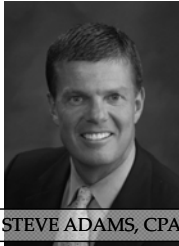


HEALTH INSURANCE CREDIT



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HEALTH INSURANCE CREDIT

- ◎ The Health insurance credit began in 2010 and is scheduled to continue unchanged until 2013
- ◎ The provision is to provide a 35% credit of the health care premiums paid for your employees



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The specifics of the provision are as follows:

- A qualified small employer must pay at least half the cost of single coverage for its employees
- The maximum credit for small businesses is 35% of the premiums they paid
- Note: in 2014 it increases to 50%



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Specifics of the provision, continued:

- Maximum 35% credit to those employers with 10 or fewer full-time-equivalent (FTE) employees, and
- Whose average annual wages do not exceed \$25,000



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If those limits look too low - don't throw in the towel yet – there is a phase out that you might fit in:

- From 10 FTEs to 25 FTEs - it still applies but begins to phase out and
- From \$25,000 average wage to \$50,000 average wage - it still applies but begins to phase out



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As you can see, the eligibility rules are based in part on the number of FTEs, not the actual number of employees

- Businesses that use part-time help might qualify even if they employ more than 25 individuals



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Eligible small businesses can claim the credit as part of the general business credit starting with their 2010 income tax returns.



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That means – the tax returns that will be prepared for you in the next month or so should take into account your qualification for this credit for 2010.

- Make sure you have a conversation with or email your CPA regarding this credit!



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◎ Recommendation:

- Your CPA is probably ready and watching for this, but don't assume it will happen automatically.
- Good communication between you and your CPA will help make sure you are both on the same page with this and any other concerns you may have.



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Additional criteria:

Some states already have state tax credits. If they do, you may qualify for both state and federal tax credits.



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Qualifying employers can receive the credit not only for regular health insurance, but for add-on dental and vision coverage.



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There are limitations to the owners of the company and their families:

- If you are –
 - Sole proprietor
 - Partner in a partnership
 - More than 2% shareholder of S-Corp
 - Or 5% employee owner of your employer business



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Those types of owners and their family members that are employed are not eligible as employees for the purpose of calculating the credit.

- (Even though, in the case of S-corporations, they receive a W-2)



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Once you calculate the credit – the amount of the credit reduces the premium amount that is deductible as a business expense.



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Frequently Asked Questions?????



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

What expenses are counted in calculating the credit?

- The credit is based on the premiums the employer pays to a health insurance issuer under a *qualifying arrangement*.
- This generally requires the employer to pay a uniform percentage (at least 50%) of the premium for each employee who is enrolled in the health care coverage offered by the employer.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

What expenses are counted in calculating the credit? (continued...)

- Both premiums for general health care coverage, such as major medical plan, and premiums for limited scope coverage, such as dental or vision plans, are counted.
- However, the employer must separately satisfy the qualifying arrangement rules for each type of coverage that is offered.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

What expenses are counted in calculating the credit? (continued...)

- Because Health Reimbursement Arrangements (HRAs) and health Flexible Spending Arrangements (health FSAs) are self-insured plans, these arrangements are not health insurance coverage.
- Health Savings Accounts (HSAs) are also not health insurance coverage. (per Sec 45R.)



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-- Frequently Asked Questions --

Can premiums paid in 2010, but before the new health reform legislation was enacted, be counted in calculating the credit?

- Yes, in computing the credit for a tax beginning in 2010, employers may count all qualifying premiums paid for that tax year.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

Can a company take part of the credit if they are transitioning into compliance?

- Yes, an employer who does not pay a *uniform* percentage of the premium for each employee is deemed to satisfy the qualifying arrangement requirement if the employer pays at least 50% (single rate) of the premium for each employee who is enrolled in coverage offered by the employer.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000?

- The reductions are calculated separately.
- As mentioned previously, the credit is phased out completely if the number of FTEs is 25 or more or if the average annual wages are \$50,000 or more.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000? (continued...)

- If the number of FTEs exceeds 10, the employer must multiply the otherwise applicable credit amount by a fraction.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000? (continued...)

- Example of FTE phase-out:
 - A qualified small business employer has 12 FTEs and \$30,000 average annual wages. The employer paid \$96,000 in qualifying health care premiums for those employees



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000? (continued...)

- The credit is calculated as follows:
 - Amount of credit (before reduction) $\$96,000 \times 35\% = \$33,600$
 - Reduction for FTEs in excess is $2/15=13.33\%$ (2 is the number in excess of 10 FTEs and 15 is the phase out range from 10 to 25). Therefore there is a 13.33% reduction to the credit



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-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000? (continued...)

- Actual FTE reduction
 - Amount of credit \$33,600 multiplied by the percentage excess 13.33% = \$4,480
 - Total reduction for FTEs = \$4,480



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000? (continued...)

- Reduction for average annual wages in excess of \$25,000
 - Average wages \$30,000 - \$25,000 = \$5,000
Amount over the limit.
 - $\$5,000 / \$25,000 = 20\%$
 - \$25,000 is the phase-out range from \$25,000 to \$50,000



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the credit reduced if the number of FTEs exceeds 10, or average annual wages exceed \$25,000? (continued...)

- Total reductions for excess FTEs and excess wages
 - Preliminary credit \$33,600
 - Reduction for FTE's \$4,480
 - Reduction for Excess wages \$6,720
 - Actual credit = 22,400



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-- Frequently Asked Questions --

Can an employer with 25 or more employees qualify for the credit if some of its employees are part time?

- Yes, because the limitation is based on FTEs.
- For example, an employer with 46 half-time employees has 23 FTEs, and therefore may qualify for the credit.



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-- Frequently Asked Questions --

Are seasonal workers counted in determining the number of FTEs and the amount of average annual wages?

- Seasonal workers are disregarded in determining FTEs and average annual wages, unless the seasonal worker works for the employer on more than 120 days during the tax year.
- Nevertheless, premiums paid on their behalf may be counted in determining the amount of the credit.



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-- Frequently Asked Questions --

Can the owner of a business who provides services to it be counted as an employee?

- A sole proprietor, a partner in a partnership, a shareholder owning more than 2% of an S corporation, and any owner of more than 5% of other businesses are **not** considered employees for purposes of the credit.



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-- Frequently Asked Questions --

Can the owner of a business who provides services to it be counted as an employee?
(continued)...

- Therefore, the wages or hours of these business owners and partners are not counted in determining either the number of FTEs or the amount of average annual wages, and premiums paid on their behalf are not counted in determining the amount of the credit.



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-- Frequently Asked Questions --

Do family members count?

- Generally, no.
 - A family member, or a member of the business owner's household, is not considered an employee for purposes of the credit.
 - Neither their wages nor their hours are counted in determining the number of FTEs or the amount of average annual wages, and premiums paid on their behalf are not counted in determining the amount of the credit.



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-- Frequently Asked Questions --

How is eligibility for the credit determined if the employer is a member of a controlled group or an affiliated service group?

- Members of a *controlled group* (businesses with the same owners) or an *affiliated service group* (related businesses whereby one performs services for the other) are treated as a single employer for the credit.



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-- Frequently Asked Questions --

How is the number of FTEs determined?

- A full time employee who works 40 hours a week and is employed for 52 weeks has 2080 hours. (No more than 2,080 hours can be counted for any employee.)
- If the result is not a whole number, it is rounded down to the next lowest whole number.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the number of FTEs determined?
(continued)...

- Paid vacation time and other paid time off are treated as hours of service.
- There are three methods available to calculate the total number of hours.
 - Actual hours of service
 - Days-worked equivalency method
 - Weeks-worked equivalency method



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-- Frequently Asked Questions --

How is the amount of annual wages determined?

- The amount of average annual wages is determined by dividing the total wages paid to employees who are taken into account for the FTE calculation by the number of FTEs for the year.
- The result is rounded down to the nearest \$1,000.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

How is the amount of annual wages determined? (continued)...

- Wages means: wages as defined for FICA purposes without regard to the wage base limitation.
- Remember, wages paid to disqualified individuals discussed earlier are not counted in figuring average annual wages.



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-- Frequently Asked Questions --

What form is used to claim the credit?

- New IRS Form 8941 -“Credit for Small Employer Health Insurance Premiums”.
 - An extensive form.
 - The instructions have several worksheets to help make the FTE and wage calculations.



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-- Frequently Asked Questions --

What form is used to claim the credit?
(continued)...

- The credit flows as a general business credit. The credit offsets only the employer's income tax liability.



HEALTH INSURANCE CREDIT

-- Frequently Asked Questions --

What form is used to claim the credit?
(continued)...

- An unused general business credit amount can usually be carried back 1 year and forward 20 years. Because an unused credit amount cannot be carried back to a year before its effective date, though, an unused small business health care credit amount for 2010 can be carried forward only.



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-- Frequently Asked Questions --

May an employer use the credit to offset AMT?

- Yes, the credit can be used to offset an employer's AMT liability, subject to certain limitation based on the amount of an employer's regular tax liability, AMT liability, and other allowable credits.



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-- Frequently Asked Questions --

Does taking the credit affect an employer's deduction for health insurance premiums?

- Yes, the amount of the health insurance premiums that an employer may deduct as a business expense is reduced by the amount of the credit.



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-- Frequently Asked Questions --

What is the IRS' expectation for reporting on W2s?

- Optional reporting in 2011
- Required reporting in 2012
- Employers must report amount company paid for health insurance (probably box 14)
- It does not add to wages or become taxable



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Resources:

- ⦿ IRS.gov is surprisingly helpful
- ⦿ Notice 2010-82 gives clarification of qualifications
- ⦿ Most tax resources are very helpful
- ⦿ www.apcpas.com
- ⦿ Your CPA!

