

SMALL BUSINESS HEALTH CARE TAX CREDIT

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If you are a small business employer that provides at least half of the insurance premiums for your employees, you may qualify for the Small Business Health Care Tax Credit that will be available this year. This article discusses who is eligible and how the credit will be determined.

- The employer may have between 1 and 25 full-time employees. Now this might be easier to accomplish than you may think. Owners, family members and some seasonal employees do not count. Part-time employees get added together by the number of hours. An example would be if there are 40 employees working 1,000 hours each and 3 full time employees working 2,080 hours, the owner working full time, the owner's spouse and 2 children working full time. This employer would qualify to receive the credit because that calculates out to 22.23 full time employess.

(The calculation would be 40,000 hours plus the three full time workers at 2,080 each, totalling 46,240 hours total. The owner and family members do not count. Then divide the 46,240 by a full time hourly amount of 2,080 to get the 22.23 full time employees.)

- The average annual wage must be less than \$50,000 per full-time employee. Again, if the hours do not count for certain employees and the owner, their wages do not count either. Add up all of the qualified wages and divide by 2,080 to see what the annual wage is averaging for the employees that count.
- The employer must pay at least 50% of the single person premium for each employee enrolled in health care coverage. Only the portion the employer pays is calculated into the credit. That amount is then compared with the average premium for the small group market that will be posted on the IRS website on a State-by-State basis. The employer premiums are capped at the small group market amount. If the employer only pays 50%, then only 50% of the small group market amount will be used for comparison.

It is a three step process:

1. Determine the total number of full-time employees;
2. Calculate the average annual wages; and
3. Calculate the insurance premium allowed for the credit.

After that is calculated, the next step is to take the applicable credit. For 2010, the maximum credit a not-for-profit entity can take equals 25% of the allowed health care premium. For a for-profit entity, the maximum credit is 35% of the allowed health care premium. The maximum credits are available to employers with 10 or fewer full-time employees with average yearly wages of less than \$25,000. The amount of credit is then phased out completely when there is over 25 full-time employees with average yearly wages at \$50,000. These percentages are written into the law for the years 2010-2013. In 2014 the percentages increase to 40% and 50%, respectfully.

The credit will be claimed on the business tax return, so you will need to provide your tax advisor the information necessary for this calculation. The credit will be effective for any premiums paid after January 1, 2010.