



Small Employer Healthcare Tax Credit

Section 14212 of the Patient Protection and Affordable Care Act provides a tax credit to certain small employers that provide health insurance coverage to their employees. This credit is designed to encourage small employers to offer health insurance coverage or maintain coverage they already have. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

The maximum credit is 35% of premiums paid in 2010 by eligible small business employers and 25% of premiums paid by eligible employers that are tax-exempt organizations. In 2014, this maximum credit increases to 50% of premiums paid by eligible small business employers and 35% of premiums paid by eligible employers that are tax-exempt organizations. This credit is claimed on the employer's annual income tax return. The amount of the credit is a reduction of the amount that can be taken as the employer's deduction for health insurance premiums. Further information will be provided by the IRS to tax-exempt organizations on how to claim this credit.

In order to be eligible, the qualifying employer must have fewer than 25 full-time equivalent employees (FTE's) for the taxable year, average annual wages of its employees must be less than \$50,000 per FTE, and the employer must maintain a "qualifying arrangement".

A qualifying arrangement is an arrangement under which the employer pays premiums for each employee enrolled in health insurance coverage offered by the employer in an amount equal to a uniform percentage (not less than 50%) of the premium cost of the coverage. In 2010, there is a special transition rule that allows the employer to have a qualifying arrangement as long as the employer pays an amount for each employee that is no less than 50% of the cost of single coverage, even if the coverage provided is more expensive family coverage. A tax-exempt organization can be a qualifying employer, although special rules apply in calculating the credit.

In general, employees who perform services for the employer during the taxable year are used in determining the employer's FTEs, average wages, and premiums paid. Partners, sole proprietors, more than 2% shareholders in an S corporation, 5% owners of other businesses, as well as family members and dependents of such persons, are not taken into account. The wages, hours, and premiums paid for these individuals are disregarded in calculating the small employer health tax credit.

The number of FTEs is calculated by dividing the total hours for which the employer pays wages to employees during the year (but not more than 2080 hours for any employee) by 2,080. The result, if not a whole number, it is then rounded to the next lowest whole number.



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The average annual wages paid by an employer for a taxable year is determined by dividing the total wages paid by the employer to employees during the tax year by the number of the employer's FTEs for the year (rounded down to the nearest \$1,000). Wages are as defined for FICA purposes under Code section 3121 (a) without regard to the wage base limitation.

Only premiums paid by the employer for health insurance coverage are counted in calculating the credit. Premiums paid under a Code section 125 cafeteria plan salary reduction arrangement are not considered paid by the employer. The amount of an employer's premium payments that counts for the purpose of the credit is limited by the premium payments the employer would have made under the same arrangement if the average premium for the small group market in the state in which the employer offers coverage were substituted for the actual premium. The average premium for the small group market in a state was determined by HHS and can be found at http://www.irs.gov/irb/2010-21_IRB/ar07.html. There is also a phase-out rule that further limits the credit. The credit begins to phase out gradually if the number of FTEs exceeds 10 or if the average annual wages exceed \$25,000.

Please use the attached flowchart as a general guideline to determine if you qualify for the small business healthcare tax credit. Further information may also be found on the IRS website as follows:

<http://www.irs.gov/newsroom/article/0,,id=223666,00.html>

Please contact your Marketing Representative should you desire further information.

The information provided in this document is not intended to advise you on how to comply with any provisions of the referenced legislation or related legislation or regulations, nor is it otherwise intended to impart any legal advice. If you have any questions about how to comply with this or any other law or regulation, we recommend that you consult with your legal counsel.

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**

