



Subject: Small Employer Health Tax Credit

Included in the massive healthcare legislation is a tax credit for small employers who pay at least 50% of their employees' health insurance premiums. Unlike most of the future healthcare bill provisions, this employer federal tax credit can be claimed for year 2010 tax returns due this Spring.

Calculations for this new tax credit are very complex (even by tax law standards!) and are reported on new IRS Form 8941 – a one page tax form which requires completion of 7 different worksheets to accurately calculate the tax credit. You can review IRS Form 8941 with instructions at www.irs.gov.

“Small employers” who qualify for this 2010 income tax credit (including churches and section 501(C) (3) charitable organizations) must satisfy ALL of the following conditions:

- 1) You paid at least 50% of the “single employee” premium cost for year 2010. Insurance costs are for primary health insurance and dental and vision insurance. Employer contributions to HSAs, HRAs and FSA medical accounts are not deemed insurance and thus are not eligible for the tax credit; AND
- 2) You employed fewer than 25 “full-time equivalent” (FTE) employees during 2010. In determining FTE employees, 30 employees who worked 20 hours per week count as 15 FTE employees. Employees who you exclude from this FTE “count” include:
 - ✓ Owners of the employer and their relatives (parents, children, in-laws, aunts/uncles, etc);
 - ✓ “Seasonal” employees who worked 120 or fewer days for you during 2010; AND
- 3) Your “average annual wages” paid to employees during 2010 were less than \$50,000 per FTE employee for this purpose “wages” are gross wages paid before any tax or retirement withholdings.

IF YOU MEET ALL 3 OF THESE CONDITIONS, YOU LIKELY QUALIFY FOR THE TAX CREDIT.

How Much is the Tax Credit?

Small employers who pay at least 50% of their employees' health insurance, have 10 or fewer full-time equivalent employees, with average annual wages of \$25,000 or less per “FTE”

employee, will receive a tax credit of 35% (25% for churches and 501(C) (3) charitable organizations) of the employer-paid health insurance premiums in 2010. This can be a large tax credit! HOWEVER, as the FTE employee count trends from 10 employees to 25, and the “average wages” per FTE employee trends from \$25,000 to \$50,000, the tax credit percentage decreases from the 35%/25% “starting” tax credit rates.

CAN I “EYEBALL” IT?

AccuPay has posted a “Short-Cut Small Employer Insurance Credit Percentage” worksheet as a downloadable form, at www.accupay.com/forms-downloads.htm. This handy worksheet is our first form listed under “AccuPay Forms”. Note that the worksheet is divided into 2 sections, For-Profit Business and Nonprofit Entity. A for-profit business with 14 “FTE” employees and with average 2010 wages per FTE employee of \$35,000 would be eligible to claim a federal tax credit of 12% of the employer-paid health insurance premiums paid during 2010. If the employer paid \$30,000 of health insurance premiums for their employees in 2010, their 2010 tax credit would be \$3,600.

CLAIMING THE TAX CREDIT

So you have met all three of the eligibility requirements and have “eyeballed” our worksheet and estimated you can claim a tax credit of several thousand dollars. Now what?

You begin the process of completing IRS Form 8941, which for-profit employers will attach to their 2010 business income tax return, and churches and other 501 (C) (3) charities/ministries will complete and attach to non-profit IRS Form 990-T.

Since the Form 8941 calculations are confusing and lack substantial guidance from the IRS, we recommend that you be “pragmatic” and make your best effort to complete an accurate Form 8941 and claim the tax credit based on your calculations. “Close is good enough” in horseshoes and with Form 8941 calculations! If your calculations are later found to be slightly incorrect by the IRS, and you make a “reasonable effort” to accurately prepare Form 8941, then you will be fine.

The calculations require that you capture 2010 payroll information for employee hours paid during 2010, and gross wages paid for 2010. AccuPay would be pleased to provide you with annual totals of wages and hours paid, based on information you provided to us for 2010 payroll processing. Call your processor at 885-7600 for 2010 information and for answers to your questions about this new tax credit.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.