



Health Care Reform – Special Edition

Health Care Reform: Small Employer Health Insurance Credit

LEGISLATIVE BRIEF

April 22, 2010

This memorandum is the third installment in our effort to address the critical and imminent changes brought about by the Patient Protection and Affordable Care Act ([H.R. 3590](#); Reform Bill) and the Health Care and Education and Affordability Reconciliation Act ([H.R. 4872](#); Reconciliation Bill), collectively referred to as the Health Care Reform Bills.

The Basic Credit

For tax years beginning in 2010, eligible small employers may claim a tax credit on their federal income tax return for health insurance premiums paid in 2010. The tax credit provision will remain available through the 2013 tax year. Tax-exempt organizations who meet the small employer requirements will take the credit on their payroll taxes rather than on their federal income tax return.

Eligible Small Employer

Small employers who provide health care coverage to their employees may receive the credit if they meet the following criteria.

1. Have fewer than 25 Full Time Equivalent (FTE) employees for the tax year;
2. Have an annual average wage less than \$50,000 per FTE;
3. Pay the employer portion of the premium on a uniform percentage basis which is the same for all participants; and,
4. The employer contribution is at least 50% of the premium cost (by coverage class; i.e. single, full family, etc.).

Calculating the Credit

The credit is based only on the employer contribution amount. It is important to note that pre-tax contributions from participants are not included as employer contributions. The maximum credit an employer can get is limited to the average premium collected for group health coverage in the state where the business is located. The Department of Health and Human Services (now hiring) will publish a chart of “average premiums” for purpose of this calculation. The actual credit, as modified by the state average premium, is up to 35% of the employer’s annual contribution in the year of the tax filing.

For 2010, there will be transitional relief to be described in IRS guidance yet to be published.

Calculating the FTE

To calculate how many Full Time Equivalent employees the employer has, the employer must determine the total number of hours worked by all employees in that tax year and divide it by “2,080” (260 work days x 8 hours). For example, with a five life group, one employee may work 2,080 hours and the remaining four employees worked half-time or 1,040 hours each (4,160 + 2,080 = 6,240 ÷ 2,080 = 3 FTE).

Reducing the Credit

The 35% of employer-paid premium amount is reduced under two scenarios:

1. The employer has more than 10 FTEs; or,
2. The average annual wage exceeds \$25,000.

Based on the [IRS FAQs](#) released earlier this month, the reduction in credit is based on formulas as follows:

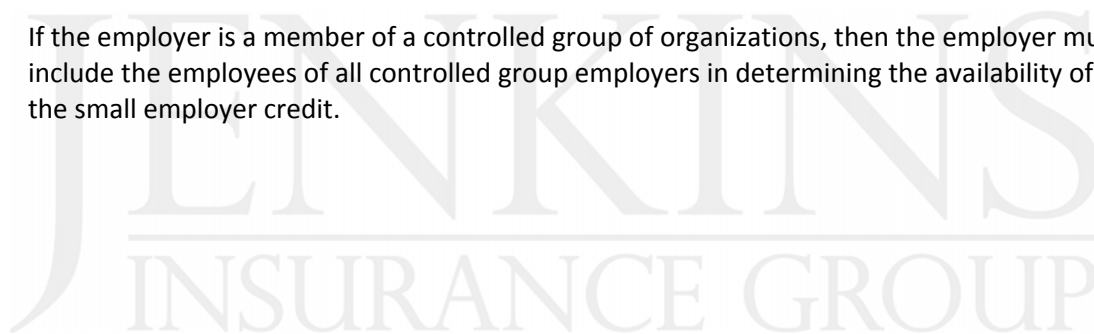
$$\text{Excess Wages: } \frac{\text{Amount Excess}}{\$25,000} = \%$$

$$\text{FTEs in Excess of 10: } \frac{\text{Number of FTEs over 10}}{15} = \%$$

The credit is then reduced by each of these percentages. For example, if the credit is \$33,600 and the employer has 12 FTEs and an average wage of \$30,000, the wage factor (1/5) and excess FTE (2/15) would then reduce that credit by \$11,200 or 1/3.

Other Guidance

- People you cannot count as employees:
 - Seasonal workers
 - Family members of the owner working in the business
 - The owner
- If the employer is a member of a controlled group of organizations, then the employer must include the employees of all controlled group employers in determining the availability of the small employer credit.



Action Plan

1. If you believe you qualify for the credit:
 - a. Calculate your year-to-date employee hours worked, annualize it, and see how many Full Time Equivalent employees you have.
 - b. Calculate your year-to-date employee payroll, annualize it, and see if it is under the \$50,000 average.
 - c. Annualize your employer health coverage contributions toward the full premium cost. Will you contribute at least 50% of the annualized premium for 2010?
2. Review the [IRS FAQs](#) for further details.
3. Watch for further official guidance.
4. Seek the advice of your benefits consultant or tax advisor, should you have questions.

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