

How the AFFORDABLE CARE ACT can help you

Health care tax credits for small employers in 2010

Starting with tax year 2010, some small employers in Massachusetts will be eligible for a federal tax credit of up to 35% of the employer's health insurance premium costs.

1. How much is the tax credit for eligible small employers?

For small employers with no more than 10 full-time equivalent (FTE) employees and average annual wages of no more than \$25,000, the full credit is 35% of a taxable employer's premium costs or 25% of a tax-exempt employer's premium costs.

A partial credit may be available for other small employers. The partial credit is calculated by reducing the full credit of 35% (taxable employer) or 25% (tax-exempt employer) for employees over 10 and also reducing the credit for average annual wages over \$25,000.

Employers with 25 or more FTE employees or average annual wages of \$50,000 or more are not eligible for any tax credit.

The full or partial credit is applied to the employer's actual premium costs for covered employees (up to what the employer's costs would be if total premium costs were the state small group average of \$5,700 per year for individual coverage or \$14,138 per year for family coverage).

Examples of tax credits for 4 small employers					
	A. FTE employees	B. Average wage	C. Credit %	D. Total premium cost	E. Total credit (C * D)
Employer #1 (full credit)	10	\$25,000	35.0%	\$42,750	\$14,963
Employer #2 (credit reduction based on wages)	10	\$49,000	1.4%	\$42,750	\$599
Employer #3 (credit reduction based on FTE)	24	\$25,000	2.33%	\$102,600	\$2,394
Employer #4 (credit reduction based on both wages & FTE)	15	\$35,000	9.33%	\$64,125	\$5,985
<p>C. For FTE over 10, the full credit is adjusted down by $(FTE-10)/15$; for average wages over \$25K, the full credit is adjusted down by $(average\ wage-25,000)/25,000$.</p> <p>D. Assumes employer paid 75% of single coverage at or above \$5,700 Mass. ceiling amount for each employee ($75\% * \\$5,700 * FTE$).</p>					

2. Which employees count?

- Generally, all employees providing services during the tax year count for purposes of calculating FTE, average annual wages, and employer premiums paid.
- However, sole proprietors, partners in a partnership, and owners with an ownership interest of more than 2%-5%, along with their family members, do not count.
- See the instructions to tax form 8941 for more information including rules applicable to seasonal employees and household (nonbusiness) employees.

3. How is the number of FTE employees calculated?

- Add up hours worked by countable employees (but not more than 2080 for any individual), and divide total hours by 2080 to arrive at number of FTE.
- See IRS guidance for different methods of counting hours worked.

4. How is the average annual wage calculated?

- Divide total wages of countable employees by number of FTE to arrive at the annual average wage amount.

5. How are the employer's premium costs calculated?

- Add up the employer's share of premium costs for countable employees.
- The employer must have paid at least 50% of premium costs for single coverage. See the IRS notices and instructions for more information on this requirement.
- Employer contributions to self-funded plans, HRAs, FSAs, and HSAs do not count.
- The employer's premium costs are limited by what the employer would have paid if the premium for single coverage had been \$5,700 and for family coverage \$14,138.

6. What other limitations apply?

- For tax-exempt employers, the credit cannot exceed the sum of Medicare payroll taxes and income tax withholding.
- For small employers participating in the Insurance Partnership, the credit cannot exceed the employer's actual premium costs less the employer's Insurance Partnership subsidy.
- An employer's deduction for the costs of providing health insurance to employees is reduced by the amount of any credit allowed for the coverage.

For additional information:

<http://www.irs.gov/newsroom/article/0,,id=223666,00.html>; Includes IRS Notices and other guidance, Qs & As, examples, Form 8941 and instructions for calculating credit, draft Form 990-T for tax-exempt employers & draft Form 3800 for other small employers to claim small employer health insurance credit.

<http://www.smallbusinessmajority.org>; includes report estimating number of small businesses expected to be eligible in 2010 by state, Qs & As, & tax credit calculator

Prepared by the Massachusetts Law Reform Institute, www.mlri.org

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This summary of the law is not intended as tax advice. Consult your accountant or tax advisor for more information about how this new law may affect you.