

Small Business Employer Health Care Tax Credit Information

Under the new Health Care Reform legislation, many small businesses that pay for health insurance coverage for their full-time employees could be eligible to receive a new tax credit. Below is some information on this newly available tax credit.

Patient Protection and Affordable Care Act: (Signed into law March 23, 2010)

- This law was designed to encourage small business employers to offer or retain commercial health coverage for their eligible employees
- Available to small business employers who pay at least fifty-percent (50%) of the premium cost for “single” employee coverage
- Tax credits are available for tax years beginning in 2010. Current legislation earmarks earned tax credits for applicable tax years 2010, 2011, 2012, 2013 and 2014 (enhancements to the applicable credit available beginning in year 2014)
- Tax credit is considered a Federal income tax credit

Eligible Employer(s):

- Small business employers (defined as an employer with 25 or less “eligible” employees on payroll)
 - Employers with full-time equivalent (FTE) employees receiving wages under \$50,000 annually
 - Eligible formula is based on the number of FTE’s, not the number of total employees on payroll
- Tax-exempt employers that employ low and moderate wage workers

Eligibility Formula: (Example)

Divide the total hours for the year that the employer pays wages to employees by 2,080 (*note: do not apply a calculation for any single employee that works more than 2,080 hours annually). Next, divide the total wages paid to employees during the tax-year by the number of FTE’s for the year, round the final calculation down to the nearest \$1,000. This will provide employers with an average wage calculation.

The following employees or employee classes are not considered as an employer’s FTE’s

- Seasonal employees
- Business owners (including sole-proprietor, partner in a partnership, shareholder earning more than 2% of the total shares held in an S-corporation, any owner whose holdings eclipse more than 5% or related business entities)
- Members of a business owner’s family or household (i.e. employed spouse or employed dependents)

Tax Credit Amount(s):

Maximum tax credit valuation (2010) **Phase 1**

- Small business employer – 35% of premiums paid by employer in 2010
- Tax-exempt employer – 25% of premium paid by employer in 2010

Maximum tax credit valuation (2014 and beyond) **Phase II**

- Small business employer – 50% of premiums paid by employer in 2014
- Tax-exempt employer – 35 % of premiums paid by employer in 2014
 - Coverage must be purchased through the government sponsored exchange
 - Applicable only during the first two years of coverage

*Note: The maximum tax credit is ONLY available to eligible employers with 10 or less FTE's, paying annual average wages of \$25,000 or less. Taxation credit values are reduced on a sliding scale if the number of eligible FTE's exceeds ten (10) or if the average annual wage(s) exceeds \$25,000.

Qualifying Arrangement(s):

Premiums paid by the employer must be under a “qualifying arrangement” to be counted in calculating the tax credit value.

- Legislation allows premiums paid before the Health Care Reform Law was enacted to be considered eligible under the taxation credit calculation.
- Only those situations whereas the employer pays premiums, or a portion of the premiums, for each employee enrolled in commercial health care coverage are considered a qualifying arrangement.
- A qualifying arrangement requires the employer to pay a minimum of 50% of the total annual premiums for their employees.
- The only amount of premiums counted toward the employer's tax credit is the portion of the premium paid by the employer.
- Premiums paid under *a salary reduction* arrangement, under a Section 125 cafeteria plan, is not treated as a premium amount paid by the employer and therefore is not counted towards the applicable credit value determinations.

*Note: The amount of an employer's premium payments that counts for purposes of the credit is capped by the average premium for the small group market in the employer's geographic location. This is determined by The Department of Health and Human Services

- The IRS is planning to issue guidance to help employers meet the requirements for a “qualifying arrangement” for the 2010 tax year. See resources at end of document for contact information.

Tax Credit Application and Claim Filing:

- Eligible employers can claim the credit as part of the general business credit starting with the 2010 income tax return filed in 2011.
- Tax-exempt businesses should anticipate receiving guidance from the IRS prior to the 2011 filing deadline. (The IRS anticipates providing guidance around the third quarter of 2010)
- Employers (other than tax-exempt employers) are advised against claiming a credit unless they report taxable income for the year in which they file.
- By claiming this new tax credit, employers may NOT be able to claim the standard tax deduction. Employers are strongly recommended to speak with their tax planning professionals to better understand the implications of this credit.

Resources:

For additional information, visit:

General Explanation Section: <http://www.irs.gov/newsroom/article/0,,id=22366,00.html>

Frequently Asked Questions: <http://www.irs.gov/newsroom/article/0,,id=220839,00.html>

Small Business Tax Credit Calculator: <https://www.smallbusinessstaxcreditcalculator.com/>

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