

TAX CREDIT FOR SMALL EMPLOYERS OFFERING HEALTH INSURANCE TO EMPLOYEES

➔ The health care reform law does not specifically require an employer to offer health coverage to its employees. However, beginning January 1, 2010, small employers that provide health care coverage to employees and that meet other requirements may be eligible for a federal income tax credit to offset premiums they pay for certain employees. Small employers can find more information on the tax credit at IRS.gov.

A report (dated April 5, 2010) issued by Congressional Research Service provides a description of the small business tax credit and illustrations of the phase-out for qualifying employers' contributions toward their workers' health insurance premiums, based on 1421 and §10105(e) of the Patient Protection and Affordable Care Act (PPACA, P.L. 111-148) that you may find useful. This report can be found at www.ncsl.org/documents/health/SBtaxCredits.pdf.

On May 17, 2010, the Internal Revenue Service issued new guidance to make it easier for small businesses to determine whether they are eligible for the new health care tax credit under the Affordable Care Act and how large a credit they will receive. IRS Notice 2010-44, located on the IRS website at IRS.gov, provides detailed guidelines, illustrated by more than a dozen examples, to help small employers determine whether they qualify for the credit and estimate the amount of the credit.

WHEN IS THE TAX CREDIT EFFECTIVE?

The credit is effective January 1, 2010.

HOW CAN A SMALL EMPLOYER QUALIFY FOR THE CREDIT?

Small employers with less than the equivalent of 25 full-time employees, that pay average annual wages below \$50,000, and cover at least 50 percent of the cost of health care coverage (based on the single rate) for their workers under a "qualifying arrangement" are generally eligible for a tax credit. Tax credit for small employers offering health insurance to employees

HOW DO SMALL EMPLOYERS CALCULATE "EQUIVALENT FULL TIME EMPLOYEES" AND "AVERAGE ANNUAL WAGES?"

The law provides criteria/formulas to calculate "equivalent full time employees" and "average annual wages" required for the tax credit. Small employers should consult with their tax professional or legal counsel for assistance in applying these requirements in each particular case. Small employers may wish to consult IRS Notice 2010-44 for further information.00.03.507.1 (5/10)

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small employers that provide health care coverage to employees and that meet other requirements may be eligible for a federal income tax credit.

35% THE CREDIT IS WORTH UP TO 35 PERCENT OF A SMALL BUSINESS'S PREMIUM COSTS IN 2010.

WHAT IS A "QUALIFYING ARRANGEMENT?"

A qualifying arrangement is one in which the employer pays premiums for each employee enrolled in healthcare coverage offered by the employer in an amount equal to a uniform percentage (not less than 50 percent) of the total premium costs of the coverage. If an employer pays only a portion of the premiums, only the portion paid by the employer may be counted in calculating the credit. For purposes of the credit, any premium paid pursuant to a salary reduction arrangement under a Section 125 cafeteria plan is not considered as paid by the employer.

HOW MUCH IS THE TAX CREDIT?

The credit is worth up to 35 percent of a small business's premium costs in 2010. On January 1, 2014, the credit increases to 50 percent. The size of the credit depends on the average wages and number of employees. The full tax credit is available to small employers with average wages below \$25,000 and less than 10 full-time equivalent workers.

ARE NON-PROFITS ELIGIBLE FOR THE TAX CREDIT?

Yes. Tax-exempt organizations are eligible for a 25 percent tax credit in 2010. In 2014, this rate increases to 35 percent. (The credit rates are lower for non-profits to ensure that the value of the credit is approximately equal to that provided to for-profit firms that cannot claim a tax deduction for the amount of the credit claimed.)

HOW LONG DOES THE TAX CREDIT LAST?

The credit phases out gradually for employers with average wages between \$25,000 and \$50,000 and for employers with the equivalent of between 10 and 25 full-time workers.

ARE THERE LIMITS ON A SMALL EMPLOYER'S ELIGIBLE CONTRIBUTION TO HEALTH INSURANCE?

Yes. To avoid an incentive to choose a high-cost plan, an employer's eligible contribution is limited to the average cost of health insurance in that state.

HOW CAN A SMALL EMPLOYER GET MORE INFORMATION?

Additional information on the tax credit is available at IRS.gov.

ABOUT OVATION

Ovation Health & Life Services is dedicated to reducing the costs—both direct and indirect—associated with your employee benefits. Ovation saves you the time that's typically required to manage a benefits program, helps you discover better products, and often decreases your benefit expenses—all at no cost to you.