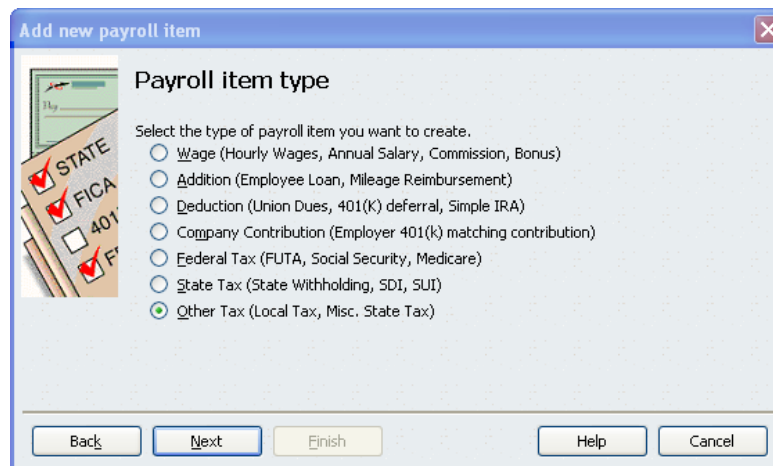
All QuickBooks Payroll users who make COBRA subsidy payments must set up the US - COBRA Subsidy Credit payroll item.

To do this task:

1. Be sure you have the latest tax table update installed. (To check, choose **Get Payroll Updates** from the **Employees** menu and check the tax table version shown.)
2. From the **Employees** menu, choose **Manage Payroll Items** and then choose **New Payroll Item**.
3. Select **Custom Setup** and click **Next**.



4. Select **Other Tax** and click **Next**.



(Note that, although the COBRA subsidy credit is not technically a tax, QuickBooks has defined it here to simplify the workflow for tracking the credit.)

- From the Other Tax drop-down menu, choose **US – COBRA Subsidy Credit** (near the bottom of the alphabetic list) and click **Next**.

The screenshot shows a dialog box titled "Add new payroll item" with a close button in the top right. On the left is a graphic of tax forms with checkboxes for STATE, FICA, 401, and F. The main area is titled "Other tax" and contains the text: "Other tax: Choose a predefined tax from the list. If you do not see the tax you want, choose User-Defined Tax to create a tax." Below this is a dropdown menu with "US - COBRA Subsidy Credit" selected. At the bottom are buttons for "Back", "Next", "Finish", and "Cancel".

- Enter a name for this new payroll item or accept the default (US – COBRA Subsidy Credit). We've chosen "COBRA Subsidy Credit," but you can name this item whatever you want. Click **Next**.

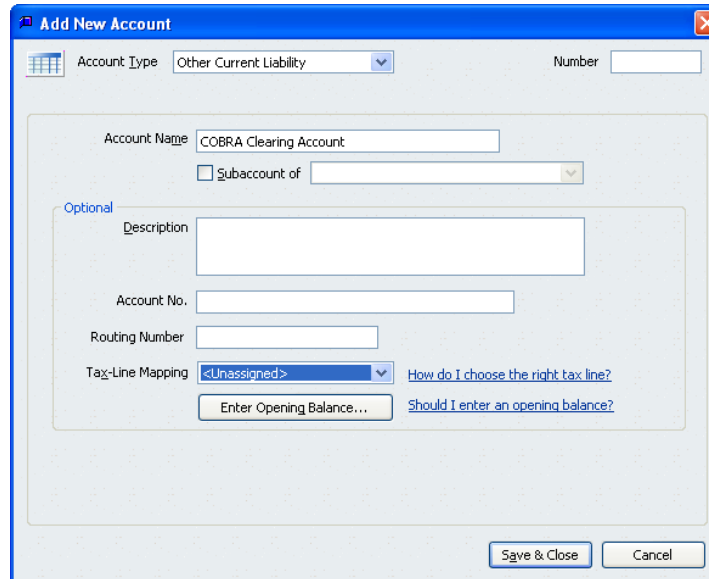
The screenshot shows a dialog box titled "Add new payroll item (US - COBRA Subsidy Credit)" with a close button in the top right. On the left is the same tax forms graphic. The main area is titled "Name used in paychecks and payroll reports" and contains the text: "Enter name for this company-paid other tax:" followed by a text input field containing "COBRA Subsidy Credit". Below this is a note: "For example, if you are creating a company-paid payroll tax for San Francisco, you may want to call it 'SF - Payroll Company'". At the bottom are buttons for "Back", "Next", "Finish", "Help", and "Cancel".

- Leave the name of agency and the identifying number fields blank; QuickBooks supplies these.

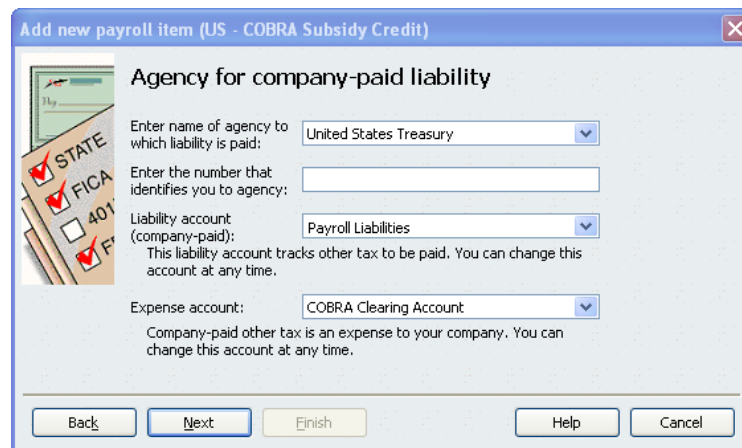
Choose your **Payroll Liabilities** account from the liability account drop-down menu (it may have a slightly different name). Choose **<Add New>** from the expense account drop-down menu to add a new expense account for this payroll item.

The screenshot shows a dialog box titled "Add new payroll item (US - COBRA Subsidy Credit)" with a close button in the top right. On the left is the tax forms graphic. The main area is titled "Agency for company-paid liability" and contains the following fields: "Enter name of agency to which liability is paid:" with a dropdown menu; "Enter the number that identifies you to agency:" with a text input field; "Liability account (company-paid):" with a dropdown menu showing "Payroll Liabilities" and a note: "This liability account tracks other tax to be paid. You can change this account at any time."; and "Expense account:" with a dropdown menu showing "< Add New >" and a note: "Company-paid other tax is an expense to your company. You can change this account at any time." At the bottom are buttons for "Back", "Next", "Finish", "Help", and "Cancel".

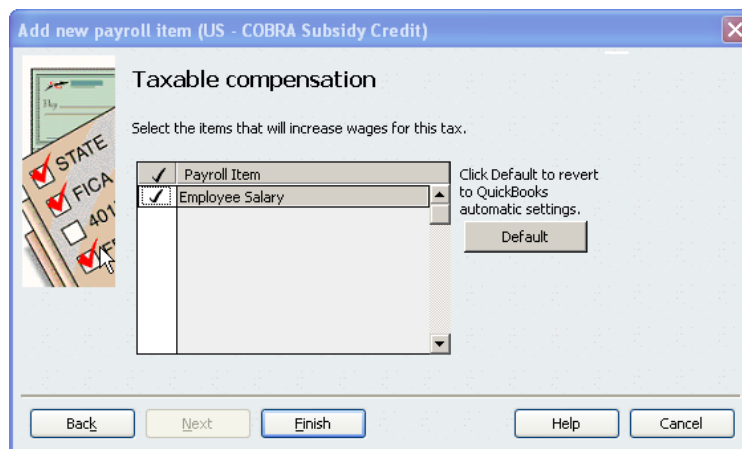
8. Choose **Other Current Liability** from the Account Type drop-down menu, and supply a name for the liability account. We've chosen "COBRA Clearing Account." Optionally, enter a Description of the account. Click **Save & Close**.



9. Click **Next**.



10. Click **Finish**.



You can now use this payroll item to track your COBRA subsidy credit.

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Step 3: Make premium payments to the health-insurance vendor

You may also want to account for your COBRA payments to the health-insurance vendor on behalf of assistance-eligible individuals in your QuickBooks Chart of Accounts and to balance these payments against the COBRA subsidy credits you claim against your payroll taxes.

Your payment to the health-insurance vendor may be:

- The full COBRA premium, when you pass on the 35% payment you received from assistance-eligible individuals. (If this situation applies to you, be sure you have also [recorded the 35% payments](#).)
- 65% of the COBRA premium (the COBRA subsidy), when assistance-eligible individuals pay the health-insurance vendor directly.

In either case, you probably will receive a bill for the appropriate amount from the health-insurance vendor.

We recommend the following procedure of entering bills in QuickBooks and then paying those bills. You should feel free to modify the procedure for entering bills as appropriate for your business, but be sure you record the payment of the bill in QuickBooks as shown in **To pay bills**, below.

To enter bills:

1. Be sure you have [set up the US – COBRA Subsidy Credit payroll item](#) and its associated liability accounts.
2. From the **Vendors** menu, choose **Enter Bills**.
3. For each assistance-eligible individual for whom you must make a COBRA payment for this bill, enter a line in the **Expenses** tab. Select the **COBRA Clearing Account** in the Account column of each line. Put the amount you must pay for that individual in the **Amount** column, and note the individual's name in the **Memo** column.

The screenshot shows the 'Enter Bills' window in QuickBooks. At the top, there are navigation buttons: Previous, Next, Find, History, and Journal. Below that, there are radio buttons for 'Bill' (selected) and 'Credit', and a checked box for 'Bill Received'. The main area is divided into two sections. The top section is for bill details: Vendor (Health Insurance Vendor), Date (09/12/2014), Ref. No., Amount Due (1,000.00), and Bill Due (09/22/2014). The bottom section is a table with columns: Account, Amount, Memo, Customer:Job, Billable?, and Class. The table has one row with the following data: Account: COBRA Clearing Account, Amount: 1,000.00, Memo: Jane Horton COBRA premium, Customer:Job: (blank), Billable?: (blank), Class: (blank). At the bottom of the window, there are buttons for 'Clear Splits', 'Recalculate', 'Save & Close', 'Save & New', and 'Clear'.

Important: If you are also making payments for active employees, be sure you do **not** record those payments against the COBRA Clearing Account.

4. Click **Save & Close**.

To pay bills:

1. From the **Vendors** menu, choose **Pay Bills**.
2. Check the box on the line for the bill you are paying.

The screenshot shows the 'Pay Bills' window in QuickBooks. At the top, there are options to 'Select Bills to be Paid' (radio buttons for 'Due on or before' and 'Show all bills') and a date field set to '09/22/2014'. A 'Sort By' dropdown is set to 'Due Date'. A table lists bills with columns: Date Due, Vendor, Ref. No., Disc. Date, Amt. Due, Disc. Used, Credits Used, and Amt. To Pay. One bill is selected: 09/22/2014, Health Insurance Vendor, 1,000.00. Below the table is a 'Totals' row showing 1,000.00. A 'Clear Selections' button is below the table. The 'Discount & Credit Information for Highlighted Bill' section shows Vendor: Health Insurance Ven..., Terms, Sugg. Discount: 0.00, Number of Credits: 0, Total Credits Available: 0.00. Buttons for 'Go to Bill', 'Set Discount', and 'Set Credits' are present. The 'Payment' section has Date: 09/12/2014, Method: Check, and Account: Bank account. There are radio buttons for 'To be printed' (selected) and 'Assign check number'. The 'Ending Balance' is 1,116,603.19. 'Pay Selected Bills' and 'Cancel' buttons are at the bottom right.

<input checked="" type="checkbox"/>	Date Due	Vendor	Ref. No.	Disc. Date	Amt. Due	Disc. Used	Credits Used	Amt. To Pay
<input checked="" type="checkbox"/>	09/22/2014	Health Insurance Vendor			1,000.00	0.00	0.00	1,000.00
Totals					1,000.00	0.00	0.00	1,000.00

3. Indicate the **Payment Date**, **Method**, and **Account**. (The order of these fields may be slightly different depending on your version of QuickBooks.)
4. Click **Pay Selected Bills**.

You can see the payments deducted from the COBRA Clearing Account by [looking at the account detail in your Chart of Accounts](#).

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Step 4: Review COBRA payments in your Chart of Accounts

When you have set up the US – COBRA Subsidy Credit payroll item properly, payments associated with COBRA premium assistance should post to the COBRA Clearing Account in your Chart of Accounts. We recommend that you review the COBRA Clearing Account regularly to ensure that COBRA payment transactions are being recorded correctly.

In addition, you can view this account to see the total COBRA payments you made during a quarter, when you prepare Form 941-X (or during a year, when you prepare Form 943-X or 944-X) to claim COBRA credits.

To review your Chart of Accounts:

1. Be sure you have [set up the US – COBRA Subsidy Credit payroll item](#) and its associated liability accounts.
2. From anywhere in QuickBooks, press **Ctrl + A**, or from the **Company** menu, click **Chart of Accounts**.
3. Select the COBRA Clearing Account line.
4. To see detail of the transactions in this account, press **Ctrl + Q**.

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Step 5: Claim Your COBRA Credits on Form 941-X, 943-X, or 944-X

Wait at least two weeks after you file your quarterly Form 941 or annual Form 943 or 944 to file Form 941-X or Form 943-X or 944-X to claim your COBRA credits.

Important: Your Form 941-X, 943-X, or 944-X can only contain the information about your COBRA credits. If you need to make any other corrections to a filed Form 941, 943, or 944, you must do so on a separate Form 941-X, 943-X, or 944-X.

For Form 943 and 944 filers:

If you have Basic, Standard, or Enhanced Payroll (or you are an Assisted Payroll user who files Form 943 manually yourself), you must complete Form 943-X or 944-X manually. However, you can use the payroll reports in QuickBooks to determine your COBRA subsidy credits. Refer to steps 4 through 7 below for guidance on completing the form since these sections of Forms 943-X and 944-X are similar to Form 941-X.

If you have Assisted Payroll and you file Form 944, the Assisted Payroll service can complete the Form 944-X for you. Just ask your Assisted Payroll representative

For Form 941 filers:

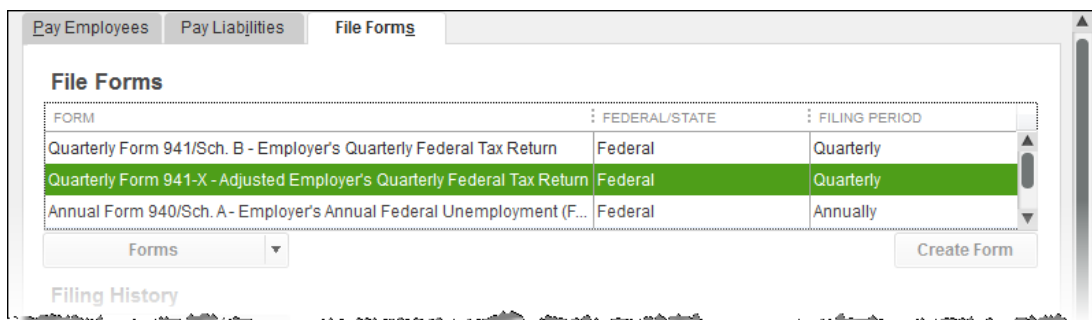
If you have Standard or Enhanced Payroll, you can complete the Form 941-X in QuickBooks following the steps below.

If you have Assisted Payroll, the Assisted Payroll service can complete the Form 941-X for you. Just ask your Assisted Payroll representative.

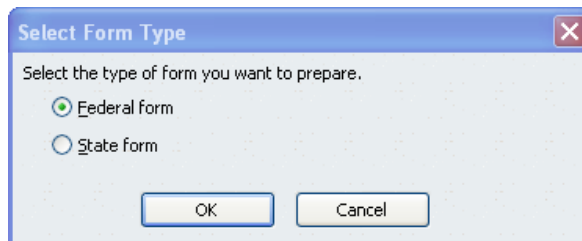
If you have Basic Payroll, you must complete Form 941-X manually, but you can use the payroll reports in QuickBooks to determine your COBRA subsidy credits and refer to steps 4 through 7 below for guidance on completing the form.

To do this task:

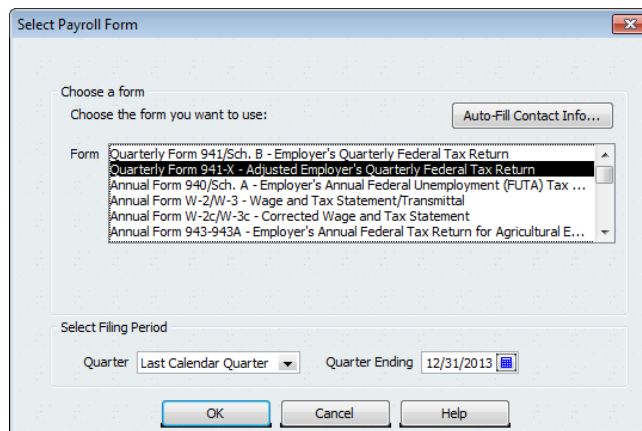
1. [Be sure you have the information you'll need from the COBRA Clearing Account in your Chart of Accounts.](#)
2. From the **Employees** menu, click **Payroll Tax Forms & W-2s > Process Payroll Forms**.
3. **For QuickBooks 2014 and later:** Select **Quarterly Form 941-X** from the File Forms table and then click **Create Form**.



For QuickBooks 2013 and earlier: In the Select Form Type window, click **Federal form** and then click **OK**.



In the Select Payroll Form window, select **Quarterly Form 941-X** from the Form list and select **Last Calendar Quarter** from the Quarter drop-down list.



4. In Part 1 of the Form 941-X interview, find the section “Choose the process for correcting the employment tax,” and check the box marked **Overreported amounts only, using the claim process**.

PART 1: Which process should you choose to correct the Form 941?

Use the [adjustment process](#) if you underreported employment taxes and are making a payment, or if you overreported employment taxes and will be applying the credit to the Form 941 for the period you are filing Form 941-X.

Use the [claim process](#) if you overreported employment taxes and are requesting a refund or abatement of the overreported amount.

If you choose to apply a credit to Form 941 (the adjustment process) for overreported amounts, you are encouraged to file Form 941-X in the [first two months](#) of the quarter to ensure the IRS has time to process the credit.

Choose the process for correcting the employment tax. Pick only one:

- | | | |
|---|-------------------------------------|-------------------------------------|
| Underreported amounts only | <input type="checkbox"/> | Box 1 on Form 941-X will be checked |
| Overreported amounts only, using adjustment process | <input type="checkbox"/> | Box 1 on Form 941-X will be checked |
| Overreported amounts only, using the claim process | <input checked="" type="checkbox"/> | Box 2 on Form 941-X will be checked |
| Combining Both under and overreported amounts
on one 941-X to use the adjustment process | <input type="checkbox"/> | Box 1 on Form 941-X will be checked |

*If you are reporting BOTH under and overreported amounts, and prefer to have a **refund** for the amount overpaid, you must choose [BOTH the adjustment process and the claim process](#) **AND** file TWO separate 941-X forms.

** If you file **within 90 days** of the expiration of the [period of limitation](#) on credit or refund for Form 941 you **MUST** use the **claim process** to correct the **overreported** amounts.

5. In step 5, check the box for option d.

5 If you checked line 2 because you are claiming a refund or abatement of overreported employment taxes, check all that apply. You must check at least one box.

I certify that:

- a I repaid or reimbursed each affected employee for the overcollected social security and Medicare tax. For claims of employee social security and Medicare tax overcollected in prior years, I have a written statement from each employee stating that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection

- b I have a written consent from each affected employee stating that I may file this claim for the employee's share of social security and Medicare tax. For refunds of employee social security and Medicare tax overcollected in prior years, I also have a written statement from each employee stating that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection

- c The claim for social security tax and Medicare taxes is for the employer's share only. I could not find the affected employees; or each employee did not give me a written consent to file a claim for the employee's share of social security and Medicare taxes; or each employee did not give me a written statement that he or she has not claimed (or the claim was rejected) and will not claim a refund or credit for the overcollection

- d The claim is for federal income tax, social security tax, Medicare tax, or Additional Medicare Tax that I did not withhold from employee wages

6. In Part 3, enter the appropriate amounts on lines 19a and 19b only.

Part 3: Enter the corrections for this quarter. If any line does not apply, leave it blank.

	<i>Column 1</i>		<i>Column 2</i>		<i>Column 3</i>		<i>Column 4</i>
	<i>Total corrected amount (for ALL employees)</i>	–	<i>Amount originally reported or as previously corrected (for ALL employees)</i>	=	<i>Difference (If this amount is a negative number, use a minus sign.)</i>		<i>Tax correction</i>
19 a COBRA premium assistance payments	_____	–	_____	=	_____		_____
19 b Number of individuals provided COBRA premium assistance	_____	–	_____	=	_____		_____
20 Total. Combine the amounts on lines 18 and 19a of Column 4.							_____

Column 1, Line 19a: Enter the total amount of COBRA payments you made during the quarter. If you tracked these payments in QuickBooks, this is the amount in your COBRA Clearing Account for the quarter.

Column 1, Line 19b: Enter the total number of eligible employees for whom you made COBRA payments.

Column 2, Lines 19a and 19b: Enter 0 since COBRA credits are no longer reported on Form 941.

QuickBooks automatically completes **Line 20**; the amount should match the amount you entered in Column 1, Line 19a, as a negative number.

7. On **Line 25**, enter a short explanation for filing Form 941-X. For example, you could write "Claiming COBRA payment credits no longer reportable on Form 941."
8. Print and file your Form 941-X, sending it to the address shown in the Filing and Printing Instructions on the form.

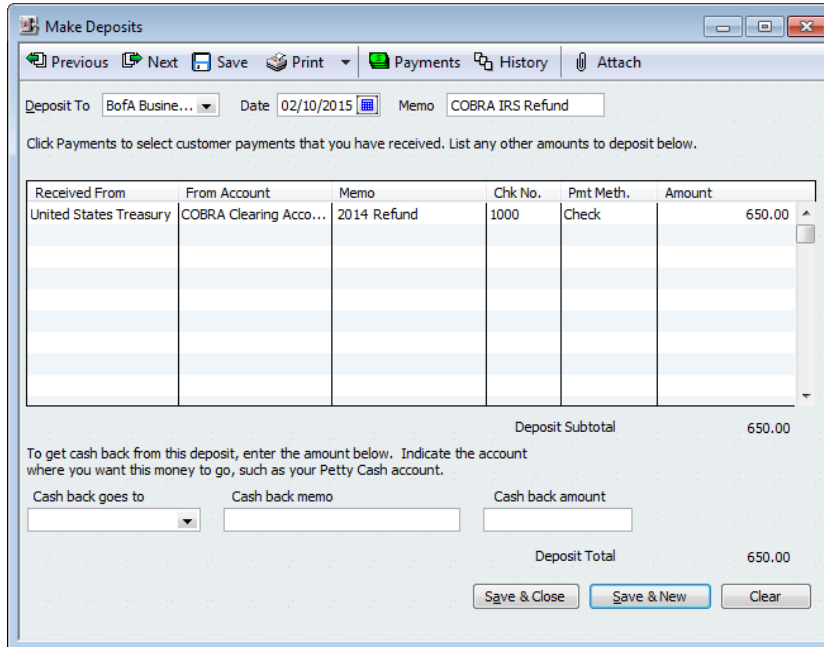
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Step 6: Record your COBRA refund in QuickBooks

You will want to account for your COBRA refund in QuickBooks so that your COBRA Clearing Account is in balance.

To do this task:

1. From the **Banking** menu, click **Make Deposits**.
2. In the Make Deposits window, enter the information about your refund.



Received From	From Account	Memo	Chk No.	Pmt Meth.	Amount
United States Treasury	COBRA Clearing Acco...	2014 Refund	1000	Check	650.00

3. Click **Save & Close**.

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Frequently Asked Questions

Q: Can I file Form 941-X, 943-X, or 944-X at the same time I file Form 941, 943, or 944?

A: No. The IRS has instructed that Form 941-X, 943-X, or 944-X must be filed *after* the business files Form 941, 943, or 944 and further recommends waiting at least two weeks before filing Form 941-X, 943-X, or 944-X.

Filing Form 941-X, 943-X, or 944-X sooner than two weeks after filing Form 941, 943, or 944 can result in processing delays.

Q: Can I make other corrections on Form 941-X, 943-X, or 944-X in addition to claiming my COBRA credits?

A: No. Combining COBRA credits and other corrections on the same Form 941-X, 943-X, or 944-X will result in processing delays.

Flag the Form 941-X, 943-X, or 944-X that contains your COBRA credits by writing **COBRA** in dark, bold letters across the top margin of page 1 of the form. Report other corrections on a separate Form 941-X, 943-X or 944-X.

Q: I've been reducing my payroll tax deposits this quarter, but I want to stop doing that so I can avoid getting IRS notices. What should I do?

A: You can stop reducing your tax deposits in anticipation of your COBRA credits at any time. However, if you've reduced previous tax deposits in the quarter in which you stop, your Form 941 will probably still reflect a balance due and trigger an IRS notice for that quarter. This condition will be corrected when you file Form 941-X and claim your COBRA credits.

The only way to prevent an IRS balance-due notice is by not reducing your tax deposits in anticipation of the COBRA credit at any time during the quarter.

Q: What if I need to correct COBRA payments I reported before January 1, 2014?

A: Use Form 941-X (or 943-X or 944-X) to report corrections to previously reported COBRA payments. You may correct previously reported payments and claim current quarter (or annual) COBRA payments on the same Form 941-X (or 943-X or 944-X).

Revision History

Date	Revision Details
3/24/2009	Original document for reporting COBRA premium assistance payments for Q1 2009 only.
3/27/2009	Added What's Next section to announce upcoming QuickBooks solution for tracking COBRA subsidy credits.
4/16/2009	Major revision documenting QuickBooks solutions for tracking and claiming COBRA subsidy credits based on QuickBooks Payroll tax table update 20910.
1/8/2010	Added information on annual Forms 943 and 944; improved IRS web site links; removed information for reporting Q1 2009 only.
3/8/2010	Clarified date restrictions in the liability adjustment step.
3/11/2014	Major revision to address new IRS reporting requirements using Form 941-X.
6/19/2014	Updated Form 941-X instructions based on new Form 941-X from IRS.
12/11/14	Updated guide for annual filers with information on filing Form 943-X or 944-X to claim COBRA subsidy credits.
12/17/15	Minor updates.