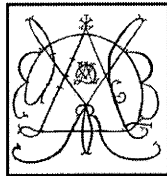


SMALL BUSINESS HEALTH CARE TAX CREDIT

Presented by:



Robert C. Alario

Certified Public Accountants, PC

Traditional Values...Contemporary Service

Robert C. Alario, CPA, MBA

75 North Main Street

Leominster, MA 01453

(978) 534-1999

Email: bob@robertalario.com

Website: www.robertalario.com

SMALL BUSINESS HEALTH CARE TAX CREDIT

Eligibility Rules

- **Providing health care coverage.** A qualifying employer must cover at least 50 percent of the cost of health care coverage for some of its workers based on the single rate.
- **Firm size.** A qualifying employer must have less than the equivalent of 25 full-time workers (for example, an employer with fewer than 50 half-time workers may be eligible).
- **Average annual wage.** A qualifying employer must pay average annual wages below \$50,000.
- **Both taxable (for profit) and tax-exempt firms qualify.**

Amount of Credit

- **Maximum Amount.** The credit is worth up to 35 percent of a small business' premium costs in 2010. On January 1, 2014, this rate increases to 50 percent (35 percent for tax-exempt employers).
- **Phase-out.** The credit phases out gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

Claiming the Credit

Both small businesses and tax-exempt organizations will use new Form 8941 to calculate the small business health care tax credit. A draft form is currently available for viewing.

Small businesses will include the amount of the credit as part of the general business credit on its income tax return.

Tax-exempt organizations will instead claim the small business health care tax credit on a revised Form 990-T will be revised for the 2011 filing season to enable eligible tax-exempt organizations – even those that owe no tax on unrelated business income – also to claim the small business health care tax credit.

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the **Small Business Health Care Tax Credit** by following these three simple steps:

1

Determine the total number of your employees (not counting owners or family members):

Full-time employees: _____
(enter the number of employees who work at least 40 hours per week)

+

Full-time equivalent of part-time employees: _____
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

= _____ total employees

If the total number of employees is fewer than 25 **GO TO STEP 2**

2

Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees: _____

÷

Divide it by the number of employees from STEP 1: _____
(total wages ÷ number of employees)

= _____ average wages

If the result is less than \$50,000, **AND**

3

You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then



you may be able to claim the **Small Business Health Care Tax Credit**.
Find out more information at **IRS.gov**



Examples of the Employers Receiving the Credit

Example: Auto Repair Shop with 10 Employees Gets \$24,500 Credit for 2010

Main Street Mechanic:

- *Employees:* 10
- *Wages:* \$250,000 total, or \$25,000 per worker
- *Employee Health Care Costs:* \$70,000

2010 Tax Credit: \$24,500 (35% credit)

2014 Tax Credit: \$35,000 (50% credit)

Question: For the 2010 tax year, a qualified employer has 12 FTEs and average annual wages of \$30,000. The employer pays \$96,000 in health care premiums for those employees, which does not exceed the average premium for the small group market in the employer's state, and otherwise meets the requirements for the credit.

Answer: The credit is calculated as follows:

1. Initial amount of credit determined before any reduction: $(35\% \times \$96,000) = \$33,600$
2. Credit reduction for FTEs in excess of 10: $(\$33,600 \times 2/15) = \$4,480$
3. Credit reduction for average annual wages in excess of \$25,000: $(\$33,600 \times \$5,000/\$25,000) = \$6,720$
4. Total credit reduction: $(\$4,480 + \$6,720) = \$11,200$
5. Total 2010 tax credit: $(\$33,600 - \$11,200) = \$22,400$

Question: Can premiums paid by the employer in 2010, but before the new health reform legislation was enacted, be counted in calculating the credit?

Answer: Yes, in computing the credit for a tax year beginning in 2010, employers may count all premiums for that tax year.

Question: How is the number of FTEs determined for purposes of the credit?

Answer: The number of an employer's FTEs is determined by dividing (1) the total hours of service for which the employer pays wages to employees during the year (but not more than 2,080 hours for any employee) by (2) 2,080. The result, if not a whole number, is then rounded to the next lowest whole number.

Question: (i) For the 2010 tax year, an employer pays 5 employees wages for 2,080 hours each, 3 employees wages for 1,040 hours each, and 1 employee wages for 2,300 hours. The employer counts hours actually worked.

(ii) The employer's FTEs would be calculated as follows:

Answer: (1) Total hours not exceeding 2,080 per employee is the sum of:

- a. 10,400 hours for the 5 employees paid for 2,080 hours each (5 x 2,080)
- b. 3,120 hours for the 3 employees paid for 1,040 hours each (3 x 1,040)
- c. 2,080 hours for the 1 employee paid for 2,300 hours (lesser of 2,300 and 2,080)

These add up to 15,600 hours

(2) FTEs: 7 (15,600 divided by 2,080 = 7.5, rounded to the next lowest whole number).

Question: How is the amount of average annual wages determined?

Answer: For the 2010 tax year, an employer pays \$224,000 in wages and has 10 FTEs. The employer's average annual wages would be: \$22,000 (\$224,000 divided by 10 = \$22,400, rounded down to the nearest \$1,000).

Question: Are seasonal workers counted in determining the number of FTEs and the amount of average annual wages?

Answer: Generally, no. Seasonal workers are disregarded in determining FTEs and average annual wages unless the seasonal worker works for the employer on more than 120 days during the tax year, although premiums paid on their behalf may be counted in determining the amount of credit.

Question: If an owner of a business also provides services to it, does the owner count as an employee?

Answer: Generally, no. A sole proprietor, a partner in a partnership, a shareholder owning more than two percent of an S corporation, and any owner of more than five percent of other businesses are not considered employees for purposes of the credit. Thus, the wages or hours of these business owners and partners are not counted in determining either the number of FTEs or the amount of average wages, and premiums paid on their behalf are not counted in determining the amount of the credit.

Question: Can an employer (other than a tax-exempt employer) claim the credit if it has no taxable income and no AMT liability for the year?

Answer: Generally, no. Except in the case of a tax-exempt employer, the credit for a year offsets only an employer's actual income tax liability or AMT liability, subject to certain limitations, for the year. However, as a general business credit, an unused credit amount can generally be carried back one year and carried forward 20 years. Because an unused credit amount cannot be carried back to a year before the effective date of the credit, though, an unused credit amount for 2010 can only be carried forward.

Question: What is the average health insurance premium for a small group market (2010)?

Answer:

	Single	Family
Massachusetts	5,700	14,138
New Hampshire	5,519	13,624

This limits the maximum you could deduct for health care insurance. Hopefully, you are not paying more than the above for your medical insurance premiums.