



## **CHURCH HEALTH INSURANCE TAX CREDIT – IT MAY BE BETTER THAN YOU THINK!**

### **Overview**

Many churches are entitled to a Federal tax credit up to 25% of the health insurance premiums they pay for their pastors and staff. IRS Notice 2010-82 was released December, 2010, and clarified some of the rules which pertain to churches. This article contains the basic provisions of this new Federal tax credit for health insurance as it pertains to churches, as well as a detailed example of the tax credit calculations.

### **Qualification Tests**

- The church must have fewer than 25 full-time equivalents (FTE) employees;
- Average 2010 wages paid per "FTE" must be less than \$50,000, and;
- The church's health plan must pay at least 50% of an employee's health insurance coverage.

### **Church Nuances**

- Clergy/pastors (ordained, commissioned, licensed) are "counted" based on hours worked in determining "FTE" employees, BUT their wages are not counted in determination of "average wages" per "FTE". This nuance may be very helpful to many churches;
- A qualified church insurance plan does include a "self-funded plan" such as a church denomination plan; and
- A church's federal tax credit cannot exceed the annual total of federal income tax withholdings from pastors and staff plus Medicare withheld and matched for non-clergy staff.

**HUGE POINTER: Churches who withhold Federal income tax from their pastors, instead of pastors paying estimated tax payments personally, may generate a larger Federal tax credit for 2010 and future years.**

### **Example**

XYZ Church employs 3 pastors at average annual wages (including housing allowance) of \$60,000 each, as well as 5 full-time staff averaging \$30,000 per year in wages, and 4 people who work 20 hours per week and average \$12,000 each per year.

Since XYZ Church has 10 or fewer FTE employees and average wages per FTE below \$25,000, they are entitled to a tentative tax credit of 25% of \$25,000 of premiums or \$6,250. **XYZ Church will receive a refund of \$6,250 IF they have withheld at least that much in federal income tax and Medicare tax (plus the employer's match of Medicare tax.)** If XYZ Church has voluntarily withheld Federal income tax from one or more pastors (in lieu of each pastor paying personal quarterly estimated tax payments), they are much more likely to be eligible for the entire \$6,250 Federal tax credit.

### **Tax Credit Phase-Out Rules**

As a church's FTE's increase toward 25, and as a church's "average wages per FTE" increase toward \$50,000 (remember that clergy are counted for the employee count but their wages are discarded - essentially, a pastor counts as an employee with zero wages), the amount of the available Federal tax credit will decrease and ultimately be zero. However, due to the nuances of the calculations which we believe favor

churches, we encourage all but the very largest churches to make the calculations to determine if they are entitled to the tax credit. Some larger churches with a lot of part-time employees will still qualify for the tax credit.

### **How to Obtain the Tax Refund**

A church should complete IRS Form 8941 and attach it to IRS Form 990-T. These returns should be submitted to the IRS by May 15<sup>th</sup>.

### **Conclusion**

The majority of USA churches who pay health insurance for their staff will be entitled to a Federal tax credit.

**Feel free to call Larry Shaub, CPA, CFP at (317) 888-2047** if you have questions about this tax credit for churches and for other Section 501(c)(3) charitable organizations. Larry is the lead CPA/Advisor for ChurchPay Pros of AccuPay, Inc., an Indiana-based payroll company which specializes in payroll and taxes for churches and pastors.

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