



# The RoCo Times

## Special Dates of Interest

- May 31-Office Closed Memorial Day.
- June 20-Fathers Day, Happy Fathers Day!!
- June 15-Second Estimated Tax Payment due for both Individuals and calendar-year end Corporations.
- July 15-Deadline for filing extended 2008 calendar-year Partnership and Trust returns.

## Summary of Small Business Health Insurance Tax Credit Under PPACA

We know many of you recently received a postcard from the IRS on the new tax credit for providing health insurance to your employees contained in the health care reform legislation and wondered how this will affect you and your business. On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (P.L. 111-148) and seven days later signed numerous amendments to it. We are providing a description of the small business tax credit and illustrations of the phase-out for qualifying employers' contributions toward their workers' health insurance premiums. This credit is available for businesses with fewer than 25 full-time equivalent employees (FTEs) with average annual wages of less than \$50,000. Small employers will be eligible for a tax credit, provided they contribute at least 50% toward their employees' health insurance.



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*Remember, the greatest gift is not found in a store or under a tree, but in the hearts of true friends.*

*Author  
Cindy Lew*

**Starting this year** and through 2013, the credit will cover up to 35% of a qualified for-profit employer's contributions to health insurance.

**Example.** If WindPower, Inc. paid 60% of the employee's health premiums, the maximum small business tax credit through 2013 is 35% of WindPower's contribution. Assuming the average total premium for WindPower is \$7,500 per employee, and WindPower's contribution is \$4,500 (60%) per full-time equivalent employee (FTE), the maximum tax credit is \$1,575 per FTE (35% of \$4,500).

Beginning in 2014, the maximum credit is 50% of the employer's contribution toward premiums. The small business tax credit that is available beginning in 2014 is only available to an employer for two consecutive tax years, beginning with the first year that the employer offers coverage through an exchange. Thus, the small business tax credit is potentially available for a total of six years-the initial credit availability from 2010 through 2013, plus the two-year credit period beginning as early as 2014.

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**Small employers can claim the full credit amount if they meet the following two criteria:**

- The employer has 10 or fewer full-time equivalent employees (FTEs). FTEs are calculated by dividing the total hours worked by all “employees” (see description below) during the tax year by 2,080 (with a maximum of 2,080 hours for any one employee).
- The employer's average taxable wages are \$25,000 or less. This is calculated by dividing the aggregate amount of wages paid to the “employees” during the year by the number of FTEs (and then rounding to the nearest \$1,000).



For calculating the number of full time employee equivalents (FTEs) and their wages, the term “employees” excludes seasonal workers (working no more than 120 days during the year). In addition, the term “employees” excludes the following: a self-employed individual, a 2% shareholder in an S-corporation, a 5% owner of an eligible small business, or someone who is related to or dependent of these people. Thus, for example, the business will not receive a credit for small business owners or their family members.

**Small employer's will find the full credit phased out as the number of FTEs increases from 10 to 25 and as average employee compensation increases from \$25,000 to \$50,000.** Below is a table to help determine, as a percentage, the amount of the maximum tax credit the employer will receive on their contribution toward an employee's health insurance from 2010 through 2013.

Small Business Tax Credit as a Percent of Employer Contribution to Premiums for 2010-2013						
Firm Size	Average Wage					
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000
Up to 10	35%	28%	21%	14%	7%	0%
11	33%	26%	19%	12%	5%	0%
12	30%	23%	16%	9%	2%	0%
13	28%	21%	14%	7%	0%	0%
14	26%	19%	12%	5%	0%	0%
15	23%	16%	9%	2%	0%	0%
16	21%	14%	7%	0%	0%	0%
17	19%	12%	5%	0%	0%	0%
18	16%	9%	2%	0%	0%	0%
19	14%	7%	0%	0%	0%	0%

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Small Business Tax Credit as a Percent of Employer Contribution to Premiums for 2010-2013						
Firm Size	Average Wage					
	Up to \$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000
Up to 10	35%	28%	21%	14%	7%	0%
20	12%	5%	0%	0%	0%	0%
21	9%	2%	0%	0%	0%	0%
22	7%	0%	0%	0%	0%	0%
23	5%	0%	0%	0%	0%	0%
24	2%	0%	0%	0%	0%	0%
25	0%	0%	0%	0%	0%	0%

**Example.** If WindPower, Inc. paid 60% of their 11 (FTE) employee’s health premiums, and the average wage was \$30,000, the maximum small business tax credit through 2013 is \$1,170 (26% of WindPower’s \$4,500 contribution).

For 2010-2013, the "employer contribution" for the year will be calculated as the lesser of (1) the employer's actual premium contribution, or (2) the contribution the employer would have made if each of those same employees had enrolled in a plan with a premium equal to the average premium (determined by the Secretary of Health and Human Services (HHS)) for the small group market in the state, or area in the state, in which the employer offers health insurance. Any premium paid pursuant to a salary reduction arrangement under a '125 cafeteria plan is not treated as paid by the employer.

For qualifying employers, the small business health insurance tax credit is a general business credit. This type of credit is not refundable, but is limited by the employer's actual tax liability. In other words, if a company had a year in which it ended up paying no taxes (i.e., it had no taxable income, after accounting for all its other deductions and credits), then the small business tax credit could not be used for that year as there would be no income tax for this credit to reduce. However, as a general business credit, an unused credit amount can generally be carried back for one year and carried forward up to 20 years.



We hope this information on the new small business health insurance credit is helpful. Please call our office at 209-586-5236 if you have questions about this credit or about other provisions of the health reform bill.