SIHO INSURANCE SERVICES

Health Care Reform

Health Care Reform Legislation
The Patient Protection and Affordability Care Act

Small Employer Tax Credit

The Patient Protection and Affordability Care Act signed into law on March 23, 2010 includes a tax credit, effective January 1, 2010, for small employers who provide health insurance coverage for their employees. Here’s how the credit works:

Employer Eligibility:

1. **Firm Size.** A qualifying employer must have less than the equivalent of 25 full-time employees (full-time equivalents or FTE’s). An employer with fewer than 50 half-time workers may still be eligible. Business owners, family members of the business owner who work for the business and seasonal workers do not count as employees for purposes of the tax credit.
2. **Average Annual Wage.** A qualifying employer must pay average annual wages below $50,000.
3. **Providing Health Care Coverage.** A qualifying employer must cover at least 50% of the cost of health care coverage based on the single employee only rate.
4. **Both for profit and tax exempt firms qualify.**

Amount of Credit:

1. **Maximum Amount.** The maximum credit is available for employers with 10 or fewer FTE’s and average annual wages of $25,000 or less. The maximum credit is worth up to 35% of the small employers’ premium costs in 2010. For 2014 this rate increases to 50%. For tax exempt companies the credit is worth up to 25% increasing to 35% in 2014.
2. **Phase-Out.*** The credit phases out gradually for firms with average wages between $25,000 and $50,000 and for firms with between 10 and 25 full-time equivalent (FTE) employees.
3. **Employers Premium Cap.** For purposes of the credit the amount of premium is capped at the comparable plan average premium for the small group market in the State in which the employer offers coverage. For the state of Indiana, the average small group market premium for 2010 as published by the IRS is $4,775 for employee-only coverage and $11,222 for family coverage.
4. **Duration.** The credit is available for years 2010 through 2013 and for two additional successive years beginning in 2014 for employers who purchase coverage through the Exchange.

Health Care Reform Legislation – The Patient Protection and Affordability Care Act
Small Employer Tax Credit

How to Claim the Credit:

1. **The Credit** is claimed on the Employers annual income tax return. For a tax-exempt employer the IRS will provide further information.
2. **Estimated Tax Payments.** The credit can be reflected in determining estimating tax payments during the year to which the credit applies in accordance with regular estimated tax rules.
3. **No taxable Income - Unused Credits.** As a general business credit an unused credit can generally be carried back one year (except 2010) and carried forward 20 years. For a tax-exempt employer the credit is a refundable credit so that even if the employer has no taxable income the employer may receive a refund.

4. **Limit for Tax-Exempt Employers.** The amount of credit for tax-exempt employers cannot exceed the total amount of Income and Medicare tax the employer is required to withhold from employees wages for the year and the employer share of Medicare tax on employees' wages.

Illustration of Tax Credit:

Example 1: Hardware Store

- # of Full Time Employees: 5
- Total Annual Wages: $120,000 or $24,000 per Employee
- Employer portion of health care premium: $27,000
- Tax Credit: $9,450 ($27,000 X 35%)

Example 2: Restaurant

- # of Half Time Employees: 18, equals 9 FTE's
- Total Annual Wages: $216,000 or $24,000 per FTE
- Employer portion of health care premium: $89,000
- Tax Credit: $31,150 ($89,000 X 35%)

***Phase-Out Reduction**

1. **If the number of FTE's exceed 10 the tax credit is reduced according to the following formula:**

   Reduction Equals: Number of FTE's > 10 Divided by 15 Times Amount of Tax Credit

   For Example an Employer with 14 Employees and Average Wages of $24,000:

   Initial Tax Credit Amount before Reduction: $65,000 X 35% = $22,750
   Credit Reduction for FTE's: $22,750 X 4/15 = $6,067
   Net Tax Credit: $22,750 - $6,067 = $16,683

Health Care Reform Legislation – The Patient Protection and Affordability Care Act
Small Employer Tax Credit

2. **If the average annual wages exceed $25,000 the tax credit is reduced according to the following formula:**

   Reduction Equals: Average Wage Amount > $25,000 Divided by $25,000 Times Amount of Tax Credit

   For Example an Employer with 9 Employees and Average Wages of $36,000:

   Initial Tax Credit Amount before Reduction: $40,500 X 35% = $14,175
   Credit Reduction for Average Wages: $14,175 X $11,000/$25,000 = $6,237
   Net Tax Credit: $14,175 - $6,237 = $7,938

3. **If both the number of FTE's exceed 10 and average wages exceed $25,000 the reduction is the sum of the amount of the two reductions:**

   Employer with 14 Employees and Average Wages of $36,000:

   Initial Tax Credit Amount before Reductions: $74,000 X 35% = $25,900
   Credit Reduction for FTE's: $25,900 X 4/15 = $6,907
   Credit Reduction for Average Wages: $25,900 X $11,000/$25,000 = $11,396
   Total Credit Reduction: $6,907 + $11,396 = $18,303
   Net Tax Credit: $25,900 - $18,303 = $7,597

The material above on The Patient Protection and Affordability Care Act Small Employer Tax Credit is informational only and should not be construed as professional tax guidance.

For additional information on the tax credit please visit the IRS at www.irs.gov or consult a tax professional.